INSURANCE. In setting up any kind of business you will need to consider several types of insurance coverage, including[8]:

» General business liability, including product liability insurance ($1-2 million standard)

» Interruption and specific time element coverage

» Property/professional loss

Distributors and most grocery stores will require their suppliers to be covered and will specify the insurance certificate name them as an additional insured party. See the attachments, *Small Business Insurance* and *Product Liability Insurance Explained*, for more information.

INVOICE TERMS. These are the payment terms agreed upon by the seller and the buyer and listed on the Purchase Order. Typical grocery industry terms are Net 30, indicating that payment is due to the seller within 30 days of the origination of the purchase order. Often, sellers offer a cash discount for early payment, such as 2% 10, indicating that if the buyer pays the seller within 10 days of the origination of the purchase order (or after receipt of product), the seller discounts the total by 2%. Typically, independent grocers pay Net 30, while some larger chain stores will pay anywhere from Net 45 to Net 90, depending upon their size and buying power.

» *NOTE:* This means that you must be able to "float" the inventory cost of sending out product and waiting 30 days to receive payment.

MARKETING

You will need to have a marketing plan ready when you approach distributors and stores, indicating that you have thought about and have the support in place for the entire delivery system. The following are the considerations for your plan.

BROKERS. Your first consideration is whether or not to hire a broker as part of your marketing plan. Distributors and grocery stores look favorably upon the use of brokers because of the convenience of working with an established relationship that provides access to multiple product lines in one visit. However, there is a cost associated with hiring a broker, so you should weigh the benefits carefully against your bottom line.

The food industry defines a broker as an independent organization functioning as a sales representative for multiple growers and food manufacturers, usually rewarded by a commission against sales. Brokers are sometimes also called manufacturer's representatives.

Some of the advantages of appointing a broker are[1]:

» Knowledge of the local market conditions.

» Existing professional relationships with the grocery stores.

» Overall experience in representing multiple lines of products that may include yours.

» End user calls.

» Specialization in food service, retail grocery, bakery/deli and other specialty categories.

When you enter into business with a broker you are, in essence, giving the broker a license to use your product to hunt for business in a specific territory. Entering into a relationship with a broker hitches the future of your company to the broker's efforts. If the broker is diligent, engaging and smart, you will be more successful. If the broker is disorganized or isn't focused on selling your line, your sales volume will sag. So you should engage a broker cautiously.

Further investigation as to the pros and cons of a broker is available in the attachment, *The Role of Distributors and Brokers*. More information on how to engage a broker is available in the attachment *Working with a Broker*.

Hiring a broker cannot be your entire marketing plan, however. You must continue on with developing your marketing plan.

DISTRIBUTORS. From the section on distributors, you should have decided whether or not to work with a distributor for selling to grocery stores. Your marketing plan for distributors should be two-fold:

1. How to entice a distributor; and
2. Once in distribution, how to sell the product out of the distribution center to the grocery stores (i.e. supporting your distributor).

♦ Enticing a distributor. View the attachment *Information to Include in a Distributor Presentation*.[9] Most of the items in this checklist have been addressed in previous sections. Make sure you have all of these items addressed before you begin distributor calls.

♦ Supporting your distributor. For the distributor who takes the risk (and opportunity!) of carrying your products, you must provide support to help them move your product out of the warehouse and into the stores.

» Store visits: Whether you use your broker or do this in person, plan on making sales calls to the stores in your distributor's route.

» Sell sheets: Prepare sell sheets (also called new item introduction sheets) that your broker and distributor can provide to stores in their route, encouraging them to try new products in the "convenient" distribution system. Some distributors may have a free system for delivering sell sheets to stores (e.g. Associated Food Stores' "red bag" system). Find out from your distributor if there is a free or inexpensive and easy method of getting sell sheets to stores. See the attachment *New Item Intro Sheets* for examples[7].

Important information conveyed to the grocery buyers through this sheet includes:

1. Picture of product
2. Your contact information
3. Distributor's item number
4. Item description (e.g. organic cheddar cheese)
5. Case and unit cost
6. Case pack information (e.g. 24/7oz)
7. Suggested retail price (SRP) with margins
8. Shelf life
9. Handling instructions
10. Merchandising suggestions (e.g. in the deli section)
11. Product attributes (e.g. flavor, size)
12. Product uses (e.g. great for marinade)
13. Reason they should buy it (e.g. bun variety sales are increasing)

Example of Sell Sheet.

