Deloitte.

THE RIPPLE EFFECT

Stories of purpose and lasting impact

A grocer and its distributor avoid a food fight

The distributor needed to recoup losses. The grocer had growth targets to hit. Conflicting goals became a shared opportunity.

IF **OPPORTUNITY** WAS KNOCKING, **IT SURE DIDN'T SOUND LIKE IT.**

THE SITUATION

The message crashed into the grocer's boardroom like a loose shopping cart careening toward a row of cars. The entire day—and potentially the next five years—seemed to change course immediately.

The grocer had received a contract renewal notice from the wholesale distributor that had handled over 50% of its merchandise for years. Unexpectedly (and potentially catastrophically), the proposed removal of volume incentives, shortened payment terms, and higher case rates would increase the grocer's costs on most of its merchandise *by almost 70%.*

The past few years had squeezed the distributor. Wholesale distribution is already a notoriously low-margin business, and recent rising fuel costs, disruptions from natural disasters, and other external pressures had almost entirely eaten away at the distributor's profits. Not to mention, the grocer's store location mix and high number of low-volume SKUs made it an expensive customer to service in the best of times.

For the grocer, the distributor's proposed new terms felt like an existential threat. The grocer had ambitious growth targets. With the risks of disrupting operations to switch to a new distributor, could it afford to go with another option? But with costs increasing so much, how could it afford to stay?

With just 45 days before the renewal notice period was up, the grocer needed to do *something*. And *fast*.

THE SOLVE

Right away, the grocer sought out a collaborator with the breadth and depth of knowledge to help analyze the situation from the inside out and the outside in. Deloitte brought a deep understanding of the grocer's operations from previous successful engagements and the ability to consider all sides of the problem from years of helping other players along each step of the grocery supply chain.

Deloitte helped identify and evaluate other potential suppliers, running cost-benefit scenarios to determine the switching costs and likely deals they'd be able to secure. Simultaneously, the team analyzed external cost and pricing pressures from the distributor's point of view. Pretty quickly, the analysis confirmed the grocer's hunch that its legacy distributor had treated the grocer to an unusually favorable deal for the past several years. The analysis also revealed that, even in the worst case if the distributor wouldn't budge a cent in the upcoming renegotiations, any alternative supplier would be near equal in costs—and bring the risks and disruptions of changing suppliers on top of that.

The grocer decided it should stay with its legacy partner. But that didn't have to mean surrendering to the dramatic case rate increase proposal—the grocer had more cards to play

The Deloitte team pored over every line of the contract, looking for ways to identify value for both the grocer and the distributor. Retail, wholesale, supply chain, and transportation specialists from across Deloitte weighed in to identify where the real costs and opportunities lay. The grocer wanted to keep the distributor as a partner as much as the distributor wanted to get back in the black. They just had to find a way to help the distributor make up its shortfall so both parties could afford to preserve the partnership.

Guided by that goal, the Deloitte team helped identify and quantify over 20 available strategic levers, from optimizing delivery schedules and distribution center networks, to adjusting payment terms, to participating in joint advertising. The team distilled all the analysis into a tool that allowed the grocer to view the financial impact of each potential lever, adjust the underlying assumptions, and mix and match different outcomes together to understand the ultimate cost per case in any given negotiation outcome. Equipped with this knowledge, the grocer went confidently before its board and to the negotiating table, ready to help the distributor become profitable again *and* meet its own growth goals.

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WITH THE RIGHT STRATEGIC LEVERS, POTENTIAL LOSSES CAN TURN INTO SHARED GAINS.

THE IMPACT

Together, the grocer and distributor agreed on new terms that significantly lowered the originally proposed case rate in exchange for shorter payment terms, which provided a one-time movement of cash that helped the distributor out of its current bind while giving the grocer a fair case rate going forward. No disruption. No switching costs. No loss of a major strategic partner.

The new terms also considered solutions such as recalibrating fuel reimbursement formulas, improving driven mileage and truck utilization, and standardizing ordering patterns for certain SKUs. These and other terms helped both the distributor and the grocer reach a place of strength, even in the face of rising costs and significant external pressures.

The negotiation process marked a significant shift: The strategic partnership made it through this tough chapter and—even more significantly—came out the other side with greater potential for profitability, growth, and stability.

Further, the deep analysis in preparation for negotiations helped the grocer's leadership to gain a better understanding of its own operations and wider industry forces, setting them up to make more-informed decisions for the business, even beyond supply chain negotiations. The grocer didn't just get back on track for the next several years – they opened up major opportunities for growth in the future.

LET'S CONNECT.

Do these challenges sound familiar?

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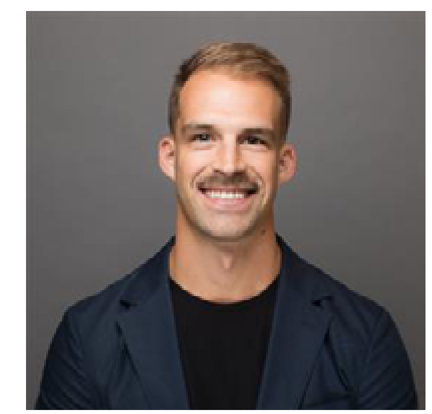

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