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## A Guide for New Manufacturers

# Using Food Distributors in the Northwest

J.A. Beaman and A.J. Johnson

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# Using Food Distributors in the Northwest

Creating a new food product is exciting; selling it is challenging. The thrill of creating a new product often subsides once the task of developing sales becomes the priority. Sales can be one of the most arduous and emotional aspects of starting a new food company. Many new manufacturers hit the streets to make sales calls to retailers, only to be quickly rejected. There are many reasons why retailers aren't interested: the product isn't priced right, there isn't enough demand, or they don't want to deal with a small, start-up food business. To reduce expenses and simplify purchasing and delivery, many retailers prefer to deal with a distributor.



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## What is a food distributor?

The American Marketing Association defines a distributor as “a wholesale middleman, especially in lines where selection or exclusive distribution is common at the wholesale level and the manufacturer expects strong promotional support” ([www.marketingpower.com](http://www.marketingpower.com)). In the U.S. food industry, the terms “wholesaler” and “distributor” tend to be used interchangeably. Both purchase products from the producer or manufacturer and sell to a retailer or another distributor. Some people distinguish between the two, noting that distributors tend to specialize in a specific market category (e.g., deli, bakery, grocery, or convenience) and to provide more retail services, such as stocking shelves. Distributors usually take higher margins than wholesalers in return for these added services.

For the purposes of this publication, we treat the functions of distributors and wholesalers as synonymous and use the term *distributor*. We define a distributor as a middleman who purchases products from a manufacturer or another distributor and sells and distributes the products to retailers, foodservice companies, or other distributors.

Food distributors purchase, warehouse, and deliver products. They also handle the billing and receivables of customer accounts. They are experts in the logistics of transporting and selling products to the retail or foodservice customer. Unlike brokers, distributors generally do not act as the manufacturer's sales force.

Distributors bring together products from many manufacturers and distribute to many retailers. This centralized effort reduces the number of contacts between manufacturers and retailers (Schaffner, et al.).

In general, food distributors do the following:

- Purchase food products
- Inventory products
- Take sales orders
- Deliver product to retailers
- Stock and rotate products on retailer shelves
- Coordinate in-store demonstrations
- Distribute point-of-purchase materials to retailers
- Educate store staff about products
- Invoice customers and collect payments

Distributors distinguish themselves from the competition by becoming experts on local and regional markets and by building long-term relationships with retailers and foodservice companies. They also offer special programs to create more value and service to customers.

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## Types of distributors

There are three main types of retail distributors: general line, self-distributing, and specialty.

**General line distributors** provide most of a grocery store's inventory. The products they distribute vary greatly, from frozen foods and perishables to dry packaged foods and nonfood items. They often carry many large, well-known manufacturers' products. Some specialize in supplying private label products, as in the case of Western Family Foods.

**Self-distributing retailers**, such as Fred Meyer, run their own general-line operations. They purchase, warehouse, and distribute products to their own stores. This type of retail distribution is growing in the U.S., especially with the consolidation of retail stores. In 1999, 47 of the 50 largest retailers were self-distributors, and they accounted for 34 percent of all U.S. distribution centers (Harris, et al.).

**Specialty distributors** supply retailers and foodservice establishments with products in the deli, bakery, dairy, meat, convenience, and beverage categories. Specialty distributors may offer more services, such as reportioning products into marketable-size packages. For example, DPI (Distribution Plus, Inc.) Northwest specializes in bakery and deli products; they also import cheeses. As an added service, they can cut large rounds

of cheese into smaller sizes and label them in their cut-and-wrap cheese facility.

Columbia Distributing, a beverage distributor in Portland, Oregon, is an example of a company that offers more services than the average specialty distributor. They strive to provide sales support “from A to Z.” Like a one-stop shop, they help manufacturers create a marketing plan, develop marketing materials, and sell the product. Their graphic design department provides design and typesetting services and produces wine lists, flyers, banners, and advertisements. They also provide customer education to restaurant or retail staff and conduct beer and wine shows.



