

HOW TO SELL TO MAJOR FOOD RETAILERS

IN BRITISH COLUMBIA

Guide



Prepared by:
Industry Competitiveness Branch
Updated 2005

TABLE OF CONTENTS

Topic	Page
1.0 INTRODUCTION	1
2.0 THE BRITISH COLUMBIA MARKET PLACE	2
2.1 Industry Overview	2
2.2 Food Retail Sector.....	2
2.3 Profiles of Food Retail Chains in British Columbia.....	3
2.4 Industry Trends	4
2.5 Pre-Planning: and Entry Strategy.....	5
3.0 THE LISTING PROCESS.....	6
3.1 Levels of Decision-Making in the Buying Process.....	6
3.2 Purchase Planning Cycles.....	7
3.3 Product Presentations.....	7
3.4 Market Research	9
3.5 Product Specifications	11
3.6 Universal Product Codes.....	12
3.7 Planograms.....	12
3.8 Timeframes	13
3.9 Buyer Preferences	13
3.10 Delisting.....	13
3.11 Category Management -- Efficient Consumer Response Initiative	14
4.0 PRICING AND TRADE ISSUES	16
4.1 Pricing.....	16
4.2 "Trade Terms" - the Cost of Doing Business.....	18
4.3 Deals and Allowances.....	19
4.4 Promotions	21
5.0 DISTRIBUTION.....	22
5.1 Industry Norms	22
5.2 Wholesaler/Distributor.....	23
5.3 Broker/Agent.....	23
5.4 Distribution Options.....	24
5.5 Distribution Costs	25
5.6 Inbound Freight Policies	25
6.0 RESOURCES	26
6.1 Labeling Requirements	26
6.2 Universal product codes.....	26
6.3 Finding Broker Candidates	26
6.4 Key Industry Organizations	27
6.5 Key Government Agencies	28
7.0 SUGGESTED PUBLICATIONS	29
8.0 BIBLIOGRAPHY.....	30

HOW TO SELL TO MAJOR FOOD RETAILERS IN BRITISH COLUMBIA

1.0 INTRODUCTION

The purpose of this guide is to provide British Columbia food, fish and beverage producers and processors with information that will assist them in securing business with major food retailers. This guide will identify the steps and procedures involved in getting fresh, processed and packed food and beverage products listed with major food retailers.

The British Columbia Ministry of Agriculture and Lands (BCMAL) has designed this guide to be used as a resource tool for operators of small to medium-sized businesses with a focus to new entrants planning to reach British Columbia consumers through mainstream food retail stores. Considerable effort has been made to ensure the accuracy of the information through extensive industry consultations. However, owing to the dynamics and the scope of the food production and retailing sector, the information presented here may not represent all facets of the sector as comprehensively as desired. If you would like further information, please contact:

Industry Competitiveness Branch
BC Ministry of Agriculture and Lands
PO Box 9120 Stn Prov Gov
Victoria BC V8W 9B4
Tel: 250 356-2944
Fax: 250 356-2949
<http://www.agf.gov.bc.ca/indcomp/index.htm>

We would like to extend our thanks to all the retailers who provided time and input into the development of this document.

2.0 THE BRITISH COLUMBIA MARKET PLACE

2.1 Industry Overview

British Columbia's agriculture, fisheries and food sector is one of the largest and most dynamic industries in the province. Generating sales of more than \$21.9 billion annually and employing over 280,000 British Columbians, the agri-food industry is a thriving sector of the provincial economy. The province is recognized for producing a greater variety of quality food products over a wider range of geographical and climatic conditions than any other area in Canada.

The British Columbia food and beverage processing industry is the third largest manufacturing industry in the province and is growing at an average rate of eight percent per year. This sector is comprised of over one thousand food and beverage processing firms that generated \$5.6 billion worth of sales in 2002. The provincial food manufacturing sector is characterized by the predominance of small and medium-sized businesses which provide the sector with flexibility for efficiently adapting and responding to changing consumer demands. The marketplace offers tremendous opportunities for new and exciting food products for discriminating consumers seeking nutritious, flavorful, unique and healthy foods. British Columbia's fast-growing and ethnically diverse population creates a multitude of consumer tastes and preferences for products and services that can be met by progressive British Columbia food producers, processors and retailers.

2.2 Food Retail Sector

Food sales through British Columbia's 2800 retail food outlets (which range in size from major chains to corner convenience stores) reached \$10.2 billion in 2002. Major grocery retailing businesses in British Columbia include Canada Safeway Ltd., the Overwaitea Food Group, Costco Wholesale, H.Y. Louie Co. Ltd. (IGA), Westfair Foods (Real Canadian Superstore) and regional grocery retailers such as Thrifty Foods and Fairway Markets. Most recently, discount formats such as Dollar Stores and Wal-Mart stores are attracting consumers away from traditional supermarkets.

The retail/wholesale food industry consists of retail food outlets and their wholesalers who are in the business of selling food products to consumers for use at home. There is a wide variety of formats and service levels among retailers. Traditional retail food stores include chain supermarkets (companies with a minimum of four stores), convenience stores, independents, discounters such as dollar stores and Wal-Mart stores and specialty food stores. Non-traditional retailers include warehouse stores, department stores, drug stores, and gasoline retailers. This guide focuses on the traditional formats, with some reference to non-traditional types.

As is typical of businesses operating in today's competitive global marketplace, the food retail sector is undergoing tremendous rationalization through mergers and acquisitions. The Blue Book published by Sanford Evans Research Group, Winnipeg (phone 204-694-2022) provides information on individual retailers, some of which is summarized below:

2.3 Profiles of Food Retail Chains in British Columbia

Canada Safeway Ltd.

- A division of Safeway, Oakland, USA
- 214 stores in Western Canada (77 in British Columbia)
- Store size: 30,000 to 45,000 square feet
- Head office - Calgary, Alberta and all stores are located in Western Canada
- All purchasing decisions are made at head office
- Safeway has a strong merchandising program (e.g. Safeway Club Card) and a strong sense of community.
- High priority on private label.

