

Michael Hoare Brand Management Group
Bringing products to market...and dreams to fruition

How to Build Your Business Through Distributors

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Important things to know before launching a new item

- ▶ Make sure what you're offering is different, meaningful and innovative.
 - So that you are not viewed as a "me too" and there is a real reason to be
- ▶ Make sure your gross margins are rewarding and forgiving.
 - 40%+ food, 50%+ personal care, 60%+ nutritional products
 - So that you have a fighting shot at profitability and a sustainable business
- ▶ Have a plan to go to market.
 - Make or co-pack, route to market, team, realistic launch costs, time to break-even etc.
- ▶ Crack the code
 - Validation and traction - optimal selling price, where to merchandise, how to promote and demo, how to tell your story to the trade and consumer, - by getting into a few stores and seeing evidence that it actually sells off the shelf.

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Introduction

- ▶ What's your game plan for going to market?
- ▶ What is your positioning, unique selling proposition, category story?
- ▶ Go direct or use distributors?
 - ▶ Use independent reps, ship directly to retailer
 - ▶ Use distributors and broker organizations
- ▶ What resources do you have?
 - ▶ People
 - ▶ Money

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Agenda

- ▶ Role of the distributor
- ▶ How to decide if you should sell through a distributor
- ▶ There are several different types of distributors
- ▶ Pricing and margins
- ▶ Distributors make money three ways
- ▶ Distributor marketing programs
- ▶ Discount programs
- ▶ Different types of promotional discounts
- ▶ What a buyer looks for in a new item
- ▶ Be prepared to answer questions
- ▶ Objectives

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Role of the Distributor

- ▶ Distributors buy products from suppliers and resell and deliver them to retailers
- ▶ They usually provide marketing and sales services
- ▶ They buy pallets and truckloads and break them into smaller shipments to retailers
- ▶ They often cut cases and sell half-cases or even single units depending on the category
- ▶ They can provide a variety of services to the retailer, ranging from setting sections, order taking, packing out on the shelf, merchandising programs, sales analysis and flyers to store set up and point of sale systems
- ▶ For the supplier, consolidates shipping and receivables to fewer parties than selling direct to retailers

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How to decide if you should sell through a distributor?

- ▶ Guiding principal - make product available in the way your retail customer wants to buy it.
- ▶ Who are the main and secondary distributors for your target retailers/chains?
- ▶ Does your product lend itself to direct shipping (weight, perishability, pack size, etc.?)
- ▶ Does your pricing and margin structure have room for a distributor margin?
- ▶ Can you efficiently scale up your business by going direct?

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The different types of distributors

- ▶ Today, distributors do cross over into other channels of trade. But in general, the natural distributor does natural the best although they might now do specialty, or foodservice, and the Specialty distributor does Specialty best, although they do natural or DSD.
- ▶ The main types of distributor are:
 - ▶ Direct Store Delivery (DSD), Foodservice, Mass Market, Military, Natural, Produce, Specialty and Warehouses are the main types.

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Gross Margin Defined

- ▶ “Gross margin” is the difference between the costs related to manufacturing the product and the net price at which you sell product to your customers

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Margin or Markup?

What is the difference between “margin” and “mark-up” in terms of defining wholesales or retail pricing?

$$\text{Retail Margin} = \frac{\text{selling price} - \text{cost}}{\text{selling price}}$$

$$\text{Retailer Mark-up} = \frac{\text{selling price} - \text{cost}}{\text{cost}}$$

In most all cases distributors work on margin not mark-up!

Example

- ▶ **Margin:** With a product costing \$2.00 and selling for \$3.00
 $(\$3.00 - \$2.00) / \$3.00 = 33.3\%$ margin
- ▶ **Markup:** With a product costing \$2.00 and selling for \$3.00
 $(\$3.00 - \$2.00) / \$2.00 = 50\%$ mark-up
- ▶ So in this example if you thought a distributor was marking up your product 33.3% your belief would be that the price to the retailer would be \$2.666 ($\$2.00 * 1.333\%$) but in fact they would be charging the retailer \$3.00

Distributor Margins and Selling Prices

- ▶ Selling price based on “landed cost” into distributor
- ▶ “List” price in catalog is based on a 25% - 30% distributor gross margin
- ▶ Many customers on some kind of volume discount
- ▶ Whole Foods and a few other major retailers will be on “cost plus” programs
- ▶ Supermarkets range 10-25% depending on services, if cost plus, estimate 8-12%

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**Keep in Mind Distributors Make
Money 3 ways**

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(Most) Distributors Make Money...

