

# **Distributor Report To National Foods**

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# Overview

This report has been written to give NFL Management an insight into the commercial reality that has existed in Mackay since the merger of Berri and NFL. This report is not designed to bring up bad blood nor is it designed as a witch hunt.

Many of the questions outlined in this report have either been raised in person with various people in NFL or in writing by email. There are also several concerns that have arisen in the process of selling our business.

I believe that if these matters are left unresolved it will only better serve NFL's competition. BUT if these issues are addressed satisfactorily and genuinely NFL will grow and as a result have a stronger and more effective distribution network.

At the end of the day NFL has a choice. My hope is that NFL decides to make some changes that will give their distributors confidence and a reason to invest in their business and partner with NFL to grow their business.

# Corporate Accounts

Corporate Accounts can be a blessing and a curse. On one hand they provide fantastic volume and turnover, but at the same time they are probably more painful than most cash accounts. We have 3 different commission rates 19, 38 & 48 cpl. And the (%) breakdown is around 45%, 45% & 10%. So when we had a commission increase, it was only 3% on the 19cpl rate which left 55% of our corporate accounts without an increase for 4 years. Meanwhile the cost of doing business has increased by over 50% last FY.

The issue for me was that in Mackay the corporate account turnover was growing by over 30% p.a. Our cash accounts were growing by around 10-15% p.a. In order to cope with the growth of our business we had to borrow an additional \$100k for a new truck, larger cold room, more pallet racking and to employ an additional driver. (We ended up selling our house to reduce our debt load.)

As you can see from the spreadsheet attached in **Appendix 1**, I was making money on my cash accounts and losing money on my corporate accounts.

## **Questions:**

Could someone please tell me how I could continue doing business this way?

Prove to me that someone could deliver juice to these corporate accounts for the commission paid (while paying for their own depot, cold room, refrigeration costs, etc.)

# Milk and Juice Range

On the surface this may not appear to be a major issue. The reality is that this issue has had a major impact on the value of my business. This issue goes right to the very core of what we are talking about. When we bought the business four years ago there was only one Berri distributor in Mackay and I hoped that we could turn Mackay into a multi distribution point where we became a Master Distributor.

But with the blink of an eye, there was a NFL milk distributor only a couple of months before the merger. The directive was given that any new customer picked up the Milk distributor would be given first option to deliver milk & juice. There have even been instances where there has been an existing juice customer and this has happened. (North High, Doc's Place, Café Valletta to name a few)

There is no doubt in my mind that NFL has benefited from a very strong name in Mackay. I am sure that every one of my cash accounts has been asked about milk with varying degrees of success. I am sure that the success rate would have been at least double if we were able to supply the milk.

## **Questions:**

Why is it when the merge of the two companies started the Milk distributors automatically have access to the entire range of Juice products and yet Juice distributors have access to only a few long life milk products?

How would Milk distributors react if Juice distributors were given access to fresh milk products?

# Pricing

When the merger first occurred I was buying juice from Townsville at TWN prices with TWN range and TWN dates. The milk distributor was able to buy juice at Brisbane prices with Bris range and with Bris dates. I thank NFL for fixing this issue.

In reality, the change should have been very good for NFL. Because of the better dates there has not been a warehouse claim sent in nor does NFL have to pay for freight down from TWN. Probably a saving of around \$30k p.a. Where as for me there was a saving of around \$25k p.a. but I had to give up around \$30k p.a. in income from delivering GC product to their corporate accounts.

I didn't mind giving the GC deliveries up because it was an extra 12 hours of work per week, that I didn't have. The issue is that 3 weeks after we started buying juice out of Brisbane the price went up by 7% and we lost customers as a result. This was the first time I have ever lost a customer because of a price rise. We gave the competition an opportunity because our prices went up by around 12% in 4 months. The net gain for us was negligible because of these other factors.

The other issue was that while I was receiving my juice out of Brisbane on one truck the milk pallet for North Goonyella was still going to TWN. This became a real issue around the time of the floods. First time I had to go and buy milk from a supermarket and do two deliveries that week. The second time I had to wait 4 days, basically take it straight off the Fridge mobile truck at 8pm drive through 500mm of water and do a 26hr day on Valentines day. There was also

another time where I slept on the side of the road at Lake Elphinstone to keep them happy.

## **Questions**

Why can I buy juice from Campbell's CC for less than what NFL sells it to me for when they used to get their juice on the same truck that delivered it to me? As an NFL distributor, I should be able to supply for best price.

Why is our price for juice going up when the world juice price has just about halved in the last 12 months?

# Refrigeration

On the scale of things this issue is not one of the major issues. I can understand the difficulties of having a national refrigeration network but in order to sell more products we need them. My main issue has been the reliability of the call centre. There has been several times where the refrigeration transporter has caused quite a deal of stress to me and my customers.

## Questions

Why is it that we can get a brand new milk fridge straight away, but there are no juice fridges available?

Why do juice distributors have to pay fridge rental while milk distributors don't?

Why is it so hard to get a fridge fixed?

Why did we receive a busted milk fridge for a large customer that smelt like off milk with no light box and no temperature display? (Photo in **Appendix 2**)

Please clarify the KPI Incentive for me...



# Salability

What I am talking about here is the ability to sell something for fair market value. I would say that we have had a challenging year. When I say challenging, I mean selling our house, moving 50km to Sarina and renting, employee falling out of the back of a truck and blaming me, 90-100hr weeks over a sustained period of time (4 months), workplace health & safety investigation, dealing with WorkCover as well as delivering double the amount of product on the same period last year.

I pleaded with NFL for some support, advice or even just an encouraging phone call. All I was told was that I was being negative.