Westfair Foods

- A division of Loblaws
- 209 Real Canadian Superstores (RCSS) and Real Canadian Wholesale Clubs
- 99 Extra Foods
- Corporate head office is in Calgary. Stores are located across Canada
- Store banners include the Real Canadian Superstore and Extra Foods
- All RCSS are corporately owned and range in size from 65,000 to 75,000 square feet
- Extra Foods are usually in the 30,000 to 35,000 square foot range
- High priority on private label.

The Overwaitea Food Group

- Jim Pattison owns the Overwaitea Food Group
- 21 Overwaitea, 68 Save-on-Foods (BC & Alberta), 12 Cooper's Foods, 1 Price Smart and 1 Urban Fare
- Head office is located in Langley, BC
- In the past, the typical size of Save-on-Foods ranged from 70,000 to 80,000 square feet. The trend is towards smaller "neighborhood" stores in the 25,000 to 30,000 square foot range.

H.Y. Louie Company Limited (IGA and Marketplace)

- Head office is located in Burnaby, B.C.
- There are 2 IGA stores, 40 Marketplace stores and 3 Cash N Carry stores
- IGA Marketplace stores are usually in the 25,000 to 30,000 square foot range
- Affiliated with London Drugs.

2.4 Industry Trends

Major industry trends are changing the way British Columbia retailers and distributors operate their businesses. Trends affecting the grocery retail sector include:

- Computer information technology - to track all aspects of food retailing and distribution. This technology puts vast amounts of data in the hands of retailers. Efficient Consumer Response (ECR) - which includes Category Management designed to improve efficiencies and maximize profits while enhancing consumer value in the grocery industry
- Strategic alliances between suppliers, distributors and retailers; in part to enhance retailers' ability to track and better control a product's history
- Variety in store options - from large discount stores and club warehouses to specialty/convenience stores
- Alternative retail distribution channels such as electronic on-line ordering, home shopping and TV shopping networks
- Demand for labeled "healthful", environmentally sustainable, ethnic/specialty products, low carb, low/reduced fat and low sodium products.
- Home meal replacement (HMR) - fresh or chilled convenient, complete meals that are purchased in the grocery store and eaten at home. Examples include ready-to-bake pizza, chicken that is sold ready to heat and eat pre-cut salad and fruit, etc.
- Nutritional labeling on packaging is mandatory. For more information contact the Canadian Food Inspection Agency (CFIA).

2.5 Pre-Planning: and Entry Strategy

A strategy is required to approach the retail sector. While this guide focuses on the major retail chains, there are other retail segments as well. Retail chains, local independent grocery stores, specialty food stores, gift shops, and direct sales each offer different degrees of product exposure and different sets of customer characteristics. In selecting a retail format for your product sales, you should contrast the retail option with other market options, such as the food service market (including hotels, restaurants, and institutions).

Plans to enter the retail marketplace should include:

- a solid marketing plan
- a communications plan and corresponding budget for advertising and promotional activities
- a good understanding of your target market and competition
- if possible, a proven track record in other markets (e.g. the United States market)
- funding for a strong consumer marketing program, product listing fees, coop advertising funds, in-store activity funds, etc.
- sales expertise for head office and store calls.

It is important to be well prepared in advance of your meeting with the buyer. By taking the time to collect as much information as possible and to layout your plans in writing, you are increasing your chances of success in obtaining a retail listing. Information from the following sections of this handbook should be of some assistance in this preparation.

3.0 THE LISTING PROCESS

The most important step for any food producer/manufacturer to secure business for their products is to be listed on a retail buyer's product list. Retailers only purchase products on their pre-approved lists. However, individual stores are not required to carry all products listed by head office and may choose to carry specific items for their customer base.

Due to the proliferation of food products in the market, obtaining a listing is not a simple process. Manufacturers must convince the buyer of the uniqueness of their products and provide specific product/market information indicating how the products will succeed in the marketplace and benefit the retailer. There is resistance to change the product mix since one product will need to be bumped off the shelf to make room for another. Although food retail shelves are dominated by national brands and private label products, there is opportunity for smaller firms to enter the retail market with unique and high quality food products that appeal to niche market segments.

A retailer's initial contact with a supplier is usually supplier-initiated. Retailers are constantly seeking out new and unique products in keeping with market trends and consumer demand. In addition to supplier-initiated contacts, retailers obtain additional supplier/product information from tradeshow, trade publications and through competitive research. If your unique, quality product is performing well in a competitor's store, chances are that a retailer will be interested in reviewing your product for listing, especially if customers are requesting the product.

3.1 Levels of Decision-Making in the Buying Process

Suppliers must fully investigate the buying policies of the food retail companies they wish to approach. A rule of thumb for new products is that buying decisions are made at the retail company's headquarters and not at the store level. While store managers may have input in identifying potential new products for their particular store, in the majority of cases they do not have the authority to secure listings. Suppliers may risk non-payment if they choose to close a deal at the store level, even if it is an independent store of a corporate chain.

Within each organization, it is essential to identify the buyer responsible for purchasing your product. Buyers are usually located at the organization's head office and are classified by product category or by specific products. Obtain information about the organization's purchasing policies from the buyer prior to your new product presentation.

Most British Columbia food retail companies make new item buying decisions by committee. The committee process allows buyers, category managers, merchandisers and executives to pool their expertise to profitably achieve the right balance of merchandise categories in accordance with overall company strategies. Committees generally meet biweekly or monthly to review new product applications.

In some organizations within certain product categories, buyers are authorized to approve or reject items on the spot, if they feel strongly about the product. If the buyer has some uncertainty

about the item, it will be brought before the committee.

Suppliers must provide sufficient relevant information about their products so that informed buying decisions can be made. In addition to basic product/vendor information, buyers and committees expect details on consumer preferences, shelf space, distribution allowances, test market results, advertising and consumer promotional support.

3.2 Purchase Planning Cycles

Retailers/distributors have specific purchase planning cycles for certain product categories in accordance with seasonal promotions. For example, suppliers who plan to sell products for the Christmas season (bakery, confectionery, and poultry products) should approach retailers/distributors at least six months in advance. For perishable items such as produce or fresh meats, buyers may secure orders three to twelve weeks in advance of promotions. Some retailers/distributors may forward contract production of horticultural products up to one year in advance of actual product sales.

Since purchase planning cycles may differ greatly between product categories and retailers, suppliers must familiarize themselves with buyers' seasonal order deadlines and contracting policies and target their sales efforts accordingly.

