Guide to

Distribution for Food and Drink Producers in Ireland

Bord Bia
Irish Food Board

Contents

1. Foreword

Distribution is a huge challenge for small food and drink producers in developing a business. To sustain a competitive business advantage, distribution must be recognised as a key part of an integrated and well managed supply chain encompassing all stages of the process from production right through to the end consumer.

As part of its strategy of assisting small businesses to grow, Bord Bia has produced this practical guide to the various distribution options available. The guide provides tips on how to choose and manage a distributor best suited to a company's individual products and markets and addresses ongoing issues faced by companies such as the complexity of distribution management, issues of scale, cost, location and strategic planning.

According to recent Bord Bia research, many small businesses in Ireland do not fully grasp the scope and potential of distribution or its function within business growth models. The guide aims to address this by providing up to date information on how to successfully integrate distribution management into the overall business strategy and by examining distribution models in the context of the Irish market.

Effective and efficient distribution practices are critical to build and develop sales. This publication provides targeted assistance, which I hope will assist food and drink producers in a very practical way to identify growth opportunities.

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2. Market Overview

Introduction

The Irish retail and foodservice market has changed significantly over the last 10 years with the arrival of international players and a consolidation of Irish operators. Retail customers are now offering a range of formats, varying from the local, independent, specialist delicatessen, to symbol group retailers, right through to large-scale multiple retailers.

The foodservice market has also changed and is now dominated by Irish operators who have streamlined their businesses in recent years. They offer a professional service to clients with increased product ranges and additional services such as daily deliveries. The foodservice sector is made up of local distributors and a few national distributors capable of handling large volumes.

These changes have radically altered the way small food producers deliver their products to market. There has been a growth in central distribution centres, electronic ordering, category management and a host of other tools and supports. These processes are relatively new to the market and in some cases can seem confusing to food producers.

Structural change

To cope with increased complexity of the market and the need to reduce costs in an increasingly competitive environment, larger retailers began to centralise many functions including:

- The creation of orders
- The layout process within shops (category management)
- Warehousing and delivery systems
- Electronic communication with suppliers
- Electronic payment for goods received
- Negotiation for price and promotions
- Data management

Small food companies identified these changes as challenges and, in some cases, saw them as a barrier to entering the market due to limited resources and a lack of expertise. Some companies decided to concentrate on local markets and direct store deliveries to the various symbol and independent shops. Others have successfully entered the wider market by supplying multiple retailers and foodservice operators.

Implications of structural changes

For some food producers, such changes have brought access to a new, wider market, along with financial gains. These changes have also brought challenges to the marketplace through:

- Increased competition in price and quality
- The shrinking of a nationally available independent distribution network
- Increased competition for supply of products
- Increased power of retailers and foodservice distributors
- The perception that it is necessary to be able to supply a product in bulk before entering the marketplace
- Continuous requirement for innovation and development of product
- In certain instances a loss of control of the supply chain
- The rationalisation of product ranges
- Enforcing quality and food safety requirements

The introduction of centralised distribution systems has brought a number of benefits, including:

- Instant access to a large volume market for producers
- The fact that food producers no longer need to distribute to every single store
- Less of a need for a sales force
- Additional profits for food producers if they can successfully manage this market
- An ability for food producers to diversify into new markets (e.g. moving from retail into foodservice) with relative ease

This guide provides an overview of the various options available to help you to make an informed decision about distribution. There are many trade terms used in connection with distribution and these are explained in a glossary of terms in Appendix I.

3. Overview of the Supply Chain Process

Introduction

Distribution is a fundamental part of the supply chain, from production right through to the consumer.

It encompasses all the elements within that process which include:

- Inward raw materials
- The production process itself
- Outward logistics
- Distribution of the product through the various channels
- Getting the product on to the shelf

Each link in this chain is vital and one weak link can affect the whole supply process. Distribution cannot work effectively unless the complete supply chain works to its maximum potential. You need to view distribution as one link in a chain, which requires the other links to function correctly.

