

# B r a d m e r F o o d s L L C

## Frequently Asked Questions

### **What is Specialty Food?**

I think of Specialty Food now as an umbrella term that covers gourmet, imported food, natural and organic. Key: Specialty Food is an old fashion term that derives from Specialty Food Distributors and now covers many genres besides the old term of gourmet.

### **Should I try to use a Specialty Food Distributor to sell my products?**

If you have a product that you have developed and you wish to make it a national brand I like growing the brand via Specialty Food Distributors. Key: Utilizing as many Specialty Food Distributors as will take your product is the first step.

### **If I use a Distributor will they handle my sales?**

Specialty Food Distributors do have sales teams and they want your product to be a success. They like products that are new and have potential for incremental sales. However most SFD's have thousands of items in their portfolio and the time they have to spend on your product is limited by the excitement that the product actually brings to the market. Key: If you want Distributors to keep your product top of mind, you have to keep the excitement focused on your brand, and your category and that will happen primarily via you, marketing, and promotions.

### **Does a Specialty Food Distributor charge me a fee to sell my products?**

Not directly. The Distributor makes money by the upcharge on your product to the grocery. That is why he is interested in assuring that your product is a success. SFD's have tons of items and they must judiciously apply the 80/20 rule to their efforts. If they have 15,000 items in a given store, approximately 3,000 of the items are delivering 80% of their livelihood. Key: If your product isn't in the top 20% of the Distributors best-selling items, you probably will need extra help getting and keeping your product on the shelf.

### **Do I need brokers?**

Brokers are nothing more than a contracted sales force. Don't confuse them with the sales force that the Distributor provides. Brokers are a sales force contracted by you to provide sales support, for specific products in a specific area. A sales force is a logistic necessity as soon as you can afford it. You just can't be everywhere all the time. Key: Make sure you understand that the sales force you hire must provide enough incremental sales to pay for themselves.

### **How much will I spend if I use a Specialty Food Distributor?**

Specialty Food Distributors mark your product up to the grocery stores they contract with. That markup is often 30-40%. The cost to you is not a direct cost but rather the rise in your retail price on the shelf because of the Distributor upcharge. Key: Your pricing structure must allow for the Distributor markup while remaining competitive amongst like products in the category.

### **How do I know how to price my products?**

Pricing is an art not a science. Basically, your price must cover your costs and return a profit that is right for you. Once you add up your costs and add your profit you must decide if your retail price is going to be competitive. If not, than your product must be unique enough to justify a premium price.

It worked for Red Bull and Starbucks! Key: To begin the process you must understand all of your costs including brokers, distributors, trade promotions, slotting, and marketing.

### **What is slotting expense?**

Slotting expense is the expense a grocery retailer charges a food manufacturer to “slot” a new item in his warehouse. Since the grocery has a limited amount of warehouse space and must administer systems that maintain inventory the grocer charges food companies for the turnover of the space. Products sourced through a Specialty Food Distributor are often not charged slotting because the SFD is maintaining the item in their warehouse, however the food manufacturer still may be charged a fee that is often equal to one free case for each retail outlet the grocery chain owns. Key: Slotting expense is an ugly reality that is not for the faint of heart. A single product taken to all the major grocery chains in America can cost \$1.5 million per sku!

### **Will I have to pay slotting to get my product on the shelf?**

More than likely you will be paying slotting cost to grow distribution. While the rate and costs will vary by retailer, whether you are sourced from an SFD, and the deal that is agreed to, a good rule of thumb is to assume a free case for every store you gain distribution in. Key: Plan on it and be thankful if you are on the shelf for free!

### **What is trade expense and will I have to spend money on it?**

Trade expense is the cost the food manufacturer incurs placing his products on sale. The grocery will charge for the reduction of the price, the cost of an advertisement, and a display if he puts one up. Key: Trade expense is not marketing expense. You will have to promote your products in each store so learn to leverage trade funds wisely. Negotiate everything!

### **Is there growth in Organic products in the US?**

Yes, and appears to be outpacing traditional grocery product growth. According to the Organic Trade Association 2011 Organic Industry Survey, U.S. sales of organic food and beverages have grown from \$1 billion in 1990 to \$26.7 billion in 2010. Sales in 2010 represented 7.7 percent growth over 2009 sales. Experiencing the highest growth in sales during 2010 were organic fruits and vegetables, up 11.8 percent over 2009 sales.

### **What portion of my products must be organic to gain organic certification?**

In the US, products made completely with certified organic ingredients and methods can be labeled “100% organic.” If a product has at least 95% organic ingredients it can be labeled with the word “organic.” Both 100% and 95% organic products may use the the USDA organic seal. If a product has at least 70% organic ingredients, it can be labeled “made with organic ingredients.” All products can display the logo of the certification body that approved them.

### **What if I don't want my product in grocery stores?**

My entire experience in the food business has been working to get products on the grocery shelf. That is where I see most of my value to entrepreneurs. Nevertheless I have met many small food companies that wish to maintain high quality products that are suited for gourmet food shops, premium kitchen retailers and the internet. My observation is that I don't see these products becoming national brands, but many of them are very good and do very well.