3.3 Product Presentations

The product presentation is the critical first step to securing a listing with a retailer/wholesale distributor. Your product presentation skills, level of detail of information presented, adherence to correct protocol as per company policy will influence the buyer's decision to list.

Retailers have used adjectives such as "professional", "efficient", "well-informed", "ambitious", "creative" etc. when asked to describe a successful supplier. However, effective actions leading to results speak louder than words.

A successful supplier must consider the buyer's needs and communicate all relevant information concisely and in a timely manner. Important information includes: price changes; promotional deals and allowances; product shortages and date of availability; new products; discontinued items; changes in packaging, labeling, size and promotional activities. Product samples, price lists and deal information should be readily available at all times, upon the buyer's request.

It is important to solicit feedback from the buyers in head office throughout the year and to maintain a high and consistent level of service. Time should be set aside to conduct an annual performance review to look at sales and service.

Once you have identified the buyer, you should telephone him/her to make an appointment to present your product. Allow approximately four weeks to schedule a meeting. Prior to this meeting, a "New Product Presentation" form must be obtained from the organization and

completed. Each firm has their own unique new product presentation form.

While completion of these forms is mandatory for presenting new grocery items, suppliers selling perishable items such as produce, meat, and bakery goods often complete shorter versions of these forms or negotiate a contract on the spot without completing a form prior to the presentation. The protocol differs between retailer/wholesale distributors and product categories and should be investigated in advance of your appointment.

Suppliers must provide basic information on the form such as address, telephone/fax, sales representative or broker, and general product information including item description, pack/case dimensions and weights, Universal Product Codes (UPC), pallet patterns, pricing information, trade terms, deals, allowances, FOB points, promotional support, order sizes (i.e. minimum quantities), delivery information, return policy and any product specifications relating to Hazard Analysis Critical Control Point (HACCP), kosher and organic certification. If you are introducing a product for private label, many retailers require the product to be HACCP approved.

Basic Information

It is important to provide as much information as possible at the new product presentation since it may be the only opportunity you have to try to convince the buyer (and the buying committee that you will not meet) to list your product. You should provide the following criteria, as well as several product samples (e.g. a case of your product), price lists, and company/product brochures:

- Product: Product must be differentiated, unique - not a "me too"
- Product Price/Quality: Product price and quality must be competitive
- Supply: Producer must be able to supply necessary quantities. In many cases, national chains will only consider products, which will benefit their entire chain so the supplier must be able to supply large volumes of product
- Distribution: Distribution system must be efficient, cost-effective
- Delivery: Deliveries must meet retailer's schedules, orders and policies
- Customer service: Good customer service is a necessity. Supplier must develop a good business relationship with retailer
- Sales/Merchandizing Service: Supplier must plan for and follow up with effective sales and merchandizing efforts; for example, a planogram (Section 3.7 below), cross merchandizing options, or consumer product information.
- Trade terms: Supplier must provide adequate deals and allowances
- Promotions: Suppliers must plan for and implement effective promotional initiatives (e.g. in-store sampling, advertising, couponing, etc).

Your product presentation should also contain relevant market research on the product, category, and size/growth of market. Include test market results. See section 3.4 below for some tips for market research.

Frequency of Contact

Retailers surveyed indicated that successful suppliers are those which contact buyers on a regular basis (e.g. every 2 weeks -- buyer will indicate preferred frequency) to ensure that supplier and product are meeting retailers' needs and expectations. Getting a product listed doesn't mean that it will stay listed. Suppliers will have to follow-up with adequate merchandising and promotional efforts to ensure that product turnover meets or exceeds expectations.

Turnover Rate

Suppliers and retailers should agree on the expected turnover rate of the product at the store level. This can be discussed with the retailer. The supplier should constantly monitor the turnover rate and adjust deals/allowances/promotional efforts accordingly to ensure that retailer expectations are satisfied. The supplier should keep in mind that case turns and size of cartons is extremely important. When buyers check velocity reports, they usually look at the number of turns, not at the case size. It may be advantageous to package 12 units per case as opposed to 20 since increased turns are perceived to equate to increased sales volumes.

There are specific turnover formulas you must meet to remain listed. In addition to turnover rate, variables such as profit margins, frequency of stock-outs, amount of cubic space required on the store shelf and in the warehouse, amount of handling required and profitability are important purchasing criteria in addition to the number of product turns.

3.4 Market Research

General market information can be obtained from various trade journals and publications (Section 8). Some suppliers may choose to contract a market research company to undertake customized market research. In addition, syndicated research services offer market information that is collected and compiled for sale to marketers. It is usually less expensive to purchase available information from syndicated research services than to hire a firm for a custom study. In Canada, AC Nielsen and NPD Group Canada compile product category and brand specific information through consumer panels which track purchases of products for in-home use/consumption. Purchases of packaged goods are also tracked at the retail level through the scanning of UPC codes at the checkout counter. Suppliers can purchase this syndicated information to monitor and analyze sales trends, market shares of competitors, brand shifting, changes in consumer preferences, etc.

To obtain more information on the products and services of syndicated research firms operating in Canada, contact:

AC Nielsen Company
#211-6011 Westminster Hwy
Richmond, BC V7C 4V4
Tel: 604 270-7444
Fax: 604 270-7610

The NPD Group Canada
240 Duncan Mill Road
Toronto, ON M3B 3R6
Tel: 416 383-0224
Fax: 416 495-1369

You may also wish to do your own market research by asking yourself the following:

1. Who are your competitors?
 - list all competing products
 - list all retailers and wholesalers that list these products
 - identify all retailers and wholesalers that do not list these products and find out why, (this may be an opportunity for you).
2. What are the price points of the competing products?
 - include the regular, in-store, and promotion prices for each competing product - check to see if there are variances between competitors
 - break the cost down per unit measure for comparison purposes.
3. Where is each competing product located?
 - is it in stock
 - does it have a regular location
 - are there large displays
 - is it cross-merchandised in other sections of the store? Is it displayed at eye-level?
4. What promotional tools are used to display the product?
 - special shelving
 - shelf talkers
 - recipes
 - special channel strips
 - brochures.
5. What does the competing product look like?
 - quality of packaging and labeling
 - recyclable packaging
 - "use before" or "date of production" dates, nutritional value.
6. Who is buying the competing product?
 - observe who is buying the product and the amount of product purchased - is the product being promoted? If so, how?

