

a complete guide to your

MASTER
DISTRIBUTION
AGREEMENT

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TERMS TO KNOW

Applicable Freight - A freight charge for delivering products to an operator. Freight charges may include freight charges by the distributor itself, a third party supplier, and/or other charges such as fuel surcharges, cross-dock charges, unloading and restacking charges, container charges, air freight charges and others.

Broadline Distributor- A distribution partner that provides a wide range of food and non-food items to a foodservice operation. An operator's broadline distributor usually ships and handles the significant majority of the operator's purchases.

Compliance – Percent of total purchases that an operator has contracted to buy from their Broadliner. (Typically 80-90%)

Drop Size- The size, usually in number of cases or dollars, of a single delivery by a distributor to an operator's receiving location.

Drop Size Penalty- Also known as 'Small Order Surcharge'; the amount that will be added to an invoice if an operator does not meet the minimum order size set forth in their distribution contract.

Fee Per Case/Mark Up/Margin- Methodology used by a Broadliner to determine the sell price of a product. An established amount of money that an operator must pay for each case that a distributor delivers, as set forth in a Master Distribution Agreement.

Fuel Surcharge- Pricing terms set forth in a Master Distribution Agreement that outline a range of fuel prices as a Base Range and a schedule for surcharges if the fuel cost fluctuations result in fuel costs falling outside of the pre-determined range.

Incentives – Financial rewards based on performance. Typically these are based on growth and/or performance where the Broadliner passes on some of gained efficiencies to the operator. Incentives could be linked to drop size, growth, number of deliveries, etc.

Key Performance Indicators (KPIs) - Specific targets that the operator has agreed to, such as, average dollar per delivery, average cases per delivery, Average Case Cost, etc.

Margin- The amount added to cost to determine the sell price of an item


Master Distribution Agreement (MDA)- An operator's agreement with their Broadline Distributor. It is often the single most important purchasing contract that the operator holds.

Margin Schedule - A data table that outlines the mark-up structure of an operator-distributor contract. This table specifies various purchase volumes or categories and their associated mark-up charges.

Off Day Delivery- Any delivery that is requested by an operator for a day other than a Scheduled Delivery Day; Off Day Deliveries often result in an additional charge, as set forth in the Master Distribution Agreement.

Overcharge - An amount charged by a distributor to an operator that exceeds the amount set forth in a Master Distribution Agreement. Overcharges may be accidental or intentional and are often extremely difficult for operator to identify without the use of a third-party price verification resource.

Price Verification- The act of cross-checking actual invoiced prices to the agreed-upon prices as outlined by a contract. Any over-charges



identified by the price verification process are usually billed back to the distributor with the goal of rectifying the discrepancy.

Primary Distributor- Distribution partner that is guaranteed a certain amount of an operator's total purchase volume, typically not less than 80%.

Roll-over- The term during which a distributor contract will automatically renew, as defined in an Master Distribution Agreement.

Scheduled Delivery Days- Designated days, typically 2 or 3 per week that a distributor agrees to make deliveries to an operator as specified in a distribution agreement

Service Area – The geographic area in which a distributor is willing to deliver product to an operator, as defined in a Master Distribution Agreement.

Special Order Products - Products not inventoried by the distributor that an operator requests to be inventoried and delivered

Split Case Fee - An agreed on charge, as listed in the MDA, that the operator pays for ordering less than a full case of product.

Truck Load – An amount of product that equates to the volume of an entire delivery truck. Some pricing structures may be based on whole or partial truck loads.

Term- Length of contract as defined by a specific start and end date.

Termination for Convenience or Without Breach– Sometimes written into a contract that lets one or both parties out of the contract for no reason within a specific time frame (i.e. ninety days).

5 Hidden Factors in Your MDA and How to Negotiate Around Them

Most operators who have scaled in size to multiple locations have found the benefit of pursuing a Master Distribution Agreement, or MDA, with their main broadline or grocery distributor. This vital contract offers the operator the opportunity to lock in pricing terms on their order guide items and avoid drastic swings in costs and terms from their primary distributors.

However, these contracts often carry terms that may cause an operator to lose money in the long run. I spoke with former Broadline President and MDA Expert, Randall Knopf about the pitfalls that may be hidden in an MDA and how to avoid them. According to Knopf, an MDA “is a lot like a home mortgage. Many people sign them, but few actually read all the way through to find the clauses that can be the difference between a great deal and one that is not necessarily so strong.”