Critical factors in the supply chain

While there are many elements within the supply chain, there are some critical factors which must be in place. These include:

■ Data

As producers move from supplying small individual shops to supplying multiple retailers or large foodservice distributors, accurate data is needed. The maintenance of, and priority given to, this data will determine the success of a producer's products in travelling through the supply chain.

It is essential for Irish food and drink producers to comply with the data requirements of distributors, retailers and foodservice companies. This will continue as more distributors, retailers and foodservice companies adopt more integrated computer systems and processes. The key to dealing with these companies successfully is prioritising data management and the availability of accurate data.

Inaccurate data can lead to communication difficulties between all the trading partners. It can result in the loss of orders and, ultimately, a loss of sales. To ensure efficient and effective communication about a product and its replenishment, trading partners need common data. Retailers will require producers to use the following:

- **GTIN** – Global Trade Item Number at the consumer unit level – This is the product barcode
- **GTIN** – Global Trade Item Number at the traded unit level (case, carton, inner and outer) – This is the case bar code
- **SSCC** – Use of the Serial Shipment Container Code – This is for pallet distribution

While it is not difficult to implement these codes, there is a need to maintain this data accurately once it is established. Most incorrectly transmitted information arises where product details have been changed. Examples of such changes may be:

- Introduction of new product
- Change of packaging
- Promotional packaging
- New flavours, brands or variants
- New customers or distributors
- Multi packs and banded packs
- Change to product ingredients or specifications
- Change in place of manufacture

It is vital for producers to ensure that all data provided to distributors, retailers and foodservice companies is accurate.

■ Communication

Difficulties within the supply chain may be caused by poor communication. It is important to communicate with all trading partners (distributors, retailers, etc.) within the supply chain to ensure continuity of the process (e.g. when planning a promotion it is essential to fully brief both the retailer, so they can increase their order, and any suppliers of raw materials so they can meet the demands of increased production).

■ Forecasting

Receiving orders from local shops/hotels etc. may be as simple as the manager telling you what is required. This process becomes more complex as the retailer or foodservice outlet expands. Forecasting is an automated process used by the larger retailers/foodservice distributors to predict the levels of stock required. These forecasts are then transmitted, usually electronically, to the producers.

When supplying a distributor, either a multiple retailer or foodservice distributor, forecasting sales can be complex. It is important to understand how each of your customer's forecast systems work in order to maximize sales opportunities. While the forecasting systems are automated, there is room for error. You should maintain a relationship with the forecast manager for your category so that you can monitor progress and input where appropriate.

■ Building and managing relationships

It should be a priority for all small food producers to maintain constant contact with all trading partners within the supply chain. This will require regular meetings, feedback and a continuous improvement process in place to ensure that your sales and distribution network perform to maximum potential.

■ Promotions

Promotions can be one of the main reasons for "out of stocks" within the supply chain. In order to maximise sales through promotions, producers should have a best practice model in place to include the following:

i. **Annual promotional calendar:** Ideally promotions should be planned on a quarterly or annual basis. This allows raw material suppliers, production teams and the retailers to maximise sales and ensure the promotion runs smoothly.

ii. **Communication process:** Send your promotional calendar in advance to all trading partners involved.

iii. **Buy in/sell out:** Before a promotion begins, a distributor or retailer may need to build up a surplus of promotional stock. This is referred to as the "buy in" period and may begin up to three weeks before the start of the promotion. The duration of the promotion is called the "sell out" period.

iv. **Pack sizes:** If the size of a regular product is increased, (e.g. 25% extra free) as part of a promotional offer, this new-size pack will be regarded as a new product by the distributor and the retailer and will require a separate listing. In the future this pack size will be activated/deactivated according to the promotional cycle.

v. **Promotion success:** The success of each promotion should be measured by analysing sales and profitability. Key lessons from each promotion should be noted for future reference.

Key Account Management

Within the supply chain the term "key account management" refers to how a company manages its customers (i.e. retail/foodservice accounts). As key accounts grow, producers will need to have greater input as well as developing certain skills.

Key account management skills can be self-assessed under the headings below. Complete the following using the scoring system to assess your own position.