GROCERY BUYERS. Your marketing plan for grocery buyers should be two-fold:

1. How to get stores to carry your products; and
2. Once on the shelves, how to get consumers to buy your product (consumer marketing).

- Marketing to stores. Whether you are planning on DSD or working with a distributor, you must have a plan for how to get stores to carry your product. As mentioned before, you should plan on store visits, providing sell sheets, and offering allowances.
- Consumer marketing. Consumer marketing is a potential black hole for small manufacturer's marketing dollars. For the purposes of this section, we will limit the consumer marketing ideas to those that specifically support the grocery stores. See the section on *Trade Promotions* for guidance.

TRADE PROMOTIONS. Simply defined, a trade promotion is an activity that encourages the distributors, grocery stores, and consumers to purchase your product. If you've bought something on special or clipped a coupon, you've participated in a trade promotion.

In today's highly competitive, product-saturated, specialty food marketplace, a product must sell well immediately to stay on the shelves. And it must continue to sell well to stay there. Because effective promotions encourage both the trade and consumers to buy your product, they offer a competitive edge. Carefully designed promotions can dramatically increase your sales and profits[9].

- Funding. Promotions will cost you money, but if you have priced your product correctly you'll have promotional costs already built into your price and your budget. This preplanned expense item lets you promote your product when you are ready. Don't think of promotions as an expense to avoid, but as a tool to increase sales.
- You control promotions. The main goal is to increase your sales and profits. When you develop a promotion that works in one marketplace, you'll want to take it to another geographic area, repeating it again and again. By tinkering with your promotions and monitoring their effects on your sales, you'll soon have a number of proven promotions that are custom-tailored for your product in various situations.

- Promotions have specific objectives. Promotions are an investment in your product. Before, during and after the promotion you will monitor sales so that you may clearly evaluate the effectiveness of the promotion. As a guide for future programs, you should be able to identify those promotions that worked for you and those promotions that didn't.
- One size does not fit all. Promotions that work for another company or product may not work for you. Guided by careful analysis, experimentation will allow you to find your winning promotions.
- Types of Promotions. There are three broad categories of promotions (see the attachment *Trade Promotions Examples* for detailed information on each):

  1. Introductory promotions which stimulate interest in a new product.
  2. Repeat (scheduled) promotions which stimulate the market on a regular basis.
  3. Specific activity promotions which are tied to a specific action to be performed by the distributor, store, or consumer.

  » *Introductory promotions.* These are designed to jump-start sales of a new product and establish a relationship with a new distributor, store, or consumer. With promotions, you give an allowance, a sum of money (or its equivalent in goods) to a distributor or store to encourage some action associated with sales of a product. There are many different kinds of introductory allowances, including slotting (a sum of money or goods given in exchange for initially stocking a product), trial-size offerings, free goods, set-up and buy-out.

Example of trial size.

  » *Scheduled or repeat promotions.* These are designed to influence the purchasing and sales pattern of your current customers by supporting a specific event. In each of these repeat promotions, payment is related to either the amount that is purchased or the amount sold by the distributor or store.

» *Specific activity promotions.* These include allowance varieties such as catalog, show promotion, placement, demonstration, sampling, point-of-sale, fixed payment advertising and fixed payment co-op. For instance, placement allowances are promotional activities in which the supplier pays a specific amount to obtain a desired shelf location or position.

Common allowances or promotions not covered in the *Trade Promotions Examples* attachment are as follows:

- Exclusivitiy. Retailers will likely request exclusivity for a channel, region, or for a specific period of time. You may give exclusivity to a retailer in an area in trade for a commitment to a specific volume of sales over a limited period of time.

