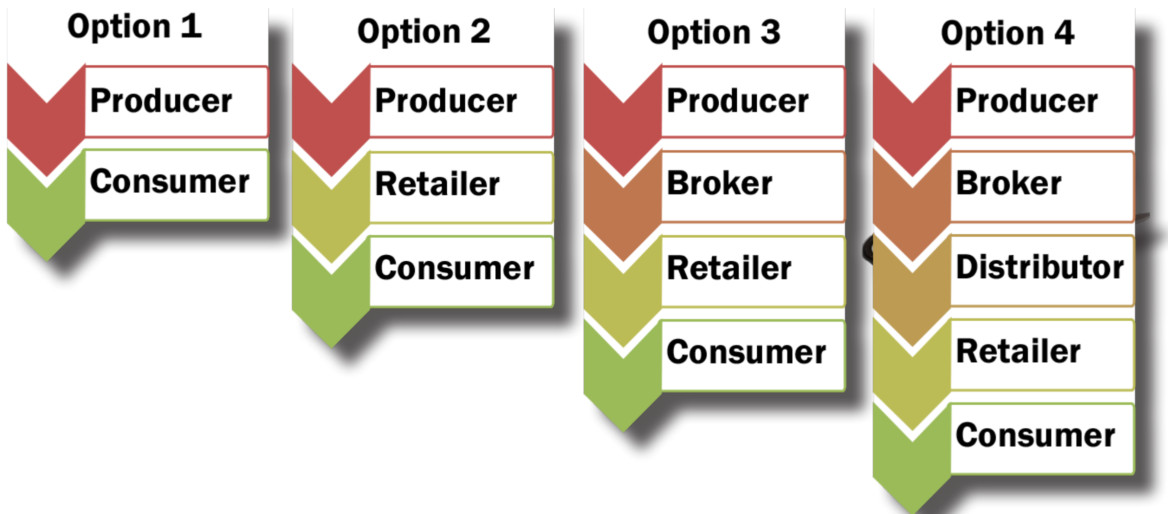
THE ROAD TO THE CONSUMER - OPTIONS



DISTRIBUTION

There are several options for getting your product to consumers, as illustrated by the graphic above. This section will cover Options 2, 3, and 4.

DIRECT STORE DELIVERY (DSD). Usually the first option that small growers and food manufacturers choose is DSD (Option 2), and it is usually done for case orders (not pallets). By delivering the items direct, you don't have to discount the wholesale price to allow for distributor margins, and also you can combine drop off with sales visits. Another DSD option is through a common carrier service, such as USPS, FedEx, and UPS. However, unlike gift stores, grocery stores are not as likely to allow direct delivery. DSD means additional handling at their delivery dock, additional invoices to pay, and it requires additional points of contact for orders.


Farmer preparing for direct delivery to a grocery store.

Common carrier option.

To determine if DSD is appropriate for your firm, consider your scale of operation—including labor requirements, transportation costs, and time requirements. For help with determining transportation costs, reference the attachment *The Per-mile Costs of Operating Automobiles and Trucks*. If you are serious about selling to grocery stores on more than a local scale, you must consider distributors and warehouses.

BACK-HAULS & CROSS-DOCKING. A moderate, non-committal option for delivery of your product to grocery stores is back-hauls and cross-docking.

- Back-hauls. A back-haul is moving freight from the destination point back to point of origin. If a trucker takes a load from the warehouse to the store, the back haul is a load going from stops along the route from the store back to the warehouse. This is a way for you to get your product from your facility to the distributor's warehouse for cross-docking, usually for a per-pallet fee:

  1. Contact the distributor who visits the store(s) or other points to which you need to deliver (possibly to connect with another distributor for delivery to stores on another route). The best case scenario is that this distributor also has a delivery or pick up point near your facility.
  2. Determine if the distributor's truck can make an extra stop at your facility for pick up. For palletized product, distributors usually prefer that you have a loading dock. If the truck cannot stop at your facility, determine a meeting date, time, and location at a stop close by (perhaps a store with a loading dock).
     - » It is important that you are never late or fail to show up for this stop, as this may harm your chances for a distributor relationship in the future.
  3. The truck delivers the product to the warehouse to be cross-docked for near-term distribution to the store.

- Cross-docking. This is a distribution system where items received at the warehouse are not received into stock, but are prepared for shipment to another location or for retail stores. Distributors usually charge a fee per pallet (regardless of the size of the load on the pallet), rather than a margin.
  - » **FEES:** the fees are different for hauling shelf-stable, perishable, refrigerated, and frozen product.
  - » **OWNERSHIP:** for back-hauls and cross-docking, the ownership of the product does not transfer to the distributor; rather, you retain ownership (and responsibility) for the product throughout its transit to the store.

To coordinate back-hauls and cross-docking requires a lot of work and coordination on both your and the distributor's office personnel's part and is recommended only if you can't yet afford regular distribution.

A "reefer" truck.