Rate your own skills between 1-5, where 1 is very poor and 5 is excellent (0=no skill in this area)

Question	Rate 1-5
Can you negotiate professionally?	
Do you manage the sales process within your business?	
Do you fully understand the retail/foodservice/ wholesale market and current trends?	
How well do you understand your target market?	
Do you have a structured innovation process within the business?	
Do you actively manage customer relationships within your business?	
Do you understand your competitors?	
Total Score out of Max 35	

Based on the score received, the indicator below will help gauge the size of the opportunity available to the producer's business. Do not be alarmed if you receive a low score, there is an opportunity to increase sales by improving the key account management skills in your company.

Score	**Size of Opportunity**
Less than 23	Considerable sales opportunities
23 to 30	Average process in place, but currently missing significant sales opportunities
Greater than 30	Strong process in place, but some improvement still possible

The consumer

Understanding the consumer is one of the most critical steps within the supply chain and should direct overall business strategy. The following questions will help assess consumer understanding:

- Is the consumer a key element of your overall business strategy?
- Do you conduct regular consumer focus groups or encourage feedback from consumers?
- Do you use the Bord Bia market information service or research from other sources?
- Do you ask consumers, either in retail stores or foodservice outlets, for their view on your product?
- Have you a clear understanding of the sort of consumer who is using your product?
- Have you investigated other segments of the market that you are not currently targeting?
- Do you organise consumer tasting panels to assess how well your product performs and also to compare it to your competitors?

Summary

After examining the supply chain process in detail, it is important for a food producer to assess its performance in this critical area.

When exploring different distribution options, it is worthwhile noting that for distribution to work efficiently, all other elements of the supply chain must function correctly.

4. Possible Channels to Market

There are many ways for products to reach the market, including:

- **Farmers' markets:** This is one of the most straightforward routes as it involves direct input from the producer with minimal distribution requirements.
- **Independent retailers:** A number of independent retailers around the country operate one or two shops only. This can be a simple route to the consumer for a small food producer, with minimal distribution requirements.
- **Specialist shops:** Some specialist shops and mini chains, which are particularly suitable for artisan products and small food producers, have emerged. Supplying these outlets can be relatively straightforward as they are single site or small chain operations.
- **Multiple supermarkets:** A food producer can reach a large number of outlets by supplying the multiple supermarkets. There is also the possibility of using the central distribution operation of some retailers to supply product to their outlets. Many of the multiple supermarkets now allow small food producers to supply one or two local branches in order to build sales and production levels.
- **Symbol groups direct:** Some symbol groups allow limited deliveries directly to some branches without having a deal with their head office. In such cases, producers deal directly with the local branch and manager. This can also be the first step to building confidence and gaining experience so that producers can supply more outlets in neighbouring towns.

- **Symbol groups central billing:** As the distribution network grows it may become difficult for a producer to manage invoicing and distribution to individual outlets. In this case producers may choose to deal with the appropriate head office that will list the product centrally and arrange payment on a monthly basis. Retailers will charge a fee for this service. However central listing is no guarantee that individual branches will stock this particular product and the producer will have to market its product to each local manager. You may also find that if you supply a significant number of outlets directly within a symbol group, the buyer may require you to list the product centrally.
- **Foodservice direct:** Some producers choose to supply local restaurants or hotels directly. However this can be highly complex and sometimes it can be difficult to manage orders and payments.
- **Foodservice distribution company:** By appointing a foodservice distributor, producers could achieve a wide and efficient distribution network for their products.
- **Hampers/gifts:** The hamper and gift market can be an attractive sales channel if the product is suitable, as well as being relatively straightforward for distribution.
- **Airports/ports/shopping outlets:** Producers may decide to supply suitable products to airport shopping outlets and passenger ferries.
- **Cash and carry:** Some of the more progressive cash and carry operators provide producers with a structured route to market.

5. Distribution Options

Introduction

Distribution covers both the physical movement of goods and the establishment of intermediary relationships to guide and support such product movement. Distribution must be seen as a key part of an integrated and well-managed supply chain, with sufficient data flow. Before choosing a method of distribution, producers need to understand the direct relationship between the chosen distribution model and the expected level of sales. Successful distribution is intrinsically linked to the level of a company's sales. Therefore distribution is a critically important part of the business strategy and must be seen as central to success.

