The Role of Distributors and Brokers

Source: Canadian Grocery Retail Guide – Section 1

In dealing with independent food stores it is quite common, when getting started, for the vendor to present products directly to the store owner or store buyer. It is also quite common, when getting started, for the vendor to arrange all the shipping, handling and invoicing of the products to be shipped to the stores. However, over time and as the business expands, many companies look to alternative ways of selling or shipping to the stores. At this point in time, these companies often begin to look for a broker to help with the sales to the stores or a distributor to handle the sales, shipping and servicing of the products to retailers in a specific geographic area or to a specific class of trade.

Shipping Direct To Retail by the Vendor

When getting started many small companies choose to approach retailers directly and arrange for their own shipping of products to the store. It is considerably easier to approach an independent or specialty retailer than a national or regional chain. The independent or specialty retailer normally has fewer “gate keepers” to protect them from the solicitations of new companies with products to sell.

Pros and Cons – Direct Approach to Retail

PROS	***CONS***
The direct approach by a new company or new vendor to an independent or specialty store may work quite well, if you are prepared to invest the time and energy it will take to capture a new account, the same approach may not succeed with a regional or national chain. The majority of independent and specialty retailers prefer to deal directly with a small vendor as the service is more specialized and the small vendor can usually react more quickly to their needs.	Servicing independent stores can be quite costly when consideration of the order size is compared against the “drop cost”. The drop cost is the cost of time and resources such as fuel, vehicle lease cost, insurance and other considerations against the gross margin of the order. If the order size is $20.00, not unusual for a small store, then the gross margin may total $10.00. If the cost of delivering the product, including the opportunity cost of time and transportation and administrative and other costs are factored against the gross, the net margin may be lower than dealing with a distributor.
Works well with independent and specialty.	Difficult to get appointment with majors
Easier to launch products at retail with independents.	Majority of products delivered by distributors
Independents are receptive to new and innovative products.	Opportunity cost of time with independents and hundreds of stores with majors
Establishes relationship with retailer.	Cost of establishing logistics links to retailers
Better feel for acceptance of product by consumer.	Service costs and inventory financing costs
	Full program costs are responsibility of vendor
	Set up customer service, sales reps, return logistics, collection procedures, credit procedures, storage, inventory control

Using a Broker

Many small companies decide to hire a food broker to sell the product into stores. The broker is a contract sales representative and besides conducting the sales many brokers offer a wide range of services, for a fee, to their principles. As a rule, brokers are not responsible for the shipping, invoicing or inventory control of products at the store level. The broker's role is to make the sale, represent the "line" to the retailer and assist on the "pull" of the products at retail.

Pros and Cons – Brokers

Pros	*Cons*
Food brokers normally "handle" or represent a limited number of food companies in a specific geographic area. The broker succeeds by placing the products of these companies in a number of key retail accounts. The broker must maintain excellent relationships with both the retailers and the companies that they represent. Brokers will normally work with retail store staff to promote the "lines" that they carry and provide the companies that they represent with a varying degree of information and services. Some brokers will even invoice the retailer on behalf of the company they represent. Brokers are very selective in the lines that they represent as the cost of servicing these lines is high ($300-400 per sales call) and the sales of these lines must be sufficient to not only pay the bills but generate a profit. Brokers will normally have fairly rapid access to retailers as they represent a number of lines that the retailer "carries" and will usually not introduce a line to a retailer unless they are reasonably certain that the retailer will "list" the line. This process can greatly expedite the introduction of a new line at retail.	Food brokers will normally charge a fee or commission of 5-10% of the net invoiced price of all products shipped into the customers that they service. Brokers will normally not be responsible for the shipping or invoicing of products that they represent though they may provide "retail sell through" information to the lines principles. Brokers who carry a number of lines will not be able to provide the level of service necessary to "pioneer" a new line at retail. Brokers will not know the product line as well as the principle and may not be as successful in getting the line listed as the principle. Normally a new line is dropped if the broker fails to sell it to the majority of their primary customers. In addition if sales in a line slow down, the line may be dropped in favor of a newer more potentially lucrative line.
Established relationship with retailers	Represents limited number of lines and will not often "pioneer" new lines
Experienced and effective sales force	Will not devote a significant amount of time to new lines if not successful right away
Sales costs for vendors are fixed	Quick to drop lines that are not immediately productive
Can offer multiple services (invoicing, inventory control, sales reports)	Vendor is responsible for all logistics, financing receivables, returns, invoicing

Using a Distributor

Retailers will often refer to a food distributor as a "truck to the door." The distributor typically purchases products from vendors and resells them to retailers. The distributor requires a margin of 20%-30% to purchase and stock inventory, sell, deliver and invoice the products.