Convenience store distributors such as Core-Mark International supply their customers with a majority of their food inventory. Core-Mark realizes that most convenience store operators do not have the time or staff to stock shelves and set up displays. Core-Mark provides stores with quick, efficient, and competitively priced full-service options. They set up displays, restock shelves, and provide point-of-purchase materials and in-store advertisements. They also offer marketing programs to suppliers who want to introduce and display items in stores. In addition, Core-Mark produces a monthly newsletter for retailers, in which manufacturers can purchase space to promote their products.

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## Redistributors

Redistributors purchase large quantities of products and report on the orders for smaller distributors. Using a redistributor benefits both manufacturers and distributors. Many distributors are more likely to take on a new product if they can purchase small quantities through a redistributor. Many specialty distributors, for example, cannot afford to purchase the large quantities required by manufacturers. Other benefits to the distributor include shorter lead times, weekly deliveries, and increased efficiency —receiving one invoice for many manufacturers (DeWalt).

Manufacturers benefit by outsourcing order management, accessing additional customers, reducing credit risk, simplifying logistics, gaining additional sales support, and accelerating sampling response (DeWalt). Dot Foods is the largest redistributor in the U.S. A few redistributors are located in the Northwest, including Alpine Foods and Pacific Foods Distributors.

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## Why you need a distributor

A good distributor can help a new product be successful. “Good distributors deliver products and handle sales and invoicing seamlessly. Bad ones can sink them” (McPhee and Washburn). A good distributor can help a small manufacturer compete with larger manufacturers that have their own sales force and distribution system. Their services can make retailers’ jobs easier, which in turn makes your products more attractive.

Many large chain retailers prefer that a new supplier work with an approved distributor. If a retailer purchases only from a few approved distributors, you may have no choice but to sell to those distributors. In this situation, distributors act as gatekeepers to consumers. The regional office of a large chain grocery retailer such as Albertsons or Safeway can supply a list of approved distributors. You still must get product authorization from the retail store, however.

Many retailers like to work with a distributor that represents several suppliers. The retailer then can purchase most of his inventory from a few distributors, making purchasing easier and more cost effective and reducing the costs of delivery and invoicing.

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## Choosing a distributor

Select distributors with whom you can work. It is essential that both parties share mutual respect, goals, and incentives. Recommendations from other manufacturers, food brokers, and retailers are good ways to find a distributor. Another avenue is to participate in food shows.

Your highest priority should be to locate regional distributors that focus on your retail or foodservice category. For example, if a snack food manufacturer wants to supply convenience stores in Oregon, several distributors are available. Interbitzin Distributors, Inc. distributes retail snack foods throughout Oregon and Washington. DPI Northwest, in Tualatin, Oregon,

focuses on distributing bakery and deli foods to retail and foodservice companies throughout the West.

Geography isn’t the only consideration. Two similar distributors can have different relationships with the same retail customer. The relationships formed with retail customers are often a distributor’s most valuable asset. Choosing a distributor that meets retailers’ needs is key.

Also consider product pickup and delivery options and flexibility in negotiating contract



conditions. Other factors to consider are timing, volume of sales, and additional marketing services.

Appendix B, a “Distributor research form,” can help you gather key information on distributors in order to select the best one for your product.



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## Distributor requirements

Whether in writing or unspoken, distributors have requirements that a new product must meet. For example, some distributors require a minimum volume of sales per week and limit the number of weeks of inventory that they will warehouse (Edwards, McCarthy).

Before approaching any distributor, it is important to do some research; visit the company’s website and/or call to learn about specifics of their operation, requirements, and preferences. It helps tremendously if you know someone who works for the company and can provide a list of requirements.

Almost all distributors expect at least the following from a manufacturer, and most have additional requirements:

- UPC codes
- Nutritional information label
- Contracts
- Product information forms
- Authorizations from regional or national chains
- Sales sheets with colorful, high-quality photos
- A broker or manufacturer’s sales representative

The following are some examples of a distributor’s requirements.