Freight Costs and Fuel Surcharges

“Freight costs were originally put into MDA contracts during the 90’s when gas prices were more volatile”, says Knopf. “Today, however, with fuel costs at next to nothing, there really isn’t much of a need for these surcharges.” Many contracts will include a chart of ‘strike points’ that indicate that if the price of diesel goes over a certain fee, the distributor can raise the price, either by total invoice or on a per-case basis.

Operators and consultants who are skilled at negotiating MDA’s will aim to remove fuel surcharges from the contract altogether or make the strike points so high that they would never actually be enacted over the life of the contract. “You’ll never see credit given back to the operator on the flip side if diesel prices drop. It’s only ever one way,” says Knopf. This is just one of the many ways in which distributors may try to increase their margins via an MDA.

Renewal Notice

One of the highest-dollar impacts for operators when it comes to Master Distribution Agreements is renewals. Operators must be aware of when their contracts ends in order to take advantage of the opportunity to re-negotiate their MDA and maximize their contracts for their next 3-5 years. Typically, MDA's will contain language that the distributor will automatically renew the contract for a 12-month period if the operator does not notify the distributor within 180 days of contract termination. Knopf advises that operators never miss

an opportunity to negotiate a new MDA that is tailored to their most current needs. "It's a lot like buying a car," he explains. "Most people don't just go to one auto dealer. They shop around to see what is available and try to pit the dealers against each other for pricing.

Operators should do the same thing with their distributors whenever they can. Especially if your operation has grown its locations over the life of your previous contract." Knopf adds, "You're going to get a much better deal than in the past."

...“Today, however, with fuel costs at next to nothing, there really isn't much of a need for these surcharges.”

Example: where surcharges may appear in your MDA

FIGURE 1.1

Freight and Fuel

S1.1 *Definition of Cost.* Except where Customer has agreed with a Supplier (as defined hereinafter) to purchase certain Products as described in Section S6.1 of this Schedule 4, "Cost" is defined as the cost of the Product as shown on the invoice to the delivering Operating Company, plus, if the price on such invoice is not a delivered price, Applicable Freight (defined below). The invoice used to determine Cost of a Product will be an invoice issued to the delivering Operating Company from the seller of such Product which may include suppliers, brokers, growers, packers, manufacturers, redistributors, dis-soldiers, Affiliates (including SMS) or any other source of Products (collectively, "Supplier"). Suppliers (including SMS and other Affiliates) set invoice prices of Products sold to the delivering Operating Company and may include an amount that reflects Earned Income for Merchandising Services (as such terms are defined in Section S4.2 of Schedule 4 below). In addition, for certain commodity products like produce, SMS and other Affiliates may use replacement cost or current market average cost as its cost to the delivering Operating Company. Cost will not be reduced by Earned Income or cash discounts.

Applicable Freight means a per-case freight charge based on market conditions for moving products from the source to the delivering Operating Company. Applicable Freight charges may include: (i) common or contract carrier charges billed by any Supplier or a third party; (ii) common or contract carrier charges billed by a freight management service operated by Parent or Affiliates ("FMS") for third party carriage arranged by FMS; (iii) charges billed by FMS for shipments back hauled on trucks owned or leased by Parent or Affiliates; or (iv) charges such as fuel surcharges, cross-dock charges, unloading and restacking charges, container charges, air freight charges and other similar charges not included in Supplier's invoice cost that are required to bring Product into the delivering Operating Company's warehouse. Customer acknowledges that Parent may manage freight (through FMS or otherwise) and may charge Applicable Freight, which may include an amount in excess of the costs incurred in arranging the transportation that reflects compensation for managing freight, provided that Applicable Freight for any Product will not exceed (i) the Supplier's normal Freight charge to the receiving Operating Company to ship normal quantity requirements of such Product (including a freight charge that is part of a delivered price) or (ii) if the Supplier does not provide freight service, the rate normally payable by the delivering Company for inbound shipments of a similar quantity of Product.