Pros	*Cons*
The specialty or independent store will normally deal with two or three distributors and several dozen independent vendors. Vendor management becomes achievable with a limited number of contacts. A chain buyer may buy for 4-10 categories of products and deal with 6-10 distributors and dozens of major nationals and also be responsible for category management of thousands of items. There is limited time to return a phone call or e-mail much less attend a meeting on a new product. Distributors will purchase products directly from their vendors, stock inventory, take orders from retailers, manage the inventory on the shelf, service the retailers needs, introduce new products into retail and deliver the products to the stores (DSD - direct store delivery), handle the returns and normally assist in any product recalls. The distributor will normally specialize in a category area such as frozen or in a number of areas such as fresh, grocery or deli but not frozen. The distributor may be a conventional, natural or organic distributor or a combination of all. The distributor survives by delivery of products to retailers and is usually on the hunt for new lines to carry. The distributor, like the broker, has a relationship with the retailer that can assist in the placing of new products on the shelf. The distributor will normally not take on a line of products that they feel cannot be moved into their distribution channel. The actual and opportunity cost of carrying a non-productive line is very high and is the reason most distributors will drop existing lines and bring in new lines on a regular basis.	Distributors may carry between 1,500 and 50,000 stock keeping units (SKUs). Most distributors' sales reps only spend between 20-40 minutes in a store each day. In that period they must handle returns, answer questions, take orders and talk about new or existing products in three or four departments. In order to not get lost in the assortment the small company must ensure that the distributor has top of mind awareness about the brand and "work" the stores to ensure sell through and demand. Distributors will drop a line that is not performing and usually will not pick up the same line that they have dropped. It should be noted that the line may not perform at retail for a number of reasons unrelated to the quality of the product. Examples include shelf placement, pricing, number of facings, location in the store, out of stocks due to poor reorder cycles and the distributor not purchasing enough products. The principles of a small line can lose control of their products at retail and lose control of the relationship with the retailer. Most distributors insist on maintaining the relationship with the retailer and will discourage the development of an independent relationship.
Established relationships with retailers	Relationships will vary with retailers
Logistics and administrative systems in place	Carries between 5,000 and 100,000 SKUs
Sales force and customer service systems in place	Order taker rather than sales driver
Stock inventory and place orders with vendors	Reluctant to stock untested lines
Carry retail receivables	May pay vendors in 120-180 days

Pros (cont.)	*Cons (cont.)*
Bundle vendor programs for retailers	Product line may be lost in the assortment or it may be discounted to help move other lines
Focus on moving product	Lines will be dropped quickly if not performing as planned
Regularly searches for new established lines	Will only interview a limited number of lines and are reluctant to pioneer
New lines can be placed due to relationship with retailers	Lose control of the relationship with the retailer and lose control of the distribution channels

Differences between Broker and Distributor approach

ELEMENTS	*BROKER*	*DISTRIBUTOR*
Channels of Distribution	5%-10% Commission on Net Invoiced Price	17% -30% Margin on Wholesale Price
Commission Rate or Margin	Higher commission for pioneering and limited time devoted to selling new line	New lines with no customers may require terms such as Guaranteed Sales and 30% Margin
Established Line or Pioneering	Works in existing channels; will not pioneer new channels for untested products	Uses existing channels to move product; may take on new line to develop new channel of distribution
Product Plan	Interested in long term product plan or road map	View current product from an investment perspective; will not commit to stocking additional items
Retail Program	Will develop programs for the product but vendor is responsible for the program	Will look to bundling new product into existing programs; vendor and distributor will often share program costs
Delivery	Looks to ensure that vendor has product delivery requirements under control	Vendor looks to ensure that distributor has product delivery requirements under control
Service	Broker sales force to service accounts on a weekly or set basis	Sales representatives to provide feedback. In-store training and vendor to be given time to train sales representatives
Invoicing and Administration	Vendor responsible unless otherwise negotiated	Retail terms of sale and receivables are distributor responsibility
Product Returns	Vendor responsible for disposition of returns and issuing credits	Distributor handles returns and issues credit to store which are deducted from vendor invoice
Inventory	Vendor carries all inventory	Distributor stocks inventory on an as needed basis or set week's sales