Isn't That Special!

BY JIM PREVOR

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Here is the question: Why should there be special buys? Major retailers use them as a wildcard to execute deals outside of normal contract parameters.

The most common contract buying works like this: A chain awards a particular vendor the authority and responsibility for a specific commodity, either nationally or for a particular distribution center.

The obvious part is that the vendor gets the business — citrus or grapes or stone fruit or potatoes or onions. But that's just the visible iceberg. The vendor also gets a great deal of responsibility. Some of it is an obligation to meet material metrics like how often product can be rejected or out of stock.

However, a vendor is also supposed to manage the business. A lot of attention is paid to mechanics — how a business runs when a vendor does the purchase orders, etc. But always and everywhere, truly managing the business starts with developing a sales plan to obtain acceptable levels of sales.

Which produces a quandary.

If a retailer and vendor establish a mutually desirable contract price, and the two parties approve a terrific sales plan to boost volume — recognizing the vendor can lose the contract for not meeting the agreed-upon sales increases — where in the world does the special buy fit into this picture?

All of a sudden the phone rings, and the chain tells the grower to take a week off because it has done a special buy for next week. In other words, it bought on the free market at a price below the contract price.

This makes no sense. The retailer might claim it needs special buys to bring in product at lower costs in order to average down the price from the contract price. But the retailer was part of the price-setting process. If that price really doesn't work, the retailer should have insisted on a different price.

Perhaps a retailer would defend special buys from a marketing perspective — the need to blast product through the stores at low prices so the consumer gets excited and product flows. But again, this makes no sense. The retailer approved the sales plan; if it wants more aggressive retail pricing or promotion, it needs to insist on that up front.

And these special buys are not cost-free. Ironically, the special buys hurt most the exact vendors the retailers say they yearn to align with, the actual growers. A broker who gets a retail contract is inconvenienced by a special buy as the intricate machine the broker has assembled to keep the supply chain functioning is put on hiatus for a week. But the broker can pass a lot of the costs of this special buy down to the growers just by not buying their product that week.

For a true grower, a special buy is a disaster. A grower has a contract to supply 100,000 cartons of product X a week, representing 25 percent of his volume. Given a week off, what is he supposed to do with that product? Product he hasn't developed a customer base for because the product is supposedly under contract. This is a family magazine so you just are going to have to imagine what a contracted farmer thinks has been done to him when he gets a call about a special buy.

This attitude is exacerbated because the source of these special buys is increasingly not just the state of the market. Many times these special buys are being presented to retailers by vendors who want the contract next year. How do they think they will get it? Special buy the chain to death. It has two benefits — first you get to make the life of the incumbent shipper — your competitor — a misery for a year as he is constantly bombarded with special buys. Second, by consistently offering phenomenal deals, the vendor raises questions at the retailer as to whether it partnered with the right people. Special buys are a train wreck adding costs to the system and disrupting commerce.

And it is not as if special buys are the only leakage in the system. Some chains give store level or regional personnel the option to direct-buy. The idea is to buttress micromarketing so a store frequented by consumers of a certain ethnicity can direct-buy those select products the warehouse doesn't stock. Practically speaking, the vast majority of store level buying has nothing to do with finding obscure specialties; it has to do with buying cheaper than the contract price.

Store level buying combined with special buys are really undermining the viability of the contract-pricing system. If a vendor and retailer contract, usually there is a range of volume with the retailer obligated to take the minimum and allowed to take the maximum on any given week. But the thought behind this is to allow for the normal fluctuations in retail demand caused by weather and what not — the assumption is that all of a particular distribution center's or chain's volume will still come from the contracted vendor under the terms of the contract.

Increasingly, though, vendors report retailers are looking to suck up every box the contract allows — and more — when the contract pricing is advantageous to market rates but then plead low demand and try to avoid buying even the contract minimum when produce can be purchased less expensively on the open market.

The retailers that have moved ahead with contract pricing and vendor-managed replenishment are the fastest growing. So everyone has been doing more business this year than last, and everyone has been making lots of money. So vendors have kept their mouths shut. But that doesn't mean they don't see inefficiencies and inequities. Wise retailers will look to address the problems before the growth slows and a vendor's incentive to cooperate is more restricted. **pb**