5 Hidden Factors to Negotiate in your MDA

Drop Size Penalty

“The best thing a chain can do for themselves is to improve their drop size penalties,” says Knopf. A drop size penalty relates to the minimum delivery size that an operator must hit in either dollars or cases. If the minimum drop size is, for instance, \$1000, the operator will pay a flat penalty if a single order falls below that minimum. As a former broadband distribution executive, Randall Knopf knows

an operator is finding themselves paying that penalty on a regular basis, Knopf advises that the operator might be spreading their business among too many distributors, which is not ideal for efficiency, security, nor pricing. Plus, managing to a good drop size will help keep the client on good terms with the distributor and provide leverage with the distributor that will help in future negotiations.

...DISTRIBUTOR WILL AUTOMATICALLY RENEW THE CONTRACT FOR A **12-MONTH PERIOD** IF THE OPERATOR DOES NOT NOTIFY THE DISTRIBUTOR WITHIN **180 DAYS OF CONTRACT TERMINATION...**

that “distributors think about their business primarily in terms of drop sizes, whereas operators tend to think in terms of margins. The burden is on the operator to negotiate an appropriate drop size penalty and to then manage their order guides, their storage space, their forecasting and their order frequency in order to avoid ever having to pay that fee. If

Margin Increases

Margin Increases are a fairly straight-forward part of an MDA, but one that operators need to watch out for. Often, when contracts roll over, there may be an automatic increase or cost-of-living increases that can wind up costing operators more money and providing extra margins to distributors. “It’s a point that you have to negotiate,” says Knopf. “Try to make sure there are no increases and that your margin schedule and fee structure remains stable over the life of the contract.”

Auditing

Lastly, Knopf advises that an MDA

should always have language that allows for auditing on a regular basis by either the operator or an outside party in order to ensure that all pricing is correct. A distributor might add stipulations to their contract language that says that the operator can only conduct an audit once or twice a year or only after giving 8 weeks' notice.

Knopf's recommendation is to establish a provision for electronic invoice auditing and hire a third party with the software capabilities to conduct those audits on an ongoing basis.

ALLOW 4-6 MONTHS TO NEGOTIATE AN MDA

"We recommend that our clients NEVER accept an MDA without an open audit clause," says Knopf. Knopf advises that a proper MDA negotiation is a 4-6 months process and that an operator should consider the complexity of their specific situation.

When an MDA contract is expiring, a full RFP is necessary so that the operator is not only comparing the fee per distributors, but also comparing the cost of each individual product across each distributor. "We've seen many cases where the bid with the lowest fee-per-case is not necessarily the best bid.

A distributor might have the lowest margin, but they actually have a higher cost," says Knopf. If an operator has the internal structure and expertise to properly manage the RFP and the negotiation themselves, then they should try, but it is likely that an outside professional is going to get a better deal if there is a lot of regional considerations, proprietary items, unique items or other individual factors.

COMMON QUESTIONS ANSWERED

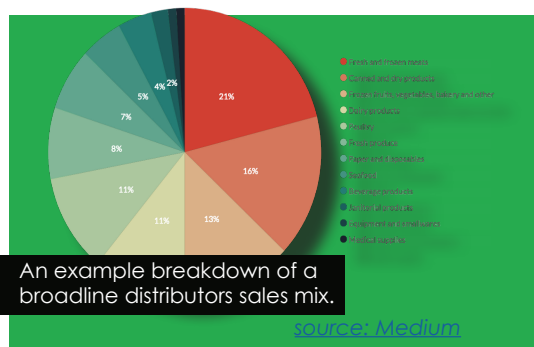
about Master Distribution Agreements

Today's regional and national restaurant and foodservice chains are confronted by a surplus of business and organizational challenges, but none as critical as the direct and indirect impact of purchasing and supply management.

With over 30% of revenues being spent on food supply, restaurant operators are increasing their focus and resources on developing more operational and cost effective ways of purchasing, procuring and managing supply. This trend is the logical outcome of increased managerial concern to meet specific supply objectives of quality, quantity, delivery, price, service, and competitive improvement.

Additionally, negotiations with distributors are receiving increased emphasis from operators. Now, instead of competitive bidding, longer-term contracts or master distribution agreements are replacing short-term buying techniques. This places special emphasis on strategies that ensure short- and long-term value for

funds spent. In our recent interview with Barry Friends of Pentallact, a research and consulting firm servicing the food and foodservice industry, Barry describes the challenges concerning restaurant and foodservice operators, while providing solutions for managing master distribution agreements. Barry spent 24 years in executive leadership roles with three of the top five U.S. foodservice distributors — Sysco, US Foods, and Reinhart — making him uniquely qualified to share his insight on the complex issues associated with distributors and distribution agreements.



