

EM 8922 • December 2006 • \$2.00



A Guide for New Manufacturers Using Food Brokers in the Northwest

J.A. Beaman and A.J. Johnson

Contents

A professional at sales	1
Types of manufacturers represented by brokers.....	3
When to use a broker	3
How to pitch to a broker.....	4
Commissions and fees	5
Do your research.....	5
Choosing a broker	6
Contracts and terms.....	7
Working with your broker.....	7
Words of wisdom	8
Summary	8
Appendix A. Broker research form	9
References	back cover

Using Food Brokers in the Northwest

Food business entrepreneurs who want to sell new products on retailer shelves need more than a unique product, great packaging, and luck. Successfully selling a product requires money, contacts, distribution, a marketing plan, and aggressive selling. While many food manufacturers handle their own sales, others have discovered that food brokers are a great resource. Brokers often are the only way that a new food manufacturer can gain access to retailers and consumers.

This publication explains how new food manufacturers can benefit from using a food broker. It covers the broker's role, when to use a broker, broker requirements, commissions and fees, and contracts. It also explains how to choose and manage a broker and offers words of wisdom from food brokers in the Northwest. This information can help you be better prepared when interviewing potential brokers.



A professional at sales

Food brokers act as sales agents hired by manufacturers to represent their products and make sales to retailers, foodservice companies, and distributors. They can help find distributors, and they broker deals between manufacturers and distributors as well as between distributors and retailers. Unlike distributors, brokers do not take title or physical possession of products, nor do they transport products to the buyer.

Food brokers are an efficient and cost-effective alternative to direct marketing of food products. Brokers spread their overhead costs over a number of product lines (usually noncompeting); thus, other manufacturers share your sales costs.

A broker's greatest value is his or her experience, expertise, and long-standing relationships with customers. Brokers can provide more services than just sales calls. For example, they can help develop promotional activities, such as in-store demonstrations and new product introductions (Hall). Overall, brokers are experts at selling; they use their relationships with customers to efficiently arrange the sale of a manufacturer's food products to the retailer.

Each food broker typically handles a specific region and market segment, such as supermarkets, natural foods, specialty, or convenience. Local independent brokers specialize in knowing the local market's consumers, distributors, and retailers. They usually handle one manufacturer per product category to avoid conflict of interest, although there are exceptions.

A broker's role includes the following:¹

- Negotiating the best deal and promotion for the manufacturer
- Protecting the integrity of the product and organization he or she represents
- Presenting a product line
- Providing sales data to help sell a product
- Writing orders
- Following up on orders to ensure delivery of the product
- Ensuring the product is properly displayed by offering merchandising advice
- Ensuring that all product promotions and deals are applied to an order
- Monitoring the completion of the sale
- Arranging for product demonstrations or sampling (increasing product exposure)
- Walking through a payment if required
- Staying familiar with industry trends and relaying this information to the manufacturer
- Providing a "voice" within the industry

There are many advantages to using a food broker. Food brokers have:²

- Knowledge of local markets
- Relationships with buyers in retail and foodservice establishments
- Selling experience
- Specialization in retail, foodservice, and specialty categories

The main disadvantage to using a broker might be that you are not his or her only client and your products might not receive adequate attention. In addition, the broker might not accurately represent your primary goals. For example, the broker might promote a product solely on the basis of price and ignore your focus on product quality.

¹Wolfe, K. *Specialty Food Brokers*. ADC Info #22. The University of Tennessee Agricultural Extension Service (1998).

²Brooks, J. *Are Food Brokers Right for You?* Oklahoma State University, Food and Agriculture Products Research Technology Center. FAPC-130 (2004).

Types of manufacturers represented by brokers

Brokerage firms usually work for three types of manufacturers: large, national manufacturers; regional manufacturers; and small, niche-market, specialty manufacturers. Brokerage firms working for large national manufacturers usually have account executives who devote most of their time to a particular manufacturer's products. The added time and attention given to these large companies are well worth the effort because four or five national manufacturers might represent up to 70 percent of a brokerage firm's monthly income.