Now as difficult as all of these things were we managed to get through it and survive with a smile. All of these things are easier to endure if you have something to sell at the end of it all. During this time it was becoming all the more obvious that our business was going to be difficult to sell for a variety of reasons. After going through the sale process I can now see that NFL made it near on impossible to sell our business and if we didn't sell now we would have even less to sell in 12 months time.

We had a number of buyers look at the business at the end of last year, some were too tall, too short, too hot, too cold, not enough money etc, but there were some that were just right and every time they scratched the surface they ran a mile.

They soon wanted to know why the other NFL distributor was in a \$60k p.a. depot and I was in a \$10k p.a. shed. They also wanted to know why I don't do the milk. They also asked what the boundaries are, customer wise. If the answers to those questions didn't scare them off the contract certainly did the trick.

Through NFL's bureaucracy it cost us in excess of \$50k. I could not believe how long it took to get answers back from Melbourne. It took 3 working days to even talk to someone about the meeting agenda, not a Saturday or Sunday or a public holiday. Three working days just to say, "Nope can't change it."

When I say fair market value I mean fair market value.

We paid	\$145,000 + stock
We invested	\$110,000
We also more than doubled the turnover GP & NP	
Offer after seeing figures	\$250,000 + stock
After seeing Contract	\$225,000 + stock
After 3 months of NFL drama	\$205,000 + stock
Net loss	-\$50,000

This does not include added legal expenses and the human cost. The buyer felt that after seeing how the business ran and looking over the figures it was worth \$250k. It was only as his eyes were opened to the world of NFL that our business was worth less. We negotiated down because of a variety of reasons but long story short NFL gave us no

reason to stay and continue growing the business. And after investing so much energy into this sale, if it did not proceed, then any future buyer would have even less time on their contract and therefore the business would be worth less again.

## **Questions**

What is NFL going to do in order to address these concerns?

What is the point of growing or investing in a business if you can't sell it down the track?

Who is going to invest \$250k on a business with 20 months left to run on the contract?

Would you invest \$250k in a business with the kind of contract NFL expects buyers to sign?

Why was it so hard to add 5 words to a meeting agenda?  
Why even sign an agenda when it is not even an accurate record of what was discussed at a meeting?

Why did it take so long to get the deed of Novation drawn up? (When they should have been drawn up 6 weeks earlier at our original settlement date)

Why did it take so long to get our \$50k Bank Guarantee returned?

# NFL Depot in Mackay

Now NFL may not see this as a major issue but right from the very start and in my very first meeting with NFL management I raised my concerns with a subsidized depot in Mackay. This issue has not only affected the sale price of my business it also has had a direct impact on my ability to grow my business. I would have loved to be able to work out a way to be able to utilize the depot, but the practicalities of doing so were near impossible.

## Questions

How much does NFL pay for the depot in Mackay?

Does NFL pay distributors more for corporate accounts who pay for their own depot?

Who knew what before the merger?

I ask NFL to compare the difference between the two depots.

# Contractual Differences

When we first started with Berri the contract was written in a way that was very much in the company's favour. As much as we wanted to take out some stuff we could live with it. When we were offered the new improved NFL contract we had no choice but to sign it. We either signed it and continued doing what we were doing or we lost our business to the milk distributor.

We only received the actual copy to sign the day before Arthur wanted to pick it up!!!

The main issue here is that when I started with Berri I signed a new 3 year contract with a 3 year option. The buyer would have been happy with that and paid the \$250k. But because the buyer was only buying the remainder of my contract my business was worth less.

NFL asked the buyer to sign a meeting agenda that was not even close to what was discussed in the meeting with Arthur Beattie. Not only that, this was only raised after the original settlement date had been set.

## Questions

Do you believe that NFL has not only a contractual obligation but also a moral obligation to franchisees?

Convince me that the actions of NFL have been legal?

Explain to me why the 3 year option could not even be mentioned on the meeting agenda?

# Commercial Realities

In summary of everything that has been raised, NFL has given us absolutely no reason or confidence to invest in and grow our business. Business decisions that NFL have made have directly impacted on our business especially the value of our business. You may not want to believe this, you may not want to even agree with me but I can assure you that there are plenty of people that do agree with me and I am sure that there are plenty more people in Australia that would agree with me.

## Questions

Convince me that I am wrong, convince me that NFL has had absolutely no impact whatsoever on the value of our business.

How would NFL react if we decreased the value of their business by 20%?

What is NFL going to do in order to make this right?

How is NFL going to respond to this report?

Convince me that NFL actually wants to move forward and grow the business.

# Personal Implications

NFL needs to discuss these matters with us. The personal impact that these issues created cannot be conveyed on a page. I can assure you that if someone from NFL is willing to sit down and discuss these matters with us that we will be able to come to an understanding.

# Appendix 1

<b>Cash vs Corporate Accounts July to December 2007</b>				Expenses relative to percentage turnover	P&L Cash & Corporate Separated
Cash Sales Combined		\$413,128			
Stock Adjustment		\$10,000			
Cash COG		\$320,370	62% of turnover		
<b>Cash Total Income</b>		<b>\$102,758</b>		<b>\$67,431</b>	<b>\$35,327</b>
(78% of Total Income)				(62% of Expenses)	
Corporate COG		\$197,905	38%of turnover		
<b>Corporate Total Income</b>		<b>\$29,543</b>		<b>\$41,328</b>	<b>-\$11,785</b>
(22% of Total Income)				(38% of Expenses)	
Total Income Cash & Corporate		\$132,301			
Total Expenses		\$108,759			
Net Profit for half year		\$23,542			



# Appendix 2