Q: What are the biggest challenges facing regional and national restaurant and food service chains when it comes to distribution agreements?

Regional and national chains are flooded with distribution related problems. The nature of their problems and challenges vary wildly on their scale, maturity and business model. Most chains are growing, and their problems are growth related: resources, operations, and capital. In most cases, growing chains don't have supply chain resources or a supply chain person/department. In the rare cases they do it's cobbled together or it's a shared role between purchasing and operations.

Consequently, there aren't a lot of distributors to choose from that can do a great job for growing chains across a large geography. Depending on scale and density, most chains are stuck dealing with

broadline distributors — a single window approach for sourcing all food and operating supplies. However, the most critical issues that supply chains manage is disruption. Bottom line, in order to manage risk and avoid stoppage, the operator surrenders quality, quantity, delivery, price, and service to the distributor, subordinate to the broadliner's capabilities, transparency, and responsiveness to fluctuating markets.

SUPPLY CHAIN AUDITS: Looking to ensure your making the most of your supply chain? Consider a supply chain audit. *Figure 1.3* showcases the kinds of insights a supply chain audit can generate for operators. *learn more on page 18*

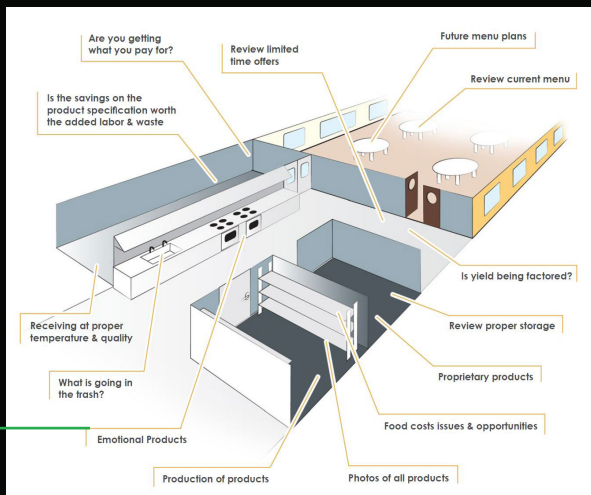


figure 1.3

Moreover, Barry points out that the biggest challenge regarding the operator distributor relationship is that operators “don’t know what they don’t know.”

Barry explains that when “RFPing your business, you will get a number of offers, and you can choose the best one, but no matter how much you (the operator) know, the distributors know more; they have all the power, and they (the distributors) are excellent at making their customers feel like they have a great deal when that may not be the best they can have.”

Q: What factors influence distributor costs?

There are many factors that influence distributor rates, but in most cases operators are not prepared to nor do they have the resources to analyze these influences.

To be clear, distributors do not raise costs, manufacturers do. In general terms, costs are driven by the markets. For example, produce costs change daily while meat costs change weekly. Most distributors spreadsheet your supply

by category and contract a fixed percent markup on top of their cost.

There are things that can be built into a distribution agreement to help smooth out price volatility, but costs are mainly controlled by the market. Once an operator comes to terms with a distributor, the distributor's primary focus becomes delivering the service end of the agreement.

Q: When does it become ideal for a chain to start thinking about doing a master distribution agreement?

In short, you should do a master distributor agreement as soon as possible. Basically, the moment an account is big enough to command the attention of multiple distributors it is the ideal time to start negotiating a master distribution agreement.

The rule of thumb is if a restaurant or food service chain has a regional and/or national presence, it should be behaving like a chain with regional and/or national authority. The chain should be buying at the very least on an honorable cost plus percent markup agreement,

and it should be negotiating special pricing on its most important value added items. For example, a burger

and a backend markup that the chains are not privy to. What is the base price? What are the attached backend service costs, and how do you (the operator) analyze and compare? Aside from asking distributors how they make money, the operator is often ill prepared and ill equipped to answer these questions.



FIGURE 1.4
MULTI-UNIT CHAIN MARCOS PIZZA HAS TO FIND DISTRIBUTORS THAT WORK FOR THEM NATIONWIDE. THIS IS WHERE AN MDA MAY COME IN.

chain would be focused on fries, hamburgers and butter. As a unit of measure, most of the large broadliners like Sysco consider a 5 unit chain and above a *chain account*.