Regional manufacturers often have a district manager who works with a broker to establish sales. The district manager often accompanies the broker on sales calls and sets up monthly or quarterly meetings to help develop a good customer base. Regional manufacturers generate approximately 25 percent of brokerage firms' monthly sales and produce a significant number of the products brokers represent.

Most new food manufacturers fall into the third category—small, niche-market, specialty manufacturers. Although these manufacturers usually need a broker's assistance more than regional or national manufacturers, they represent only about 5 percent of most brokers' revenue. Thus, brokers usually represent four or five small manufacturers but cannot dedicate as much time and effort to them as they do to larger clients.

A broker's ideal client is a large, established manufacturer with established sales and demand. This makes it difficult for new market entrants to hire a broker; they need to convince the broker that their product is unique and profitable.

When to use a broker

The decision to use a broker depends on the manufacturer's goals. Brokers might not be necessary for large, established manufacturers with an extensive product portfolio. These companies might find it best to employ their own sales force and work directly with retailers.

Many new food manufacturers start by selling directly to local retailers, establishing relationships and making sales calls on their own. They might not have adequate production and sales to attract a broker at first. It is time to hire a broker when you no longer can manage all of your retail accounts and/or you want to expand to other retailers and supermarkets.

Manufacturers also might employ a broker if they are having difficulty penetrating markets, selling to particular retailers, or



finding a distributor. Because of their relationships with retailers, brokers might be able to get products onto a retailer's shelves when a small manufacturer might not get through the door.

How to pitch to a broker

Brokers want to see established sales before agreeing to sell a new product. This makes the broker's job easier, as it will take less time and money for the product to become established in a larger market. For a small to medium-size brokerage firm representing 6 to 15 manufacturers, a new product from a new manufacturer is a big risk. Because of the enormous amount of resources needed to "pioneer" a new line, a broker will consider taking on a new product only if it is unique and fills a niche. When you approach a broker, the sales pitch is to convince the broker that the product will sell successfully.

In the Northwest, natural and organic food sales are growing, and retailers are seeing demand for these products. A broker, distributor, or retailer is more likely to take on a new product in this category. Remember, the broker must be convinced that the product has sales potential and is better than alternatives (Lelack).

When sending products to a broker or interviewing a broker, you must exhibit knowledge of the industry. Brokers want evidence that you understand their job and incentives, as well as margins and fees. You should have a well-thought-out marketing plan—including target customers, marketing budgets, and product information sales sheets—and passion for the product. It is important to establish a good first impression; even if the brokerage firm does not pick up your product immediately, it might be interested in the future.



Although it usually is helpful to have established sales before approaching a broker, some brokers prefer products that have yet to be introduced to retailers. Lori Lansing, vice president of Co-Sales Northwest, says she prefers new products and advises manufacturers to decide early whether they want to use a broker. If they try unsuccessfully to sell to retailers on their own, it is more difficult for the future broker to call on those same retailers, who might say, "Don't bother, I've already seen it" (Lansing).

Commissions and fees

Brokers are paid a commission that is a percentage of the wholesale price. Commissions can be as high as 15 percent, but they average around 5 to 7 percent (Brooks). The commission depends on the food category (e.g., perishables versus dry goods) and the customer (distributor versus retailer). For instance, a commission for a branded product usually is around 5 percent, while a commission for a private label product typically is closer to 3 percent (Food Brokers USA). Commissions for sales to a retailer might be higher than commissions for sales to a distributor.

Start-up fees commonly pay for the broker's efforts in establishing sales. The start-up period can last around 6 months and can cost from \$500 to \$2,000 per month. Fees vary by brokerage firm, product, and manufacturer. The more time and effort it takes to sell the product, the higher the start-up fees. These charges usually act like a guaranteed commission: if sales occur during this period, commissions replace the start-up fees.

In-store demonstrations are a good way to introduce a new product and often are required by retailers. In a brokered deal with a retailer, the retailer might agree to carry a product if there will be a certain number of in-store demos. Brokers either staff demos themselves or hire a demonstration service to learn about the product and conduct demos. Demonstration services usually charge \$75 to \$100 per event. The broker will pass these fees back to the manufacturer. For large retail chains that require a monthly demonstration at all of their stores, these fees can add up quickly and should be evaluated as to their benefit to sales. Brokers also may ask the manufacturer to staff the in-store demonstration, depending on the requirements of the retailer.