### DPI Northwest

- Minimum sales of five cases per week
- Minimum of 5-week inventory
- Dedicated broker or manufacturer’s sales representative to drive sales
- Useful, high-quality, color sales sheets with item numbers and retailer prices
- UPC codes
- Product shelf life of at least 120 days
- Local product pickup

### **Columbia Distributing**

- The manufacturer and sales staff must have people skills: the ability to form good relationships, good knowledge of and passion for the product, and salesmanship qualities.
- The product must be high quality, fit a niche, and have great packaging.
- The marketing plan must be well thought out, including market research, marketing budget, timeline, and target customers.
- The manufacturer must offer a post-off schedule.<sup>1</sup>
- The manufacturer must exhibit understanding of the distribution business, including pricing.

### **Core-Mark**

- Established retail sales of 5 to 10 cases per week
- Authorization from chain convenience stores
- Ability to deliver products to Core-Mark warehouse
- Money for marketing programs
- Understanding of the business and a well-thought-out marketing plan

Almost every distributor requires a contract with manufacturers. The contract is intended to protect both parties and to spell out requirements and expectations. Contracts vary; see Tables 1 and 2 for typical requirements. Negotiate the length of the contract, product delivery method, territory covered, promotional support, frequency of contact, and termination provisions (Hall). Review contracts carefully to make sure that the distributor will meet your needs (Appalachian Center for Economic Networks).

#### **Table 1. Typical components of a distributor contract.**

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Manufacturer representative/broker information

Federal tax ID number

Liability insurance of \$2,000,000

Spoils policy

Right of offset<sup>2</sup>

Initial order deposit

Price change notification policy

Food safety data

Product recall plan

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Source: DPI Northwest.

<sup>1</sup>A scheduled discount, available to all distributors and retailers.

<sup>2</sup>Legal right to seize deposited funds to cover a loan that is in default.

## Table 2. Procurement data/checklist.

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Signed cooperative manufacturer partnership agreement  
Complete price list and terms  
Product specifications  
Proof of general liability insurance  
Signed pure food guarantee and indemnification agreement  
Allergen checklist  
Kosher certification (if applicable)  
Organic certification (if applicable)  
Live product samples for test UPC scan and presentation purposes

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Source: DPI Northwest.



Distributors often have a verbal exclusivity agreement to encourage manufacturers not to work with other distributors in their territory, as doing so reduces distributors' credibility. It is easier for a distributor to represent a product if others aren't confusing retailers with different offers. If more than one distributor wants to carry your products, it is best to refer additional distributors to your primary distributor.

Distributors differ in how they prefer products to be delivered to their warehouse. Some require the manufacturer to deliver products; others prefer to pick up products. Agree upon the delivery method during negotiations.

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## Pitching to the distributor

Distributors want products that will generate enough sales to be profitable. A product that is in demand or selling well in other regions is easier to sell than a new product. Proof of established sales will indicate that the product is successful and has already generated income.

Distributors look for products that complement their current catalog (Bradford). The product must be unique, fill a niche, and have attractive labeling, and it must fit on retailers' shelves.

You should know who the distributor's main retail customers are and be able to explain why your product will sell on their shelves. The more homework you do, the better you will be viewed by the distributor when presenting your product.

Distributors want to see sales drive and motivation from manufacturers. A professional, fully thought-out marketing plan (including market research and identified target customers) and an understanding of margins will help you stand out and gain the trust and interest of the distributor. Most importantly, it is crucial to understand that you are the one who must sell aggressively (Edwards, McCarthy).

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## Words of wisdom from distributors

Unfortunately, there is no set method for finding a distributor. Most manufacturers say it is easier to approach a distributor if you know someone on the inside who can give you information about the distributor's requirements.

Most distributors will tell you to have a plan, have a budget, and be willing to do sales. Distributors in the Northwest offer the following specific suggestions.