Q: How does an operator analyze whether they are getting a good deal?

Unfortunately, operators really can't. Even after operators get their 2 to 3 proposals, at the end of the day, there's still a margin,

The best way to know whether you are getting a good deal or not is to leverage the expertise, technology and buying power of [Consolidated Concepts](#) — the leading purchasing partner in the US for restaurants and food service organizations. They work with hundreds of chains which allows them to benchmark and compare one distribution agreement with another.

Q: What's the difference between a fee per case and percent markup?

Either one is fine. Generally speaking, the distributor will like the percent markup better, and as the product inflates, the distributor's profit increases. It prevents them from coming back to the operator and saying they need a rate increase because their percent

markup will float in respect to inflation.

Commonly, the higher the price volatility, the riskier the security. For example, 15% markup on produce during a tomato shortage can raise

Q: What factors should an operator consider when terminating a 3 to 5 year distribution agreement?

Even if the broadliner agreement is sound and the service level is excellent, a chain experiencing

significant growth should be checking the validity and currency of their agreement with some regularity. MDA's have something called an "exit clause," or common language that says with

60 or 90 day notice, for no cause, the operator can terminate the agreement.

For instance, a 25 unit chain on a 5 year MDA has grown to 50 units in the last 2 to 3 years and has doubled their purchase volume or added a third purchasing volume under their broadliner. In this case, there is no clause that forbids the chain from shopping their

from our partners at

Fresh Concepts

PRODUCE ALERT:

In 2018, there were two severe recalls on romaine lettuce and an avocado strike that had costly repercussions to the foodservice market. This kind of volatility led to direct increases in price which then added to distributor markups. Keeping an eye on industry trends YTD can help you assess which items may be important to include in your MDA.

the price per case from \$25 to \$50. However, either option is still better than autonomous pricing from the DSR (Distributor Sales Representatives).

All in all, it comes down to what the distributor is willing to offer and what you are able to do to rationalize that offer.

current MDA; in fact, Consolidated Concepts highly recommends shopping for new pricing with an agreement currently in place.

Q: A lot of operators fear losing a good relationship with their broadliner...why should they consider shopping their current agreement even if they have good relationship with their distributor?

This is a clear case of a mutually valuable relationship where the distributor does a good job and is honorable and diligent. The relationship is built on more than price. In our society, it's natural to feel the risk emotionally when threatening to break up with a distribution much like initiating a divorce with one's spouse.

However, this is business, and operators have a responsibility to themselves, their employees and their shareholders to do the best thing for their organization. If the goal is to increase profits by reducing supply costs, operators should consider the value of quality service, because the cost associated with replacing product, missing product, broken product is huge.

In the end, if an operator builds an exceptional relationship with a distributor, they should be comfortable enough in their business to back that distributor and negotiate fair pricing and vice versa. If the distributor values your relationship, they will find a way to retain your business while upholding their standards of quality service.

Q: What common triggers cause an operator to renegotiate their distribution agreement? What sets them off?

There are many triggers that start the distribution agreement negotiation process. Usually this is triggered by something that causes the operator to lose trust in their incumbent distributor. It could be a matter of price or it could be how the distributor is administered.

Another factor that compels renegotiation is the chain's own external state of affairs. Unfortunately, sometimes the problems associated with growing pains transfer to blame on current purchasing practices.

Q: If an operator is unhappy with their level of service, should they give their distributor a chance to fix

the problem?

As mentioned before, operators have a responsibility to themselves, their employees and their shareholders to do the best thing for their organization.

A good deal or distribution agreement is only as good as their level of service (the quality and delivery of product). The costs associated with missing or broken product affects a chain's profit margins just as much as the amount they spend on supply.

At the end of the day, an operator must ask themselves "what's best for my business?" The answer will be clear.

Q: If a chain is happy with their service level and the distributor offers sufficient transparency, how do they know they have a good master distribution agreement?

One of the most valuable activities an operator can do to benchmark their agreement is to network and compare their deal with similar size organizations.

Unfortunately, this rarely happens.

On the other hand Consolidated Concepts works on hundreds of master distribution agreements. This is a huge advantage because it allows you to validate your agreement.