Successful Distribution = Sales Growth

There are many distribution options available. These include:

i) Producers' own transport

Many companies start by buying a van, as it is a simple way of getting product to market, with the owner retaining full control. As the business grows, however, this can become a drain on resources. Often the company will end up with several vehicles, none of which runs to full capacity.

Producers should be aware that there is a significant cost in running their own vehicle, with the average cost of running a van and driver calculated at more than €60,000 per year (based on research conducted by Bord Bia in July 2007). If producers decide to use their own vehicle, they need to take account of all associated costs (See Chapter 6, Cost Model).

Producers should consider the following positives and challenges before deciding to buy their own vehicle:

Positives

- Simple and uncomplicated
- Producer has full control over the distribution
- Potentially cheaper and more straightforward
- Flexibility to put on extra deliveries/change times at short notice
- Customer feedback from your own staff driving the van/truck is immediate

Challenges

- Can be a major distraction away from the core business activity
- Insurance, fuel and driver overheads can be costly in today's market
- The spread of customers can necessitate two or more vans because the delivery area is so broad
- A member of staff will be permanently away from the core business
- The vehicle is not always full to capacity and is therefore uneconomical
- Limited by location and the number of vehicles
- Can create an inward-focused culture to distribution
- Can prevent the producer from considering third-party distribution options, which could provide national coverage and greater sales growth

ii) Contract transport/haulage companies

Many small food producers decide to concentrate on the production and sales of the product. They take the view that distribution is not their core competency and therefore outsource the transport to a haulier.

Positives

- Transport is carried out by an expert in haulage
- The producer is free to focus on production and sales
- It may be possible to pool resources with neighbouring food producers to get better rates
- It may provide an easier solution to finding chilled and frozen distribution
- The producer does not have to worry about the transportation process
- Many transport companies already distribute for other food and drink companies and understand the needs of food producers

Challenges

- Contract drivers adopt a "drop and go" system and do not have ownership of the product
- Costs can be significant, particularly if the haulage company is inefficient
- It can be difficult to make last-minute changes to delivery schedules
- Flexibility may not be as good as with your own transport
- Producer does not have control of transport
- Minimum quantities may be required
- A fork lift may be needed for loading

iii) Distribution company

Selling your product in the market place and dealing with the main retailers and foodservice companies (key accounts) can be daunting. Some food manufacturing companies see it as an area beyond their expertise. Instead of handling this role themselves, they appoint a distribution company to manage both the selling and transportation of their products into the market place.

Positives

- Very often, the distribution companies have strong contacts and relationships with buyers which can make new listings easier
- Being associated with a good distributor can give a positive impression of a food producer to the customer
- Some distribution companies have an aggressive sales strategy which could bring substantial sales growth to the small food producer
- Distributors usually have a national network which allows the producers' products to reach parts of the country which would otherwise be inaccessible

Challenges

- Many small food producers relinquish all management of the key accounts to distributors, which can be a mistake
- If with a larger distributor your product may be one of many products that they stock
- Sometimes there can be a gap between supplier service expectations and delivery thereof.

iv) Distribution centres

The principle of this model is that the food producer is only responsible for dropping its product to one central depot, either a retailer's or that of a foodservice distribution company. The retailer or foodservice distribution company then distributes it to the relevant outlets. This can seem complex to some food producers, but with some simple preparation (ensuring that supply chain elements are in place) it can be an attractive route to market.

Positives

- The retailer or foodservice distribution company takes full responsibility for all distribution
- Deliveries are frequent and can suit products with a short shelf-life
- It leaves the producer free to concentrate on sales and marketing
- It is an instant solution which can provide national market coverage overnight with access to a wide customer base

Challenges

- The retailer may charge the producer for providing this service (this may be shown as an extra charge or built into the retailer margin)
- The small food producer loses complete control of the distribution process
- The procedures and protocols can be complicated
- The small food producer may have to transport stock to the distribution centre
- The systems and processes can be rigid and may not suit some product types, particularly those with small volume