7. Assess the competing product's characteristics.
 - is it a quality product?
 - what are its competitive advantages?

The answers to these questions should be considered when developing your marketing plan.

3.5 Product Specifications

Products must meet generally accepted industry standards before the supplier approaches the buyer. As a primary condition of sale, the supplier must guarantee that the product meets all food safety standards, packaging, labeling and classification requirements of the regulatory authorities listed in Section 7.

It is important that suppliers be aware of any product specification needs of the retailer. For instance, retailers may require certain packaging dimensions or palletization methods that suppliers must adhere to. All information on case and product packaging, including product descriptions and supplier codes, must be correct and at the same time have aesthetic appeal to set it apart from competing brands.

In some cases, where good supplier/retailer relationships have been developed, retailers may provide advice on production and product modifications. For example, produce buyers may work collaboratively with growers prior to and during the growing season to ensure that desired varieties and quality of product are obtained. Forward contracts and other arrangements may be negotiated in some cases.

Suppliers who are manufacturing private label products must adhere to the retailer's stringent product specifications concerning formulations, packaging, labeling etc. Processors must regularly follow up with buyers to ensure products meet the retailer's expectations and are achieving the projected turnover rates.

3.6 Universal Product Codes

Universal Product Codes (UPC) are essential for any packaged products. The UPC is a 12-digit numeric code that identifies each consumer product. Manufacturers must apply to the Product Code Council of Canada to obtain a UPC, for a fee. The code must meet minimum size specifications as outlined in the product code manual. Zero suppressed numbers can be used where space is limited on the packaging. The scanability of the code on the product packaging will be tested after the product presentation. A case code is also required on product shipping cases and must meet the retailers' specifications regarding size and location on case corrugates for slotting purposes.

Contact:

Electronic Commerce Council Network Services
7800 Metropolitan Blvd, East
Suite #100
Anjou QC H1K 1A1
Tel: 514 355-8929
Fax: 514 356-3235

3.7 Planograms

Some major retailers require that suppliers register their products with Electronic Commerce Council Network Services.

Contact:

Electronic Commerce Council Network Services
7800 Metropolitan Blvd, East
Suite #100
Anjou QC H1K 1A1
Tel: 514 355-8929
Fax: 514 356-3235

Retailers use the information to develop planograms (schematics comprised of photographic images of products) to effectively plan for optimal use of shelf space.

Some factors that impact shelf placement are product profitability, package size and if it is private label or a brand name. Note that often private label products are located at eye level. Product placement includes the number of linear feet, the number of facings, the location (e.g. natural foods, organics, health foods or other specialty areas) and positioning relative to the product category's brand leader.

3.8 Timeframes

Once a supplier has presented his product to the buyer, approval or rejection may be given at that meeting or, more likely, two to four weeks afterwards, depending on the product category and whether a committee is involved in the buying decision (perishables tend to have a faster response time). In some cases, the buyer may agree to test market the product in a few stores for a set time period (e.g. two to six months) *before* committing to listing the product. However, this is more the exception than the rule.

If a product has been rejected after the initial presentation, the supplier can approach the retailer again if appropriate product modifications have been made or trade terms have been enhanced according to the requirements of the retailer. Many retail organizations have a policy whereby previously rejected products are reviewed for listing only after three to six months have passed since the initial presentation.

3.9 Buyer Preferences

Some British Columbia retailers have indicated that they would prefer to purchase British Columbia products over imported products if quality, price and supply were comparable. Until these expectations are satisfied, retailers will continue to *buy* product from the most competitive source.

When approaching retailers, British Columbia producers/processors should emphasize that *they* are local suppliers as they may be more likely to get an opportunity to be listed, even on a test basis. However, once a British Columbia supplier's product is on the shelf, it is expected to perform as any other successful product -- slow sales will result in delisting.

3.10 Delisting

British Columbia retailers will switch suppliers if the products do not measure up to their expectations regarding quality, supply, sales and profitability. Consistent short shipments and poor delivery service are not acceptable to retailers. As well, if suppliers become complacent and do not follow up with adequate merchandising and promotional activity, retailers will delist the items, even if sales levels are acceptable. Some major retailers conduct listing purges regularly (at least twice per year) and products which are poor performers will be automatically delisted. Retailers will often charge a delisting fee plus you may be requested to buy back existing inventory. It is important to understand these policies in advance.

3.11 Category Management -- Efficient Consumer Response Initiative¹

The grocery industry's goal of Efficient Consumer Response (ECR) is to improve the efficiency of the food distribution system. This is achieved through better communication of consumer needs between players (from producer/processor to distributor to retailer) and through developing collaborative working relationships between trading partners to deliver superior value on products and services offered to consumers.

Category (fact based) management is an integral part of ECR because it has a profound effect on the four ECR strategies:

1. Efficient Replenishment
2. Efficient Store Assortments
3. Efficient Promotion
4. Efficient Product Introductions

Category Management is a distributor/supplier process of managing categories as strategic business units. This is a process of maximizing profits on the basis of product movement by category, not by brand, through the efficient use of item assortment, pricing, promotion, shelf presentation and other techniques to move goods out of warehouses to consumers. Increased profits are realized through selling to consumers, not through the buying process between retailers/distributors and suppliers.

For distributors/retailers, this concept is changing the way they do business by merging buying and merchandising departments into category management teams charged with integrating business plans internally and with suppliers. Through joint planning and execution, retailers and manufacturers establish teams to develop and implement strategy driven financially based category plans to improve the performance of product categories for mutual benefit.

In Canada and the US, retailers are increasingly integrating category management strategies into their operations in order to remain competitive. Research conducted by the Food Marketing Institute indicates that retailers could realize a 10-15 % increase in overall store volume, thereby benefiting suppliers, and a 0.3-5 % increase in gross margins.

The success of category management depends on the level of trust developed between supplier and retailer. The partners must share information extensively to assemble and implement category plans that help retailers build sales throughout the category, not just for one product line. This means that all suppliers within a specific category must clearly indicate why their products are a necessary part of that category mix.

