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Marketing Food Products: Direct Sales vs. Distributors and Brokers

by
Dawn Thilmany, Agribusiness Economist
and
Jennifer Grannis, Graduate Assistant
Department of Agricultural and Resource Economics

Niche food markets have grown tremendously in recent years. Such niches are attractive targets to small food producers and processors who have found it difficult to compete with large, national companies in more traditional markets. However, distribution, promotion and sales of smaller lines of products do present some challenges. The distribution system for both retail markets and restaurants is complex, and smaller producers and processors often lack the experience or marketing resources to effectively work within the system. These issues are increasingly important to the agricultural sector since value-added marketing activities are providing producers with new hope for increasing financial viability and profitability.

This publication summarizes the panels and discussion from "Using Distributors and Brokers to Market Food Products," a seminar organized by the Colorado Department of Agriculture-Markets Division and Colorado State University-Department of Agricultural and Resource Economics. The issues discussed at the seminar provide timely and useful information to those companies and individuals interested in working with distributors as well as those who are approaching the market with a direct sales force.

Understanding the Food Marketing Chain

The basic structure of most marketing and distribution chains includes a broker and distributor between the food manufacturer/processor and the operator (whether it be a retail outlet or restaurant). Most food distribution is done through large companies with up to 17,000 products. Brokers are essential agents in obtaining and maintaining a place within the distributors' product lines. Brokers are marketing agents who work with distributors in promoting a line of products through sampling, special promotions and ride-alongs (where they take orders and deliver products with the direct sales force in order to meet retailers and restaurant chefs one-on-one). Brokers are not always

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necessary, especially for larger companies that have established consumer demand in the retail market. However, the special services they offer can often provide the extra push a new product needs to become viable in the marketplace.

The consumer may be influenced by marketing and promotional activities at any point in the marketing chain. Distributors and brokers may seem relatively “invisible” to most consumers since their names do not appear on packaging or advertising. Yet, they are extremely important agents to food processors who are interested in attracting restaurant and retail business. Their knowledge of the retail food system makes them essential consultants in the placement and promotion of consumer goods.

Important Issues in Establishing a Distributor Relationship

There are four basic concepts to consider when marketing a product:

1. Viability
2. Education and Market Research
3. Cost
4. Fit

Viability

Product viability is the key concern for the broker/distributor because they must assure the product will benefit the retailer or restaurateur. Just because you create a product, it does not mean the product will have mass appeal. Only one of every 50 products created ever becomes successful, but successful product lines will make profits. Everything you do will affect the success of your product.

Although brokers and distributors are responsible for promoting a product, the food producer must initially ensure an established consumer demand for the product. This may require extensive market research on the entire market segment, especially if you need to establish the potential demand for a new introduction. In short, there are three ways to be attractive to the consumer: be cheaper, be better or be unique. Being inexpensive will make marketing easier, but most niche marketers are more likely to have high quality or unique products. To enter these markets, thorough research and promotion will prove beneficial.

Education and Market Research

Education and market research are an essential part of determining product viability. When approaching a broker, distributor or retail operator, it is important to understand where your product fits in the marketplace. You must know how the product stacks up against the competition. Always visit a grocery store to check out competition, labeling, cost and quality. It is a simple, but effective way to get information on your product category. There are several commercial firms that sell market information that you can use in establishing a market plan. Information at the category level may be available as public resources (on the Web or in trade magazines), but product-specific information from cash register data will have to be purchased. The degree of market research will depend on the maturity of the market segment you are approaching. If you are trying to enter a high-growth market, fewer hard numbers may be necessary since you can prove that consumers are experimenting with any new products in that category. Examples of such products include ready-made salads and gourmet coffees in the early 1990's. Effectively communicating the quality, convenience, uniqueness or appeal of your product is of utmost importance. In this stage of developing a marketing plan, it is important to face hard facts. If in your research you discover that there are numerous products of similar quality to compete against, and at lower prices, it may be necessary to call it quits. However, if you find that your product is unique in quality or style, and that consumers have shown a willingness to pay a premium, develop a convincing argument. If you are not enthusiastic about the product the marketing agents will not be enthusiastic. It is your job to inform them and to motivate them about your product.

Finally, you must convince the distributor or broker how it will benefit them directly. The only reason for a distributor to pick up a new product line is because it will make their job easier, increase their distribution base or will make them

more money than current products. On the other hand, brokers are often looking for new products to promote, but only if the financial incentives are great enough. Thus, it is important for you to develop a believable scenario for these agents of how representing your product will benefit them (not just attract consumers).