Do your research

There are several ways to find brokers. You can check the local yellow pages, as well as websites (for example, www.foodbrokersUSA.com). Many brokers have websites with company and product information. Other food manufacturers, retailers, and distributors are great sources of recommendations. By attending trade shows, you often can meet brokers from many geographical areas.

It is important to do some homework before approaching brokers. In order to sell successfully, the broker needs to understand your product and your business goals. You should be comfortable working with the broker and feel confident that the broker will have the time and staff to commit to selling your product. Completing the "Brokerage research form" (Appendix A) will help you answer some important questions about each broker. It may be useful to work on this form prior to the first interview and/or to use it as a guide during the interview.



Choosing a broker

Choosing the right broker is very important. The broker–manufacturer relationship can determine the success of the product. A successful match will benefit both the manufacturer and the broker. Due to consolidation in the retail grocery industry, there are fewer and fewer retail “full-service” brokers, but it is wise to interview several (at least three) before choosing one.

New manufacturers should choose a small or medium-size brokerage firm that has experience representing multiple product lines and multiple manufacturers but doesn’t carry too many lines. Brokerage firms that represent six to nine manufacturers are a good size to look for (O’Halloran).

A good broker will have experience working in the food-service industry or retail grocery industry. Good brokers have knowledge of the local or regional market and have established relationships with retailers and distributors. It is all right if the brokerage firm is new, as long as its brokers have many years of experience and have developed relationships with buyers in the area.

Although it might seem that you are the one being interviewed when you visit potential brokers, be sure to ask key questions to make sure you’ve found the right sales people. Also, asking educated questions may indicate to the broker that you are a viable food company. Always check a potential broker’s references with distributors and retail stores (Brooks).

Ask brokers the following questions:

- How many years have you been a broker?
- Who are your major clients?
- Who are your major customers? How long have these relationships existed?
- What distributors do you work with?
- Do you sell any products that would complement or compete with my product?
- Are you familiar with my product category?
- Who would you assign to my account, and what accounts do they currently have?
- How long do you anticipate it will take to get sales?

Contracts and terms

Typically, the manufacturer creates the brokerage agreement. When interviewing brokers, take a contract to each interview. In most cases, the manufacturer proposes a commission rate that can be modified in negotiations with the broker (Lelack). Rates often are determined by the anticipated degree of difficulty to establish and sell the product, as well as the potential sales volume.

Brokerage agreements differ from company to company, but most include:³

- Commission rate
- Defined territory
- Terms for termination
- Incentives
- Commission payment schedule
- Procedures for unauthorized credits and uncollected accounts
- Conditions for competitive products

Historically, brokers worked on a 30-day contract, but more and more they are locking in manufacturers by requiring a 1-year minimum contract. Because of the cost, effort, and maintenance involved in launching a new product (setting up appointments, making sales calls, and getting purchase approval), it can take up to 6 months for a broker to get an order. The process can take even longer because some retailers take sales calls only during certain times of the year (Food Brokers USA).

Some brokers do credit checks on new accounts and collect overdue invoices. Discuss these services during contract negotiations (Hall).



Working with your broker

Managing a broker is just as important as selecting the right one. Visit key customers with your broker several times a year. Large brokers have a monthly call frequency (O'Halloran), whereas a smaller brokerage firm might call on retail customers more often.

It is important to send product updates to your broker. The more information brokers have, the better they can sell. Brokers can use new product information, testimonials, and success stories to market your product.

Brokers can help promote products by working at trade shows, festivals, or other public events that display products to the public or trade (Hall).

³Brooks, J. *Are Food Brokers Right for You?* Oklahoma State University, Food and Agriculture Products Research Technology Center. FAPC-130 (2004).

When creating promotional strategies, you and your broker should develop a plan that will work for both of you.

If you aren't sure whether your broker is showing your product adequately, request a monthly sales report. Check whether your broker is pulling product from your inventory. If not, he probably isn't showing your product to retailers (Lelack).