Issues to consider when dealing with a distribution centre

- Barcodes on outer cases are required
- Pallet types vary so you will need to know what pallets the distribution centre uses
- Pallets have to be built in a particular way e.g. one product type per layer with a maximum of four product types per pallet. You will need to check this requirement with the individual retailer
- If pallet heights change you must notify the buyer
- Temperature controls are strictly monitored by distribution centres and products which fail to meet the requirements will be rejected
- You must guarantee a minimum shelf-life on your product. The distribution centre will reject any product that does not meet this requirement
- Your vehicle must be compatible with the docking bay at the distribution centre (in some distribution centres there are no fork lifts and you must unload via a docking bay)
- You can only deliver to distribution centres on specified delivery days and within certain timeslots

v) Backhauling

Backhauling is using empty legs of return journeys to collect product for delivery. Ideally, the destination should be the original point of departure or as nearby as possible. The incremental cost of using this type of distribution is marginal and therefore can be highly lucrative in reducing distribution costs.

Nonetheless, it is very difficult to identify appropriate collection points that suit the distribution schedule. Retailers mostly use backhauling for collections after a store delivery, with product being brought back to the central depot.

Other likely targets for backhauling are:

- Raw material suppliers to your own company
- Packaging suppliers
- Materials and supplies
- Deliveries made to any nearby retailers, producers, processors or distributors

With the incremental cost of backhauling being so marginal, every backhauling arrangement can be highly lucrative and well worth the effort.

Case study

- Let's presume that there is a successful jam producer (JamCo) with its manufacturing premises in Limerick.
- Each week, JamCo orders and receives jam jars from a jam jar company (Jars Ltd) based in Cork.
- However, each week, JamCo makes a delivery to a speciality food store also based in Cork.
- After the Cork deliveries, the JamCo truck normally returns empty to the Limerick premises.
- Rather than return empty, the option is to collect the jars from Jar Ltd.
- The extra cost to JamCo is whatever extra mileage the truck must travel and the driver's wages.
- However, the savings should far outweigh this. JamCo is now carrying out the transportation for Jars Ltd and will seek to renegotiate the cost of the product by the perceived distribution costs (mileage and driver time) between Cork and Limerick.
- The phrase for this negotiation is called "factory gate pricing" (i.e. the cost of the product. without delivery costs).

vi) Couriers

In the earlier stages of developing a business many food producers, particularly smaller ones, are unable to reach the entire national market. Couriers can be a solution to this problem, particularly with smaller volumes of product.

While couriers specialise in the speedy movement of products, there are costs associated with this. Courier companies need to be carefully selected as the service can vary from one company to another.

Positives

- It is a quick way to get products to market
- It allows the producer to reach geographic areas previously uncovered
- It may avoid the necessity to provide your own transport

Challenges

- It can be expensive per case
- Very often no temperature control is available
- Producer loses control of distribution

vii) Cash and carry

Until recently, many food producers have not seen cash and carry as a route to market, especially those in the chilled sector. However, the more progressive operators are now an attractive option with some resembling large supermarkets for trade customers.

Positives

- Have a strong reputation in local markets
- Many have their own sales reps and delivery vehicles in their own catchment areas
- Some undergoing a revival

Challenges

- Limited geographical coverage
- Seen by some as out of date
- Producers must get product to location of cash and carry

viii) Pooled/collaborative transport

The key challenges facing small food producers in Ireland usually relate to both scale of business and location. Many Irish food producers are producing artisan products on a small scale and struggle to distribute them efficiently.

While a large percentage of the population is in the Dublin area, many food producers, particularly the smaller ones, are rural based. Outlying locations, coupled with less than adequate infrastructure, can increase the cost per unit of distribution.

Some small food producers are now pooling their transport with neighbouring companies. They share the burden of transport, based on the same destination and sharing the same customers.

One option is to share all deliveries; another is where one producer has no transport but pays another company to transport its product, thus making the operation more efficient for both companies.

For this type of distribution to work successfully, the producers involved will need a shared vision. The rewards can be significant, with a decrease in the cost of distribution per case for all producers in the pool i.e. those providing the distribution function as well as those awaiting the service.