All retailers expect suppliers to make presentations that address the fact that category revenue/profit contribution is now the number one key element of discussion. They want to know what the product will contribute to the bottom line and are not looking for "loss leaders"

¹ Excerpts from Progressive Grocer. The Dynamics of Category Management, special report; Promo Magazine and Progressive Grocer Supplement (Dec.93)

designed to increase their customer base. Category Management is in many cases is the most important overriding criteria as the performance of many buyers is based on their category management skills.

With these issues in mind, manufacturers should consider the following factors when trying to secure business with retailers:

- Understand the impacts that your marketing and pricing programs will have on your brands and on specific retailers
- Determine the factors that drive consumption
- Estimate profitability
- Compare market shares of specific retailers serving the same markets and determine causes for significant differences
- Determine how key retailers make decisions for purchasing, product promotions and how they evaluate success
- Estimate how retailers profit from your products and competing products in the category
- Estimate your cost of serving specific retailers and account for differences between them
- Determine market potential and identify promotional programs necessary to achieve that potential
- Pay for performance at the retail level or distribute a lump sum for specific events
- Evaluate results and modify payments accordingly.

Suppliers should talk to retailers about their profitability and provide factual support. For example, they should indicate the incremental sales gains from merchandising programs. Suppliers should be prepared to follow up promotional programs with reviews of the results and share the information with retailers so that they can both modify efforts to increase mutual benefits.

The Food Marketing Institute (FMI) has considerable information on Efficient Consumer Response Initiatives and Category Management. The institute is a non-profit organization conducting programs in research, education, industry relations, and public affairs on behalf of US food retailers/wholesalers and their subsidiaries around the world.

Contact:

Food Marketing Institute

655 15th Street NW

Washington DC 2005

USA

Tel: 202 452-8444

Fax: 202 429-4519

4.0 PRICING AND TRADE ISSUES

4.1 Pricing

When setting prices, a manufacturer must have a clear understanding of the costs and mark-ups required as a product moves through marketing channels. Suggested retail prices and specific terms of sale are best determined on a competitive basis in the food business; prices are not based on your costs. It is important to track the pricing strategies and promotional efforts of similar producers/manufacturers in your product category in order that you can compete effectively for listings, shelf space and ultimately, sales.

Buyers always refer to gross margin rather than mark-up. Gross margin is the difference between sales and cost of goods. Mark-up is a process where you add a percentage to your own cost to determine the selling price.

Below are mark-ups and gross margin examples and formulae taken from "Fundamentals of Retail and Wholesale Food Marketing", Alberta Agriculture, Food and Rural Development.

Mark-up example:	product cost	=	\$1.00
	desired mark-up	=	50%
	mark-up amount	=	\$1.00 x 50% = .50
	selling price	=	\$1.50

Gross margin example:	selling price	=	\$1.50
	cost of product	=	\$1.00
	gross margin	=	selling price-cost of product = .50
	gross margin (%)	=	gross margin (\$)/selling price = 33%

In other words, a 50 percent mark-up is the same as a 33 percent gross margin.

Gross margin formulas

1. Gross margin percentage = $\frac{\text{unit selling price} - \text{cost of product}}{\text{selling price}}$
e.g. $(\$1.50 - \$1.00) \div \$1.50 = 33$ percent
2. Determine selling price based on a percentage gross margin:
 $\frac{\text{cost of product}}{1 - \text{desired gross margin percentage}}$
e.g. $\$1.00 \div (1 - 50 \text{ percent}) = \$ 2.00$
3. Determine gross margin dollars:
unit selling price x gross margin
e.g. $\$1.50 \times 50 \text{ percent} = \$.75$

Mark-up formulas

1. Determine selling price based on a percentage mark-up:

$$\text{(cost of product} \times \text{desired mark-up percentage)} + \text{cost of product}$$

e.g. $(\$1.00 \times 50 \text{ percent}) + \$1.00 = \$1.50$

2. Determine mark-up based on a selling price:

$$\frac{\text{unit selling price} - \text{cost of product}}{\text{cost of product}}$$

e.g. $(\$1.50 - \$1.00) \div \$1.00 = 50 \text{ percent}$

3. Determine product costs based on a pre-determined mark-up:

$$\frac{\text{selling price}}{1 + \text{pre-determined mark-up}}$$

e.g. $\$1.50 \div (1 + 50 \text{ percent}) = \1.00

The price the retailer sets for your product to the retail customer may include a number of special terms of sale, which may be referred to as deals, allowances, and trade terms. These terms of sale might include one or more of the following costs.

- 3 % co-operative advertising
- 1 - 2 % cash discount
- 10 % promotional deals and allowances
- 3 - 7 % broker fees
- 3 - 5 % warehousing, freight charges
- 7 - 8 % consumer promotions, demos, coupons, over and above
- 1 - 5 % volume rebate

The overall effect of these terms may add 28 to 40 % to your selling price (i.e. Wholesale Price = Product Price + 28 % to 40 %).

Exceptions

It is important to note that several exceptions exist to the above pricing guideline. For example, retailers generally do not request large promotional dollars and allowances from suppliers of certain commodity groups (e.g. produce, meats) and bulk products (grains, dried goods, etc.) to list and sell the products. Suppliers should inform themselves of the types of deals and allowances that are generally used to support the marketing of their specific products and categories in the targeted food retail outlets. Competitive research is key. If sales exceed \$100,000 terms are typically negotiable.

Private label products are becoming increasingly more popular in grocery stores, thus offering manufacturers an alternative opportunity to access the food retail market. If retail buyers desire your product for store branding, they will expect you to quote a "net net" price (this price does not include deals and allowances) with a cash discount. The retailer will typically absorb the promotional costs and will determine the retail pricing.

Club warehouses and stores offering foods under "Everyday Low Pricing" schemes (i.e. a constant low product price is offered to the consumer as opposed to "High Low" pricing supported by trade deals and allowances and special consumer promotions) will also expect you to quote a net price for your product.

4.2 "Trade Terms" - the Cost of Doing Business

Listing fees

Listing fees are normally single payments made to a retailer/distributor to encourage them to carry your products. The listing fee accounts for one-time setup costs for administration, warehousing, computer listing, quality control and consumer advertising. Listing fees are negotiable and depend primarily on the product category and potential success of the product.

If your product is not a success, it is all the more necessary for the retailer/distributor to recover all initial costs. In addition to listing fees, you must support your product with promotional ads, store demonstrations, etc. to help get listed. Upon product introduction, the retailer often requests free goods.