**DPI Northwest:** Have the required established sales. Also, have sales materials, and be energetic and willing to do street sales. We are more likely to “champion” your products if you are excited and determined to succeed in making sales.

**Columbia Distributing:** It helps to know an established retailer or a Columbia Distributing employee; use your contacts. First impressions are important; if you are competent and pleasant during the initial presentation, we will be more willing to sell your product and work with you. Be prepared, and have a complete marketing plan!

Columbia has a buying committee made up of four or five people. They recommend first sending a product sample, along with product information. Follow up with an e-mail or phone call.

**Core-Mark International:** Consider all the costs involved in promoting and transporting products. (Core-Mark requires the manufacturer to deliver products to their distribution center.) Know what distributors charge for their services, as well as what their markup will be, before setting the retail price. Have a complete plan and an understanding of the distribution business.

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## Pricing: Follow the money!

You must understand pricing when dealing with a distributor. Distributors make money by purchasing products from a manufacturer at a wholesale price, marking them up, and selling them to retailers. Distributor markups range from 10 to 40 percent, and brokers' commissions average

3 to 5 percent. New manufacturers often make the mistake of setting a wholesale and retail price before considering markups, resulting in a retail price much higher than competitors’.

Markups differ depending on the distributor, the product category, and the customer. Distributors often mark up a product more when selling to a retailer than when selling to another distributor (Hall). Certain products, such as perishable, frozen, or refrigerated products, have a higher markup than shelf-stable products. The following are examples of distributor markups.

**Columbia Distributing** (beverages): On average, Columbia marks up beer and wine 25 to 30 percent, and natural beverages 30 to 35 percent. Natural beverages tend to be more labor-intensive and costly to sell; thus the higher markup.

**Core-Mark** (convenience stores): On average, the markup is 10 to 15 percent, but it can depend on how much the customer purchases. Hot-case items are marked up at least 40 percent.

**DPI Northwest** (bakery and deli): The markup depends on many factors, including volume projections, risk, shelf life, where the product originates, customer size, perishability, and minimum order requirements.

**Interbitzin Distributors** (snack foods): The markup is 25 to 35 percent, with the higher percentages for refrigerated foods, due to their higher transportation and storage costs.

You must determine whether your product can be competitive, taking into account both the distributor’s margin and the retailer’s margin.<sup>3</sup> It can be difficult to maintain adequate profits while keeping prices competitive. You’ll also need to decide whether your profit structure will allow for advertising, growth programs, point-of-sale materials, and in-store demos.

For more information on pricing, see Appendix A and Appendix B in *Food Distribution Channel Overview: A Guide for New Manufacturers* (EM 8921).

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## Timing of sales

The time it takes from first contact with a distributor to establishing sales can vary from a few weeks to months. If the manufacturer, distributor, and retailer are committed to a product, sales can be accomplished in 3 or 4 weeks. Your timely and accurate responses to requests for information and paperwork completion can shorten the entry period.

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<sup>3</sup>Every time the product is handled, the price increases. On average, retailers mark up products 30 to 40 percent.





Distributors tend to look at new products all year long, but their sales to customers follow holiday and other seasonal schedules (Edwards, McCarthy). Most retailers look at Christmas products in July, while purchases for other holidays are made about 3 months in advance (Bradford).

It is important to remember that there can be a significant lag time between your sale to the distributor and payment from the distributor. In most cases, distributors do not pay for products until they have sold them. You must maintain an acceptable cash flow based on payment terms and order frequency.

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## Other considerations

As energy prices increase, the costs of handling and transporting food increase. Although it is tempting to cut out the “middle-man,” few find this an effective option. Regardless of transportation costs, distributors can distribute food more effectively to retail and foodservice customers than can individual manufacturers. In the end, the higher transportation costs are simply passed on to the final customer.