Successful pooled transport requires a high level of commitment and trust from the participating companies. This option should be considered before appointing a distributor or expanding one's own transport fleet.

Positives

- The system can be flexible and may be adjusted to meet the needs of participating companies
- Distribution costs are lower than other options
- Producers maintain control

Challenges

- Potential loss of control if producer has no vehicle
- Still requires planning by the producer

Selecting a partner for collaborative distribution

Issues to consider are:

- **Location:** Ideally, consider partners nearby. These may be producers, processors or distributors.
- **Similar products:** Choose producers with products of similar temperature or product characteristics.
- **Similar distribution:** Choose a partner who has the same consumers or delivery routes to same areas.
- **Trust:** Partners need to ensure they can keep their word and stick to the terms agreed with others within the pool.
- **Long-term outlook:** Partners should have a common long-term vision of company and sales growth.
- **Share information:** The more open each partner is to sharing cost information, the more each member of the pool will learn from each other, thus strengthening the relationship overall.
- **Shared performance measures:** Take a fresh look at your overall supply chain with your partner as it can often reveal opportunities that had never been considered before.
- **Shared consumer focus:** A common strong consumer focus can create the bond that helps partnerships through difficult times, and assist with decision making.
- **Agreement:** It is important to have a written agreement that clearly sets out the terms of the collaboration.

Benefits of collaborative distribution

- Reduces distribution costs through maximising truck capacity.
- Can reach a wider market and therefore provide access to new consumers.
- Leads to increased production cycles to maximise product shelf-life and therefore improve product quality and taste.
- Should increase delivery frequency to consumers, ensuring greater product availability, less out-of-stocks as well as fresher and better quality product.
- Ability to react quickly to unexpected orders.
- Once established new partners may be attracted into the pool which would provide greater economies of scale.

ix) Networking

Networking with other producers is essential if you are to succeed as a small food producer. You need to contact other producers with a shared view, whether or not they also produce food. It is the shared knowledge and ability to tackle issues together that is important. It is helpful to be involved in one of the many producer groups established throughout the country, in particular in relation to distribution. A list of local food networks can be found through the Rural Food Skillnet or the Irish Leader Network (contacts provided in Appendix VIII). The combined knowledge of a number of companies and the ability to collaborate can help give your business a competitive advantage.

x) Load share

While pooled transport usually involves companies of a similar size located in the same geographical region, load share involves a large established food producer teaming up with one or more smaller food producers in the same geographical area, for the purpose of providing a distribution service. The advantage for the smaller company is that it is able to benefit from the experience of the large food producer and tap into a well-established distribution model.

The larger food producer may supply a "wheels only" solution and may assume a key account management role for the smaller producer. Increasingly large food producers are willing to support smaller food producers with regard to distribution.

xi) Appointing a regional distributor

Appointing a regional distributor can be a way for a small food producer to service a larger local market than might otherwise be possible. As well as servicing a larger local market, it can also be a first step in learning the skills necessary to manage a distributor. (See Chapter 10, Managing a Distributor.)

Regional distributors frequently have strong contacts in their catchment areas and are an ideal way to distribute product to a wider customer base.

xii) Appointing a national distributor

Many producers find themselves with a successful product and spare production capacity. This may be an opportune time to consider the appointment of a national distributor.

A national distributor offers a wide range of services and has an extensive fleet, which can be used to achieve national coverage for your products.

xiii) Appointing a foodservice distributor

The foodservice sector is complex with an extensive customer base throughout the country. Foodservice distributors have very specialist skills, including:

- Large telesales teams to take orders
- One-day turnaround of orders at a national level
- Facilitating chefs to place late orders
- Understanding and anticipating the needs of chefs and foodservice operators

Many companies fail to recognise the potential of the foodservice sector. With foodservice sales of €5 billion in 2006 (source: Mintel 2007), this sector offers significant opportunities to small food producers.

There are different requirements when supplying the foodservice sector. These include:

- Pack sizes may vary from those used in the retail sector
- Prices remain static for the duration of each season's catalogue
- Brand names are not always important in this sector
- Prices can be highly competitive within some food categories as they are seen as commodities

Choosing the best option

In conclusion, there is no hard and fast rule about which distribution method is best for any company. In the early stages of business, most small food producers prefer to have greater control over their product by managing their own distribution. However, before producers invest in their own transport, all distribution options should be considered.