You can always RFP your business to multiple distributors in different markets, but you will never truly know if you've improved your deal as much as you could, unless you have a means of benchmarking. Without benchmarking, operators are essentially flying in the dark.

Q: What is compliance and why is it important?

Compliance is designed to add strength to the agreement by assuring that both distributors and customers are adhering to the agreement. For example, if a customer doesn't pay on time, or is not purchasing at the frequency or volume described by the key performance indicators in the agreement, the distributor has the right to call that customer to the carpet.

In other cases, a red flag may be raised against a distributor who doesn't call out a customer who

is not in compliance with their key performance indicators. For instance, a distributor accepting 100 cases when 150 cases are in the agreement is an indicator that the distributor figured out how to profitize that business to their satisfaction without the 150 cases. This can be a sign that the operator is paying for something they may not be aware of and did not agree on. This is why compliance is important for both sides.

Q: What qualifies a chain to ask for additional incentives?

The number one thing that qualifies a chain to ask for incentives or an improved deal is when a chain starts consistently out performing or overachieving the parameters of their agreement.

A good example of a chain that deserves a better deal is a 10 unit chain (paying cost plus 2 dollars and 40 cents a case with a requirement of 80 cases minimum order and 4 million dollars worth of supply per year) that grows to 15 units (paying 7.5 million dollars a year and 124 cases per order) during the term of their agreement. In this case, the operator should

reach out to the distributor to negotiate better pricing. At the end of the day, the distributor will be competitive in situations that make sense. It's your job as the operator to get the distributor to think of you as a 15 unit chain with 7.5 million dollars in business. They won your business once; make them win it again. ■

SAVINGS BEYOND YOUR MDA

Looking for more ways to save in your operation? Explore a few of our cost-savings insights. Keeping an eye on your supply chain, blanket contracts, and more can help you add more to your bottom line consistently.

Supply Chain Case Study

BELOW IS A SNAPSHOT OF WHAT WAS FOUND FOR A 100+ LOCATION BRAND.

The CEO wanted an audit done to evaluate all facets of their supply chain. A critical discussion took place between the clients' key personnel (CEO, CFO and VP of Supply Chain) and the Consolidated Concepts team and partners. Information was exchanged about the brand and key items which were open for review and those that were "off limits". The audit then took place at three locations and involved the clients' VP of Supply Chain, Director of Culinary, Director of Operations and included the store's managers.

SOME OF THE FINDINGS

EGGS



OPPORTUNITY Using Grade AA eggs for scrambling

SUGGESTION In this application Grade A eggs do not effect guest experience but will provide significant cost savings.

TOMATOES



OPPORTUNITY Using a 4x5 tomato for chopping/dicing

SUGGESTION Plums are lower cost option in this format and provide better presentation/color.

BACON



OPPORTUNITY Using a traditional size bacon for sandwiches/burgers

SUGGESTION Bacon cut from a smaller pork belly leads to wider pieces, meaning wider coverage, better presentation and cost savings for this application.

SHRIMP



OPPORTUNITY Using a lower count shrimp size to give perceived bigger product

SUGGESTION 61/70 count shrimp cooks down to a comparable size of the 51/60 count providing savings that will not affect the guest's experience.

HOW TO SAVE ON YOUR SALAD COSTS

2oz LEMON

Save \$0.04
by using
165 ct vs 115 ct



4oz AVOCADO

Save \$0.10
by using
60 ct vs 48 ct



4oz TOMATO

Save \$0.08
by using
Plum vs 4x5



6oz SHRIMP

Save \$0.11
by using
61/70 vs 40/50



12oz ROMAINE

Save \$0.15
by using
Loose vs Retail Pack



That's \$48.00 savings per 100 salads
or \$0.48 savings per salad!





ABOUT **CONSOLIDATED CONCEPTS**

Consolidated Concepts was founded in 2009 when several successful multi-unit operator executives teamed up with John Davie of the Buyers Edge Platform to create a GPO and consultant service designed specifically for multi-unit and chain restaurants. Since that time, our company, clients and contracts have all grown to represent the best services that the restaurant industry has to offer.

Top restaurant clients call on Consolidated Concepts' expertise during periods of growth, private equity investment, regional expansion, distribution contract negotiation, menu development, direct manufacturer contract renewals, purchasing team changes and any other event that requires the work of foodservice procurement departments.