For grocery products, listing fees can be as minimal as \$200 to \$300 per product or as high as \$50,000 depending on the product category, the supplier (i.e. national brand name) and the retailer's policies. Some retail companies have even instigated delisting fees to cover the administrative costs of delisting items.

Listing allowance does not guarantee permanent placement. In many cases it is just a 90 day test for the product to prove itself. If it does not pass the retailer's "hurdle rate" for that specific product category, it may be delisted. In addition to picking up unsold product at the warehouse, you may be penalized.

Cash discount

This is a discount offered for payment of an invoice within a specified number of days from shipment or receipt of goods. The industry standard is 1 - 2 % if payment is made in 10 or 15 days, when payment is not required for 30 days.

Discounts - Leaks and Swells

This is an allowance given to offset the cost of product shrinkage or damage within cases.

Damaged Goods

Damaged product is usually returned within a certain time period for compensation or sent to a reclamation center (central warehouse) whereby the supplier is billed for the cost of the goods plus handling.

Guaranteed Sale

If a product is risky or its potential success is questionable, the buyer usually expects the supplier to guarantee the sale of the product by agreeing to repurchase any unsold portion of the initial order. However, if the product is perishable (produce, meat, etc) the buyer will normally absorb the risk and take responsibility for the entire lot.

Price Protection

As market conditions fluctuate, the wholesale price may rise above or fall below the price given to any specific retailer. If the price of a product falls below the price originally quoted by the supplier, the supplier is expected to compensate the difference for any stock the retailer is holding. However, if prices increase, the buyer expects the supplier to give sufficient notice (i.e. average of 60 days) so he/she can purchase some product in advance of the price increase. Most retailers will not accept price increases during November and December as this is their busiest time.

Product Liability Insurance

Major distributors/retailers will probably not carry food products from manufacturers who are not insured against lawsuits if consumers were to become ill or injured after consuming their goods.

4.3 Deals and Allowances

Promotional deals and allowances are tools that producers and processors can use to encourage retailers to list and sell more products. These tools also help maintain a sufficient turnover of your product, lowering the risk of delisting due to poor sales. Deals and allowances alone will not move additional product but will motivate buyers to list or promote a supplier's product over another and, if savings are passed on to consumers through lower retail prices, can boost sales. Deals and allowances are usually negotiable, depending on the product categories and potential success of a new product.

It is expected by the industry that suppliers will offer the same deals and allowances to all retailers/distributors, on a net basis. Published deals are common whereby every retailer/distributor is offered the same allowance for the same period. Suppliers should treat all customers fairly, otherwise they jeopardize their credibility and run the risk of losing customers in the long run.

Co-operative Advertising

A percentage of the invoice price is paid to the retailer/distributor to cover some of the advertising costs for the product in newspaper ads, flyers, etc. Generally, 2-5 % of invoice value is used for co-op advertising; however this percentage can vary from as little as 1-15 % depending on the product category. Manufacturers normally "purchase" a promotional package at various times throughout the year, to meet their advertising needs. These

promotional packages and ad costs are set once per year and listed by retailers for suppliers. Most retailers book ads up to six months in advance. The promotional package prices are often negotiable but only once the product is in-store. It is important to keep in mind that these co-op advertising funds alone will not pay for retail ads; thus, “over & above” funds will often be required to cover ad costs.

Suppliers of produce, fresh meats and bulk foods usually do not pay for co-op advertising but are expected to offer deals or off-invoice allowances to retailers to lower product prices during consumer promotions.

Promotional or Off-Invoice Allowance

This is normally a fixed discount per case, which lowers the regular cost of the product to the retailer and offers savings to the shopper. Suppliers usually offer this allowance three to four times per year. In general, the trade expects a 10 % allowance for a minimum four week period. You, the supplier, should offer the allowance giving the retailer at least eight weeks lead-time. Many retailers purchase 80 to 90 % of their products "on deal" over the course of a year. In most cases, the allowance is used in conjunction with other merchandising vehicles (i.e. co-op advertising) to achieve in-store merchandising objectives. A retailer will not buy and advertise an item without an off-invoice allowance. Details on deals include:

- the item, description, pack size, UPC code
- the regular price, deal price, suggested selling price, length of the deal and dates
- minimum quantities.

Ad Cost/Billback

This is an allowance that supplements retail advertising costs for co-operative advertising, flyers, newspaper ads, point-of-sale material, media (TV, radio) etc. within a store group.

Display Allowance

This allowance encourages in-store display activity and is paid to the retailer for all cases ordered and displayed during a specified time period. Payment is usually by a separate cheque following proof-of-performance by the retailer.

Introductory Deal Allowances or Free Goods

It is good business for suppliers to offer incentives to encourage retailers to carry their products for the first time. Incentives may include one case free for each store or a case allowance for a certain period (e.g. 60 days) after initial order.

Volume Rebates

Volume rebates (usually 1-5 %) are based on a percentage of the invoice price paid to the distributor, which increases on an incremental increase in sales. The objective is to encourage the distributor to move additional cases over a given period. At the end of this period (e.g. one

year), an adjustment is made on the final payment to reflect the actual cases purchased. This is a retail performance incentive. If the required product volume is not met, the incentive is not paid out. Volume rebates, once offered to a retailer, are often difficult to withdraw. Before offering rebates, you should determine if your competitors are doing so since rebates are not offered for all product categories.

"Over & Above" Funds

On occasion, suppliers may offer allowances (e.g. lump sum payments or per case rebates) "over & above" the originally negotiated arrangements with retailers in order to strengthen promotions, clear out inventory at retailer warehouses or possibly when launching a new product. On a cautionary note, retailers welcome "over & above", but may expect such deals on a consistent basis. "Over & above" should be negotiated annually and the "activity" provided by the retailer in return for the allowance should be determined in advance of payment.

4.4 Promotions

In-store demonstrations, couponing, point of sale material and recipes are some tools which manufacturers and producers can use effectively to introduce customer trial, repeat purchases and build consumer loyalty.