- Regular co-op/co-operative advertising allowance. This is usually a percentage of net invoice amount, but sometimes it's a case amount. It's offered to assist with the retail advertising and promotion of a product. It's normally paid on a quarterly basis (e.g. 3%).
- Volume rebate. This is used to encourage additional sales over a given period, normally one year. It's based on an estimated level of movement during the year. The rebate is paid quarterly as a percentage of the invoice price, based on actual sales. At the end of the year, an adjustment is made on the final payment to reflect the actual purchases over the year (e.g. 0% paid for sales up to $10,000; .5% paid for sales from $10,000 to $30,000 and 1.0% paid for sales from $30,000 to $60,000).
- Advertising allowance. This is an allowance offered to assist in retail advertising of a product in a specified form (e.g. newspaper ads, radio or TV spots or flyers, generally within a store group).
- Freight Allowance. You can peg these to volume orders. For example, you might offer a 5 percent freight allowance for any order over 50 cases of assorted product. This means that the buyer may deduct 5 percent of the FOB invoice amount from the payment. The idea is to encourage larger purchases by offering the benefit of economy to the buyer.
- InStore Demonstrations/Tastings.[4] Consumers tend to buy products they have sampled, usually at sample tastings conducted at the point of purchase. These can involve a demonstrator, your product, and the means of sampling (crackers with cheese, for example). The demonstration is conducted during high traffic periods, over the course of three to six hours. Consumers have the opportunity to taste your product, to comment on it, to hear a pitch from the demonstrator, and to purchase. Often, demonstrations are accompanied by a special product price used to entice the consumer into making an immediate purchase.

A typical demonstration might be conducted from 10:00 AM to 3:00 PM on a Saturday. The idea is to get as much public attention as you can, so peak shopping hours are best for demonstrations. Talk to the store about their sampling policy; some stores offer their own staff for samplings, given that you provide free samples (see *Sampling Allowance* in *Trade Promotions Examples* attachment). Conversely, demonstrator costs will be in the neighborhood of $15 to $25 per hour, with a $100 to $125 minimum fee per day.

Example of a shelf-talker.

An alternative to in-store sampling is to provide the consumer with a coupon for free product to try at home.

- ♦ POP materials. As the name implies, point-of-purchase (POP) materials attract the consumer's attention and educate them on the benefits and uses of the product at the point of purchase. Many retailers find POP materials useful in creating attractive displays and interest in their stores. See the attachment *Point of Purchase Materials* for more information[4].
- ♦ Product satisfaction guarantee. Part of the challenge of providing good customer service is identifying ways to help customers understand that the products or services they receive are guaranteed by the company providing them. Customer service guarantees can be part of a customer service strategy and can be simply stated or very complex but either way, they communicate the company's intent to stand behind the product or service they provide.

Customer Service Guarantees are communicated in different ways. Sometimes there is a sign stating the written guarantee in the waiting room of a business or it may be written in an informational pamphlet or incorporated into information shared on a businesses' website. No matter the format, it is important to put a guarantee in writing so customers have a comfort level in using products or services.

Probably the best way to launch a new product in a store is to ask the retailer what are the most successful methods in their particular store. A survey of independent grocery stores indicated the use of marketing strategies indicated in the graph below. (see the attachment *Western Montana Independent Grocer Survey* for detailed information[11].)

HELPFUL INFORMATION. Below are the results of two surveys of grocery buyers, provided for your consideration when developing your presentation[5].

- Criteria grocers use to decide which food products will be placed in the store. Listed in order of preference:

  1. Shelf Space
  2. Customer Recommendations/Requests
  3. Sales History
  4. Promotion Help
  5. New Product
  6. Ability to Restock
  7. Product Category
  8. Option to Consign
  9. Price
  10. Supplier Recommendation
  11. Label in Spanish & English

- If Buyers had to choose only one criterion. Listed in order of preference:

  1. Evidence that a product meets all government standards
  2. Amount of gross profit
  3. Product must have a bar code
  4. Evidence of the product's previous sales
  5. Promotional help
  6. Supplier must guarantee a specific delivery schedule
  7. Supplier must be responsible for restocking
  8. Must have liability insurance
  9. Evidence of delivery volume capabilities or a minimum amount of inventory
  10. Supplier must agree to furnish a display

Your success or failure getting into grocery stores largely depends upon your preparation. If you've gone through all the steps so far in this manual, you should be ready for making your presentation to distributors and stores.