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## Summary

Distributors provide an invaluable service to both new and established manufacturers. They are extremely useful when selling in new markets or when expanding product lines. Distributors are experts in distribution and have significant influence within the food industry. The distributor’s job is not to create sales, but to facilitate existing sales and to coordinate the logistics of delivery.

Choosing the right distributor is crucial. Many new manufacturers find it extremely difficult to get the attention of a distributor. Attracting successful distributors to a new product is particularly difficult. The “Catch 22” is that you often need established sales with retailers before a distributor will carry your product, but you need a distributor to attract retailers (Bouchard).

Be prepared and do your homework before approaching a distributor. Having an understanding of how distributors operate and their requirements will help you more effectively market your products.

Once you secure a distributor, you still face many challenges in getting sales and meeting distributor expectations. Understanding how to navigate the food distribution system, including meeting distributor requirements, working with them effectively, and maintaining long-term relationships, can help you increase sales and ensure the success of your products.

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## Appendix A. Recommended websites

### **American Marketing Association**

*www.marketingpower.com*

A thorough website with useful resources such as articles, reports, a dictionary of marketing terms, case studies, and AMA publications.

### **Appalachian Center for Economic Networks, Food Ventures**

*www.acenetworks.org*

ACE Networks Food Ventures is a great resource for small specialty food businesses and the organizations that assist them.

### **The Chain Store Guide**

*www.csgis.com*

The Chain Store Guide is a leading provider of sales and marketing solutions for the retail and foodservice industries.

### **Food Distribution Research Society**

*fdrs.ag.utk.edu/*

FDRS is dedicated to the study, monitoring, and sharing of knowledge about changes in the global food system.

### **Food Marketing Institute**

*www.fmi.org*

Facts and figures, community outreach, food safety and security, government and public affairs, industry relations, retail management and operations, supply chain, technology, etc.

### **Dot Foods**

*www.dotfoods.com*

A national redistributor.

### **The Food Institute**

*www.foodinstitute.com*

Covers many topics in the food industry.

### **The National Association for the Specialty Food Trade**

*www.specialtyfood.com*

NASFT is a not-for-profit business trade association established in 1952 to foster trade, commerce, and interest in the specialty food industry.

### **Oregon Department of Agriculture**

*www.oregon.gov/ODA/*

### **Oregon State University Food Innovation Center**

*fic.oregonstate.edu/*

The Food Innovation Center offers access to important services for food producers, processors, marketers, and entrepreneurs. It operates through a partnership between Oregon State University and the Oregon Department of Agriculture.

### **Organic Trade Association**

*www.ota.com*

OTA is the membership-based business association for the organic industry in North America.

### **Progressive Grocer**

*www.progressivegrocer.com*

A magazine and website resource with information on the grocery industry.

### **Smart Marketing, Cornell University, Horticultural Business Management and Marketing**

*hortmgt.aem.cornell.edu*

### **Specialty Food Resource**

*www.specialtyfoodresource.com*

Offers learning, growth, and profit-enhancing opportunities for anyone interested in producing, marketing, and selling specialty/gourmet foods.

### **Supermarket News**

*www.supermarketnews.com/*

A nationally circulated weekly trade magazine for the food distribution industry.

### **For more information**

*Food Distribution Channel Overview, EM 8921*

*Grocery Retailers in the Northwest, EM 8924*

*Using Food Brokers in the Northwest, EM 8922*

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/](https://extension.oregonstate.edu/catalog/)

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Visit the Food Innovation Center website at [fic.oregonstate.edu/](https://fic.oregonstate.edu/)

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## Appendix B. Distributor research form

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Company name

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Address

---

Phone

Fax

---

Website

---

Years in business

Recommended by

---

Contact name

---

Contact e-mail

---

Contact title

Contact phone

---

Area of coverage

---

Food categories

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Service highlights

---

Marketing programs

---

Current manufacturers

---

Retail customers

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Supplier requirements

---

Form/contract requirements

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Start-up fees

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Additional fees

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Comments

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