In-Store Sampling

This is a very effective promotional method for getting non-users to try your product or to present "new uses" for the product to current users. In-store sampling is also an effective cross-merchandising tool. Today, most retailers require that suppliers contract a specific product demonstration company for in-store sampling. Sales can increase dramatically through in-store sampling, even at regular retail price. Incorporating price features or coupons during the sampling period can move significantly more product.

The vendor assumes all costs of the demo including product samples and labour. Today, most retailers use a contracted demo provider and this requires that you to pay the retailer directly for this service.

Coupons

This monetary tool is used primarily to induce trial among non-users of a product; however, coupons can also contribute to increased rate of brand usage since they do subsidize regular users. When introducing a new product, it is recommended to offer greater coupon value (e.g. double the value) than you would use for maintaining product franchise among existing products.

Retailers tend to discourage use of coupons due to the high amount of handling required. Before implementing a coupon program, be aware of coupon redemption rates and costs.

5.0 DISTRIBUTION

Suppliers must consider several factors when determining the optimal distribution channel for their product, including:

- product perishability
- special handling requirements of product
- size, number of orders
- geographic concentration of buyers, retailers
- buyers' (wholesaler/distributor, retailer) needs and existing systems resources of supplier
- competition
- truckload allowances
- specific pallet boards and configurations
- substantial penalties for late or damaged shipments which is usually based on a percentage of the total invoice cost.

Manufacturers may sell directly to a retailer or go through a wholesaler/distributor or a broker/agent. As well, processors may need to follow industry norms (see next section), depending on the product category, or the specific needs/existing systems of the retailers when determining the distribution channel. The manufacturer should also investigate competitor practices and consumer needs before selecting the channel.

5.1 Industry Norms

In general, industry norms regarding distribution channels and systems vary by product categories as follows:

Product	Distribution
Dairy products	Direct delivery to stores
Meat/Seafood products	Fresh - direct delivery
Frozen products	Warehouse or direct delivery
Prepared meats	Warehouse
Bakery products	Direct to store
Grocery products	Warehouse *
Snacks (potato chips, cookies)	Direct to store
Soft drinks	Direct to store
Fresh fruits/vegetables	Distribution centres and direct to store – all major retailers have designated distribution facilities for fresh fruits/vegetables

* Although the majority of items are shipped to the warehouse, there will always be exceptions where direct to store will occur. About 25-30 percent of store inventory is delivered direct to store. This would include perishable and easily damaged goods such as cookies, snacks, bread, meat and dairy products and soft drinks.

5.2 Wholesaler/Distributor

Wholesaler and distributor are terms that describe the same distribution channel. A wholesaler/distributor or wholesale distributor takes title to a supplier's goods and sells the products to retailers. Wholesalers can move large product volumes through economies of scale. Producers must still convince retail buyers to stock their product if they use this distribution option.

5.3 Broker/Agent

Food brokers are the link between food processors and retailers. Brokers provide a range of product sales and marketing services (including preparing a marketing plan), retail and head office selling, consumer promotion, category management and invoicing.

Typically, brokers represent over half of the categories sold in a grocery store, particularly dry (including juices) and frozen grocery products. Generally, they do not represent products delivered direct to store (milk, soft drinks, bread or fresh produce, fresh meat or eggs). Brokers often represent more small and medium-sized businesses.

Brokers/agents do not take title to a supplier's goods. Instead, they operate as a sales force to sell goods for the producer. Selecting a broker requires careful consideration and detailed field research. Small manufacturers who cannot afford a sales force can benefit greatly by hiring a suitable broker. Brokers represent the products of many companies and can achieve wide market coverage cost-effectively. The average brokerage commission in Canada is 4 to 5 % of sales.

Broker/Distributor

Some agencies provide a combination of broker/distributor services that often include market planning and development functions that expand beyond general sales and marketing services. Since all products and suppliers require varying types of services, it is important to match the talents and services of brokers and distributors with each supplier's requirements on a market-by-market basis.

A list of food brokers operating in Canada can be obtained from the Association of Sales and Marketing Companies - International Division (formerly Canadian Food Brokers Association).

Contact:

Association of Sales and Marketing Companies - International Division

58 Meadowbrook Lane, Ste. 100

Unionville ON L3R 2N9

Tel: 905 477-4644

Fax: 905 477-9580

5.4 Distribution Options

Retailers surveyed have indicated that suppliers should select the distribution system, which is the most efficient and appropriate to their product line, and provides the lowest possible cost to the consumer. They are concerned with getting the right product at the right time and in the right quantities and at the right price. Retailers will recommend distribution options to suppliers who may have difficulty delivering/handling the goods efficiently and expediently. Options may include specific distributors, brokers who are highly credible and reputable and have serviced the retailer effectively with other products.

Some of the major retailers operate extensive distribution systems, which include wholesale distributors, distribution/warehousing centers and transportation operations. In many cases, retailers prefer products to be transported Free On Board (FOB) to their warehouses or distribution centers for further distribution by their transportation fleets. FOB means the retailer does not pay for transporting the products to the delivery point.

However, there may be opportunities for suppliers to get their products picked up at the plant by the distributor, depending on costs, geographic location, scheduling and availability of space on transport vehicles. First-time suppliers should investigate the various systems available to them before arranging product presentations in order that they may incorporate the various costs and options into their price lists.

Separate price lists should be prepared depending on the type of distribution system to be used and should state the minimum shipments necessary to qualify. For example, price lists should offer the following information:

1. **FOB Point:** **Delivery Points:**
 - Plant
 - Consolidation warehouse (e.g. wholesaler/distributor)
 - Customers dock (retailer's warehouse)

2. **Corporate and Independent Drop Shipments**

Some retailers also operate this type of distribution system whereby the supplier ships direct to stores and bills only through the wholesale distributor. If the supplier is dealing with corporate stores, head office must grant permission to allow for distribution to their stores directly. Prices should be higher on drop-shipments (7 to 8 % higher) than to the wholesaler to help cover the extra distribution costs and to ensure that retailers will be able to buy at prices through their warehouse which are at least competitive with the price they paid for drop-shipments.

3. **Minimum shipment:** Minimum number of cases, minimum weight or minimum dollar value required by the supplier for an individual order to be picked up or shipped.

5.5 Distribution Costs

Truckload/Carload Allowance

Supplier makes payment to buyer for ordering a specific product line in sufficient quantities to fill the designated transportation vehicle (e.g. less 2 % off invoice or \$1.00 per case).