Brokers should know when retailers will look at new products. They also should be able to find out about retailers' additional fees or requirements. Ask your broker these questions before approaching retailers.

Words of wisdom

An independent food broker in Portland, Co-Sales Northwest, recommends that new manufacturers consider the following (Lansing).

- Know how pricing works.
- Understand fees, commissions, and markups and how they affect the final retail price.
- **Money:** Expect to spend a lot to pioneer a new product.
- **Packaging:** Have a unique label and a uniform container.
- **Product:** It is easier to sell a new product if it is unique and fits a niche.
- Have a plan and be informed and knowledgeable about the broker's, distributor's, and retailer's businesses.
- Decide early whether you want to use a broker.

Summary

Food brokers are a useful resource for manufacturers who want to expand their sales. Brokers are experts in selling and have built their business on developing relationships with customers. They have proven to be invaluable to new and existing food manufacturers.

With consolidation among food brokers, finding the right broker can be challenging. You must convince brokers that your product will generate adequate sales. Having a plan and showing enthusiasm and willingness to promote your product will help you gain a broker's respect and interest.

Securing a broker is not the end of your sales efforts. Often, new manufacturers still must do sales work, either independently or with the broker. Successful manufacturers aggressively pursue sales even when using a broker (*The Food Institute Report*, October 22, 2001).

It takes a lot of time, effort, and money to introduce a new product. Having a sufficient level of production, as well as an understanding of all the costs involved in marketing a food product through a broker, is vital.

Appendix A. Broker research form

Company name

Address

Phone

Fax

Website

Years in business

Recommended by

Contact name

Contact e-mail

Contact title

Contact phone

Area of coverage

Food categories

Service highlights

Marketing programs

Current manufacturers

Retail customers

Requirements

Form/contract requirements

Start-up fees

Additional fees

Comments

References

- Brooks, J. *Are Food Brokers Right for You?* FAPC-130. Oklahoma State University, Food and Agriculture Products Research Technology Center (2004).
- Brooks, Jim (e-mail correspondence). Oklahoma State University, Food and Agricultural Products Research and Technology Center (August 4, 2006).
- “Brokers Can Help Small Food Business Owners Who Pound the Pavement,” *The Food Institute Report* (October 22, 2001).
- Food Brokers USA. www.foodbrokersusa.com
- Hall, S.F. *From Kitchen to Market: Selling Your Gourmet Food Specialty*. Dearborn Trade Publishing, Chicago, IL (2005).
- Lansing, Lori (interview). Co-Sales Northwest (May 17, 2006).
- Lelack, Dave (interview). Cascade Food Brokers (April 26, 2006).
- O’Halloran, Mike (interview). Advantage Sales & Marketing (May 9, 2006).
- Wolfe, K. *Specialty Food Brokers*. ADC Info #22. The University of Tennessee Agricultural Extension Service (1998).

For more information

Food Distribution Channel Overview, EM 8921

Grocery Retailers in the Northwest, EM 8924

Using Food Distributors in the Northwest, EM 8923

These publications may be viewed or downloaded from the Web. Visit the online OSU Extension Service Publications and Multimedia catalog at extension.oregonstate.edu/catalog/

Hard copies also are available from OSU Extension and Experiment Station Communications. For prices and ordering information, visit our online catalog or contact us by fax (541-737-0817), e-mail (puborders@oregonstate.edu), or phone (541-737-2513).

Visit the Food Innovation Center website at fc.oregonstate.edu/

© 2006 Oregon State University.

This publication was produced and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. Extension work is a cooperative program of Oregon State University, the U.S. Department of Agriculture, and Oregon counties.

Oregon State University Extension Service offers educational programs, activities, and materials without discrimination based on age, color, disability, gender identity or expression, marital status, national origin, race, religion, sex, sexual orientation, or veteran’s status. Oregon State University Extension Service is an Equal Opportunity Employer.

Trade-name products and services and companies are mentioned as illustrations only. This does not mean that the Oregon State University Extension Service either endorses these products, services, and companies or intends to discriminate against products, services, and companies not mentioned.

Published December 2006.