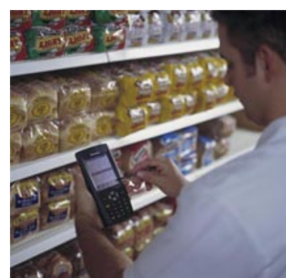
DISTRIBUTORS. Distributors can add greatly to the volume of your business because they purchase your products in large quantities - usually by the pallet-load. Distributors can help small growers and food manufacturers in several ways:

Grocery delivery via distributor..

1. By providing direct sales and delivery linkages with grocery stores (which may, otherwise, be difficult to achieve on your own).
2. By undertaking the responsibility for marketing, sales and (local) delivery to a wide variety of grocery customers (which is possible by the variety and volume of products they handle and the sales force they employ).
3. By purchasing and paying for your products (albeit, usually, at a lower price than you may secure elsewhere) on a regular basis knowing that your products are 'saleable' to their customers.

Even though distributors provide small growers and food manufacturers a service, their target customer is the retailer, or in this case the grocery store. For the grocer, distributors offer the convenience of one-stop shopping, processing orders quickly, delivering frequently, and offering a "one invoice - one check" system that saves the grocer time and expense.

- Positive aspects of using distributors.[9] Just as distributors reduce costs for their customers, they also reduce some costs for you by simplifying your business.
  - Rather than dropping off product at 60 stores, distributors save gas and time for you by providing you with one drop off location, from which they will deliver to your 60 accounts.
  - Because distributors handle goods in large quantities, they can streamline your accounting and office procedures. For example, using distributors can reduce your order taking, customer service, billing, credit checking and bad debt losses because you will be directly dealing with far fewer accounts. For the same reason, your accounts receivable processing should become more efficient. Tracking your orders and sales communication should become much easier because there will be less paperwork and fewer individuals involved.
  - Distributors will develop an ordering cycle for products. Even when products are on promotion, many distributors operate under tight controls and cannot have more than six to eight weeks' inventory available. This means you'll know, often well in advance, when your product will be ordered so you can begin scheduling your own production cycle.



Common ordering method.

- Negative aspects of using distributors.[9] As with any business decision, the positives must be weighed with the negatives.
    - First, the cost involved. It either comes out of your profits or gets added to the retail price of your product. Distributors typically charge retailers 33% to 50% more than they pay for a product. Another way to express this is to say that distributors work on a 25% to 35% (profit) margin. See *Pricing* for more information on margins.

    - Next, with distributors you lose control over various aspects of marketing your product. With distributors, you may not know the specific retail stores that carry your product. And you lose control of important, individual store data, too. Your own invoices will no longer reveal the exact products you sell to each store. You will not know which sizes or flavors are in stock. You no longer will be able to analyze sales by geographic area, by store or by chain. You will not be able to tell if a specific store or chain discontinues your line or a specific item. With a distributor, retail promotion of your product becomes less controllable and less direct.

Further investigation as to the pros and cons of a distributor is available in the attachment, *The Role of Distributors and Brokers*.

- Independent vs Associated distributors. What kind of distributor you pick will also determine to what stores you can sell. Independent distributors (voluntary wholesalers) are independent of retailers, so they can deliver to nearly any store in their coverage area. Associated distributors (called "Co-op Grocery Wholesaler" such as Associated Food Stores) are tied to specific retailers in their association, so asking them to deliver to stores outside of their association is not a possibility[7].

Co-op Grocery Wholesaler.

- Specialty vs Broadline distributors. Another consideration is how specific your distributor needs to be:
    - Specialty distributors focus upon a specific product category (e.g., meat, dairy, produce, beverages, ethnic foods, etc.) or segment (e.g., grocery, foodservice, etc.). Like broadline distributors they provide delivery, credit, sales representation and other value-added services, but unlike broadliners, specialty distributors do not carry a "full-line" of products. Rather, they typically carry a broader and deeper line within their specialization categories.
    - Broadline distributors carry a "full-line" of products including dry grocery, frozen, supplies, etc. Many broadliners also carry perishable items such as meat, dairy and produce. The typical broadline distributor

carries 8,000-12,000 stock keeping units and provides delivery, credit, sales representation and other value-added services to its foodservice operator customers.

KEY SUCCESS FACTOR - RELATIONSHIPS. As a supplier you need to develop relationships with many distributors since you may end up working with a different distributor when a retailer makes a change.

DISTRIBUTION CENTERS. Distribution centers, often called warehouses, are a key player in grocery distribution, offering a central location in which the volumes of products can be stored for re-sale.

Warehouses can receive multiple shipments simultaneously through their loading docks..

A typical retail distribution network operates with centers set up throughout a commercial market, with each center serving a number of stores. Large distribution centers for companies such as Wal-Mart serve 50–125 stores. Suppliers ship truckloads of products to the distribution center, which stores the product until needed by the retail location and ships the proper quantity.