- ▶ Buying product
- ▶ Selling product
- ▶ On their marketing programs

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Marketing Programs

- ▶ **Catalog/Price Book**: Product name, unit size, distributor code, wholesale and suggested retail pricing (S.R.P.) Are included in these listings. Catalogs are usually updated quarterly and are a good advertising vehicle for introducing your products to the retailer community
- ▶ **Newsletter/Monthly Specials Bulletin**: A listing of new products and monthly specials. Usually printed monthly, insertion of product selling information during the same month that a product is on sale is a great way for your product to get retailer exposure and give an incentive to purchase ... a strong one-two punch. Be in contact with the advertising department six to eight weeks before the promotion begins to request that the ad appears adjacent to the product description and/or promotional announcement.

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Marketing Programs (cont'd)

- ▶ **Consumer Flyer**: Distributors will solicit high volume, well-distributed products for participation in these monthly programs. Distributors usually request larger-than-normal discounts for these programs.
- ▶ **Case-Stack programs**: A program available to manufacturers of shelf stable products is the "case-stack" program. These deals are listed in distributor catalogs and monthly newsletter/specials bulletins. As the name implies, retailers can get increasing discounts by purchasing larger quantities of product

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Discount Programs

- ▶ Off Invoice
- ▶ Manufacturer Charge Back (MCB)
- ▶ Case Stack deals
- ▶ Incentive Programs
- ▶ Exclusivity Program
- ▶ Distributor Book Line & Ad Promotions
- ▶ Shipper allowances
- ▶ SPIFS
- ▶ Promotional Programs

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Types of Promotional Discounts

- ▶ Off Invoice
- ▶ Bill-back
- ▶ Manufacturer Charge Back (MCB)
- ▶ Case Stack Deals
- ▶ Scan Down
- ▶ Hip Pocket Deal
- ▶ Coupons
- ▶ Incentive Programs

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Information Sharing Program and National Marketing Opportunities

- ▶ Supplier In-Site Information Sharing Program
- ▶ MVP Programs from Elite to Lite
- ▶ Seasonal/Holiday Celebration Sales
- ▶ Monthly Inserts
- ▶ Truck Advertising
- ▶ Customized Marketing Program
- ▶ UNFI/KeHE and other Distributor Tabletop Shows

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What a buyer looks for in a new item

- ▶ Exclusivity
- ▶ Innovation
- ▶ Ingredients
- ▶ Consumer and retailer demand
 - ▶ Placement in some key retail accounts
- ▶ Pricing and promotional strategy
 - ▶ Participation in distributor programs
- ▶ A sales effort behind the line
 - ▶ Broker network or direct sales force
- ▶ Overall uniqueness and appeal of the product

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Be prepared to answer

- ▶ What kind of promotional support is being offered?
- ▶ What are the frequency and depth of the promotions?
- ▶ What is the manufacturer's plan to tell the consumer about the product? (demos, advertising, public relation campaigns, etc.)
- ▶ Has the manufacturer put a lot of thought into their strategy, and are they supporting the efforts of the distributors and/or chains by participating in their programs?
- ▶ Product presented in an attractive and concise way
- ▶ Sales effort - both direct and use of brokers
- ▶ How much existing distribution is there with our customers

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Be prepared to answer (cont'd)

- ▶ **Media Research** - Is there compelling information that has already been provided to the public with regard to important health benefits that an ingredient or product will provide to better one's lifestyle? i.e. on trend?
- ▶ **Shelf life** - Are spoils likely to be a problem? Will the vendor stand behind and guarantee any losses
- ▶ **Payment terms** - Are we offered discounts for prompt payment? Extended Terms, Distributor requirements
- ▶ **Frequency of delivery** - What are service levels like, what are lead times, minimum order quantities, pick-up points, and how will the ease of receiving be?

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Be prepared to answer (cont'd)

- ▶ **Pick-up location** - Is it logistically sensible for costs?
- ▶ **Exclusivity** - Is there an advantage to our picking up a new item before our competition? Is there an opportunity to fill the pipeline and secure initial market share?
- ▶ **Category management** - New products should always open the opportunity to review a category and weed out the dull, slower volume items, paving the way for new and innovative selections

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Objectives

- ▶ Create opportunities for consumers to buy your product
- ▶ Create incentive for the retailer to feature your product
- ▶ Drive Volume
- ▶ Capitalize on high usage occasions, and promote sales during weaker periods
- ▶ Maximize retail placement through distributors

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Email Michael Hoare at michael@mhbrandmgmtgroup.com to set up a free consultation to find out more about how MH Brand Management group can help your company grow.

For more information, visit Michael's [Going to Market](#) web page.