Freight Allowance

This is an allowance based on amount per hundred weight which is offered to a buyer if he/she picks the product up at the supplier's plant or from another designated location.

Freight Charges

Supplier charges an additional freight charge for delivery of product over and above invoice cost quoted (amount per hundred weight).

Warehouse allowance

Supplier makes payment to buyer with central warehouse to distribute product to retail outlets.

5.6 Inbound Freight Policies

Suppliers must familiarize themselves with and abide by retailers' specific inbound freight policies. Suppliers must deliver on schedule at designated locations (specific warehouse doors), with appropriate documentation and product packaged/palletized as required. Failure to do so may result in fines or refusal of shipment.

6.0 RESOURCES

6.1 Labeling Requirements

Canadian Food Inspection Agency (CFIA)

Suite 400 – 4321 Still Creek Dr.

Burnaby, BC V5C 6S7

Tel: 604 666-6513

Fax: 604 666-1261

<http://www.inspection.gc.ca/english/toce.shtml>

CFIA deals with information on product composition, permissibility of ingredients, nutritional claims, etc.

6.2 Universal product codes

Universal Product Code (UPC)

Electronic Commerce Council of Canada (ECCC)

885 Don Mills Rd

Don Mills, ON M3C 1V9

Tel: 416 510-8039

Fax: 416 510-8043

6.3 Finding Broker Candidates

Association of Sales and Marketing Companies - International Division

58 Meadowbrook Lane, Ste. 100

Unionville, ON L3R 2N9

Tel: 905 477-4644

Fax: 905 477-9580

6.4 Key Industry Organizations

Canadian Council of Grocery Distributors (CCGD)

102-6940 Fisher Rd. S.E

Calgary, AB T2H 0W3

Tel: 403 250-6608

Fax: 403 250-7022

<http://www.ccgd.ca>

Canadian Federation of Independent Grocers (CFIG)

902-2235 Sheppard Ave East

Willowdale, ON M2J 5B5

Tel: 416 492-2311 1-800-661-CFIG

Fax: 416 492-2347

<http://www.cfig.ca>

Association of Sales and Marketing Companies - International Division

58 Meadowbrook Lane, Ste. 100

Unionville, ON L3R 2N9

Tel: 905 477-4644

Fax: 905 477-9580

Food Marketing Institute (FMI)

655 15th Street NW 2005

Washington, DC

USA

Tel: 202 452-8444

Fax: 202 429-4519

Food Beverage Canada

201-17914 105th Ave

Edmonton, AB T5S 2H5

Tel: 1 800-493-9767

Tel: 780 486-9679

Fax: 780 484-0985

<http://www.foodbeveragecanada.com>

6.5 Key Government Agencies

Canadian Food Inspection Agency (CFIA)
Suite 400 – 4321 Still Creek Dr.
Burnaby, BC V5C 6S7
Tel: 604 666-6513
Fax: 604 666-1261
<http://www.inspection.gc.ca/english/toce.shtml>

Agriculture and Agri-Food Canada
#420 – 4321 Still Creek Dr.
Burnaby, BC V5C 6S7
Tel: 604 666-6344
Fax: 604 666-7235
<http://www.agr.ca>

BC Ministry of Agriculture and Lands
Industry Competitiveness Branch
PO Box 9120 Stn Prov Gov
Victoria, BC V8W 9B4
Tel: 250 356-2944
Fax: 250 356-2949
<http://www.agf.gov.bc.ca/indcomp/index.htm>

Canadian Commercial Corporation
2000 – 300 West Georgia St.
Vancouver, BC V6B 6E1
Tel: 604 666-5259
Fax: 604 666-3977
<http://www.ccc.ca>

Canada/BC Business Services Society
601 W Cordova St.
Vancouver, BC V6B 1G1
Tel: 604 775-5525
Fax: 604 775-5520
<http://www.smallbusinessbc.ca>

7.0 SUGGESTED PUBLICATIONS

Canadian Grocer
7th Floor - One Mount Pleasant Rd.
Toronto, ON M4Y 2Y5
Tel: 1 800 268-9119
Fax: 416 764-1523

Maclean Hunter Limited
Box 9100
Postal Station A
Toronto, ON M5W 1V5
Tel: 416 596-5977
Fax: 416 596-5526

Grocer Today
4th Floor, 4180 Lougheed Hwy
Burnaby, BC V5C 6A 7
Tel: 604 299-7311

Natural Foods Merchandiser
#200 - 1401 Pearl St.
Boulder, CO 80302 USA
Tel: 303 998-9126
Fax: 303 998-9020

Produce Business
127 New York City Produce Co-op
Bronx, New York 10474
USA
Tel: 212 996-6300

Progressive Grocer
770 Broadway
New York, New York 10003
USA
Tel: 646 654-7258

8.0 BIBLIOGRAPHY

Alberta Agriculture. *Marketing Food in Alberta - an access directory*. 1992

British Columbia Ministry of Agriculture, Fisheries and Food. *The British Columbia Food Industry - An Industry Profile*. June 1995

Canadian Grocer. *Executive Report: The Canadian Grocery Industry, 1995*. Annual

Ministere de l' Agriculture, des Pecheries et de l' Alimentation du Quebec. *Guide d'Access au Marche de Detail 1994-1995*.

Information from convention: *The International Supermarket Industry Convention and Educational Exposition*. Sponsored by the Food Marketing Institute. Chicago, IL. May 1995.

Information from workshop: *Selling to Grocery Retailers*. Sponsored by British Columbia Ministry of Agriculture, Fisheries and Food. Vancouver, BC February 1989.

Progressive Grocer. *The Dynamics of Category Management*. Special Report. Promo Magazine and Progressive Grocer Supplement. December 1993.

Saskatchewan Foodtalk. *Food Processor's Reference Manual*. University of Saskatchewan, Saskatoon, Sask. 1994.

The Food Marketing and Distribution Sector in Canada, April 1999. Agriculture and Agri-Food Canada - Market and Industry Services Branch.

Canada Retail Food Sector Western Canada Retail Food Sector Report 1999. Prepared by Brian Woodcock USA Food Export.

Fundamentals of Retail and Wholesale Food Marketing. Prepared by Alberta Agriculture, Food and Rural Development.