Marketing Expenditures

To earn money, you must spend some money. It is important to allocate enough money to marketing activities to reach the goals you have set for sales and distribution. You should expect to spend \$0.25-0.30 for each dollar of sales you expect from a product. This number may be even higher when you initially enter the market since heavy promotion is needed. Remember that everyone in the market is spending the same amount so it should not affect your relative competitiveness.

Packaging, advertising, commissions, incentives and travel are all part of marketing a product. Packaging and advertising are usually the responsibility of the food producer. Using market research will help you design product label. Packaging and advertising should complement the product concept and target the appropriate market and demographics. Effective packaging and advertising can simplify the process of attracting distributors and sales.

Broker commissions vary greatly because of the different level of services offered by marketing agents. A full service distributor may deliver, display, stock, promote and manage the inventory of your product, and act as a in-store promoter for your line. A pre-order distributor will simply deliver the product and allow the retailer to display and promote the product in whatever manner they choose. Be prepared to travel if you want to distribute nationwide. Visiting brokers, distributors and retailers is an important part of establishing an identity and clientele for your product.

Finding a Broker/Distributor That “Fits”

The broker must “fit” your marketing plan. As discussed above, there are a diverse set of brokers and distributors to work with, and finding the one who “fits” your company’s objectives is important. It is important to understand that bigger is not always better, especially for smaller food producers. After defining the target market segment, developing a promotional plan and establishing how much you are willing to spend, shop around for a broker and/or distributor that best meets your needs.

If you want to be less involved in the marketing side of your business, the broker may be able to handle more of these decisions, but you will be paying for these services. On the other hand, if you feel a broker will not do your product justice, you may want to enter the market with direct sales. If you are a small food processor, you may have no choice but to enter the market with direct sales in order to establish consumer demand for your product. Although this is quite expensive, it may be the only method to prove product viability to a broker or distributor. It is important to realize that this will take significant resources from your company’s other activities.

Just as you research the market you are entering, you can also research distributors. Broadline distributors tend to undervalue niche products, so they may not be a viable option for premium specialty products. They carry the most lines and move the greatest volume, so only new products in high growth segments may interest them. (In short, smaller producers may not be attractive to the biggest distributors since economies of scale are their comparative advantage.) If you believe the national scope or market breadth of big distributors is essential to your product’s viability, a relationship with a broker may be necessary to approach these firms.

The first step to finding a distributor that “fits” is to investigate what product lines they carry. Although you may want a distributor that is familiar with the general category of product you produce (i.e., meats, produce, frozen goods), it is important that they do not have competing lines. For instance, you would not want to select a distributor who carries several brands of gourmet cookies if that is what you want to market yourself. Furthermore, you may want to choose a distributor who carries some complementary lines, such as coffees or other desserts. This will assure you that they have good contacts in consumer markets where your product is likely to succeed.

To find the most effective distributors, you may want to visit some stores they service to see how they display and merchandise their products. Backroom workers at these stores may also be able to tell you how good each distributor is at keeping the store stocked and moving old product off the shelves. It may also be wise to speak with other companies that currently use a broker or distributor to get a more accurate picture of their weaknesses or strengths.

How to Approach a Broker or Distributor

In short, you must convince the distributor or broker how it will benefit them directly. Selling yourself is as important as selling your product. Attitude, dress, organization and knowledge of the market will help when you do make contact. Enthusiasm about your product and the benefits to the retailer will make it easier to convince them to carry (in the case of a retailer/distributor) or represent (in the case of brokers) your product.

When meeting with a broker, distributor or retailer, use the research you have collected to put together a clear concise and enthusiastic review of the benefits of carrying your product. Answer the following questions in your presentation:

- Does your product offer them a higher profit margin?
- Does it give them a foothold in a fast-growing market segment?
- Are you offering them exclusive rights to your product?
- Do you provide promotional monies to make it easier for them to move the product?
- Do you already have a well-established customer base for them to exploit?

This information and discussion was distilled from panels which included:
 John Amerman, Director of Sales and Marketing, Great Western Tortilla Company
 Vicki Byer, Sales Manager, Grill Brokerage
 Bob Dineen, President, Rocky Mountain Natural Meats
 Ron Dorr, Equipment and Supply Specialist, Alliant Foodservice
 Paul James, Sales Manager, Federal Fruit & Produce
 Robert Klein, Principal/Partner, Steven-Robert Originals
 Dan Locricchio, Produce Manager, Nobel/Sysco

For information on other Colorado Department of Agriculture marketing programs and seminars, please call (303) 239-4114 and ask to be added to the database for future mailings.