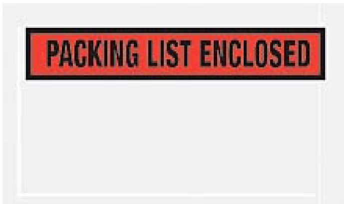
Since a large retailer might sell tens of thousands of products from thousands of vendors, it would be impossibly inefficient to ship each product directly from each vendor to each store. Many retailers own and run their own distribution networks, while smaller retailers may outsource this function to dedicated logistics firms that coordinate the distribution of products for a number of companies.

DOCUMENTS NECESSARY FOR DISTRIBUTION. Several documents will be necessary for the distributor and warehouse[7].

» Please note that for regulated products, all of the documents listed below must include Country of Origin Labeling (COOL) information (required for muscle cut and ground meats: beef, veal, pork, lamb, goat, and chicken; wild and farm-raised fish; fresh and frozen fruits and vegetables, etc.). More COOL information is available at *ams.usda.gov/AMSv1.0/COOL*.

- Bill of Lading. A bill of lading (BL - sometimes referred to as BOL or B/L) is a document issued by a carrier to a shipper, acknowledging that non specified goods have been received on board as cargo for conveyance to a named place for delivery to the consignee who is usually identified. See the attachments for an example and template.

- Packing Slips. Generated by you (the seller), these must be included with the shipment for product tracking and shipment verification documentation. See the Attachments for an example. Essentials listed below:



See-through envelopes on the exterior of the box easily identify the location of the packing slip.

  » Place slip on outside of box, not on the inside (for ease of locating)
  » Do not include the invoice with the packing slip
  » Do not include product cost
  » Must note shipper and destination information
  » Must note wholesaler PO #, item count, and total

- Purchase order. A buyer-generated document that authorizes a purchase transaction. When accepted by the seller, it becomes a contract binding on both parties. A purchase order sets forth the descriptions, quantities, prices, discounts, payment terms, date of performance or shipment, other associated terms and conditions, and identifies a specific seller. See the Attachments for an example.

- Sales Invoice. Generated by you (the seller), the sales invoice should be sent directly to the Accounts Receivable department of the distributor or warehouse; not with the shipment. See the Attachments for an example invoice.

INBOUND LOGISTICS. In order for distributors to get your product out to stores, your product must first get to the distributor's warehouse (inbound logistics). There are two ways to do this and considerations for each:

1. Drop it off: You drop off the product at the distributor's warehouse. Consider, however, the cost of your gas and time for this option. The distributor will likely be able to transport your product for pennies on the dollar, compared to what it will cost you.
2. Distributor pick-up: Consider whether or not you can pay a pick-up allowance for the distributor to pick up your product from your facility.

NOTES:

» Usually, it is not preferred that products are mailed to a distribution center; this is an inefficient way to transport your products and will likely cost the distributor more money in time and labor to handle your products. Talk to your distributor about your options and associated costs.

» Separate all distribution costs from product costs on your invoices. Distribution centers and stores track this information separately.

KEY SUCCESS FACTOR - DISTRIBUTION IS JUST THE BEGINNING. Now that you've gotten into distribution, you can celebrate for a minute, and then you must realize that your work has only just begun. Your distributor will carry your product from their warehouse to the grocery store. It's up to you to convince the grocery store to order the product from the distributor or warehouse. If stores do not order your product, the distributor and warehouse will not re-order from you.

Because the distributor will be representing you in the market, be aware of and be prepared to offer the promotion tools expected by distributors, such as sell sheets, etc. Methods for promoting your product to grocers, including using brokers, are provided in *Marketing*, pg. 26.

PRICING

One of the biggest complaints from retailers about dealing with new small growers and food manufacturers is in regard to pricing. Many new small growers and food manufacturers do not understand pricing and how it affects their profit and the retail price[4].

A correct price ensures that you'll have enough profit to promote your product and fund your growth. The correct price means that you may meet your expenses and may be paid a decent return for your efforts. In contrast, if the price of your product is not correct, soon little else in your business will work. Simply put, if your price is too low, you won't have the profit you need to fund your business and promote your product. Eventually, you'll be driven out of business[9].

But how do you figure out what the right price is? One way to determine your wholesale price is to work backward from the retail price. One industry expert indicated that it's common for retail price to be an average of four times your cost of goods sold.

Two worksheets are provided for comparing pricing alternatives. Note that neither worksheet includes packaging materials, overhead, and other business expenses, so be sure to include them when considering if your price will net you an income sufficient to run your business.

1. **MICROSOFT EXCEL INTERACTIVE WORKBOOK.** This workbook (*pricingworkbook.xls*) requires only that you enter a few numbers, and it will calculate the rest for you. You must download this form from the attachments site and open it with Microsoft Excel[3].
2. **PRICING WORKSHEET.** This is a worksheet that provides a guide to the pricing formulas. Download from the attachments, print, and fill out.