Some key questions to ask yourself are:

- Who are your key customers and where are they located?
- Have you got expertise in distribution/sales?
- What is the cost per case of using own distribution versus that of contracting a courier, distribution company, haulier, etc?
- What will the overall cost be on an annual basis for running a van, driver, insurance, etc?
- Does your company need a "wheels only" option or do you require sales and marketing services from a third party?
- What are your company's plans for market growth or expansion?

6. **Cost Model**

Recent Bord Bia research among distributors and buyers demonstrates that small food producers can be weak on cost models, due to inaccurate costing and a lack of expertise in this area. You need to ensure that your **cost model template** shows all the costs associated with the production of your product as well as the distribution costs.

The first step is to calculate accurately the **production costs** of the product for inclusion in the overall cost model. It is difficult to estimate true costs in the earlier stages of business as volumes can be small and there could be a risk of over-pricing the product. It is also critical to allow for sufficient profit so that your business is in a position to reinvest on an ongoing basis.

Your cost model will need to take into account the **factory gate price** as well as the **cost of selling and marketing** the product. If the product is innovative then significant funding will need to be allocated for the purpose of communicating its USPs (Unique Selling Points) to the consumer. Producers need to consider if a high marketing budget is appropriate to their product.

The cost model requires producers to input the costs associated with their chosen distribution method. Remember if the product is being transported from the producer to the distributor then this cost must also be included.

Finally, producers need to anticipate the customer's margin e.g. rebates (LTA), in order to calculate a realistic selling price which consumers are willing to pay.

Adapt the cost model template on page 66 to your own product and ensure that all costs associated with the production and selling of the product are included.

Typically distributors and other buyers would make the following observations on pricing difficulties they encounter with food producers:

- The food producer gives the customer a cost price before appointing a distributor and subsequently discovers that this cost price will not support the cost of distribution.
- On probing the cost model with food producers, distributors often find that the model is inaccurate with some key costs missing.
- Buyers and distributors have also commented that some producers are slow to embrace technology in order to keep the cost of the product efficient (e.g. using hand-held delivery systems as opposed to delivery books).

7. Choosing a Distributor

Some food producers appoint the first distributor they meet or simply someone whose name they know.

It is advisable to talk to a number of distributors before choosing the most suitable operator for your product. In order to appoint the most suitable distributor there are a number of key steps to follow:

- **What is your target market?** Be very clear on which markets you want to target, taking into account your own company's strengths and weaknesses.
- **Gather background information:** Collect as much background information as possible in order to have adequate knowledge when selecting the best candidate.
- **Talk to the trade:** Hearing the experiences of others can help you make the right choice. Don't be afraid to talk with other producers, buyers and store managers.
- **Research the market:** The best way to see how a distributor handles products in the market place is to take a look at its overall performance. This will also give you an idea of how your own products could fit into its portfolio.
- **The checklist:** To gather all the relevant information needed there are a number of key questions which will need to be asked, including length of time in business and sectors serviced. (See Appendix II for checklist.)
- **Compare and contrast:** To decide on your ideal partner, you need to compare the qualities of all prospective distribution companies. A good way of doing this is a comparison chart, which lists the key qualities of each operator. (See Appendix III.)

- **Deciding on your distributor:** The decision-making process can be complex due to the diversity of distributor services offered. It may help to prioritise the services offered and make the decision based on the distributor who provides the offering best suited to your product, needs and market.

  Services offered by different distributors vary widely, as do the associated costs with providing these services. Some of these services include:

  - Meeting with buyers
  - Merchandising service
  - Distribution service
  - Sales representative service
  - Forecasting and replenishment
  - Handling returns/damaged product
  - Managing promotions
  - Training retail/foodservice staff on how to handle the product
  - Exhibiting at trade shows
  - Provision of weekly sales reports

  A food producer needs to decide which of these services it requires and then choose its distribution solution accordingly. It is important for the producer to recognise what services the distributor as is offering, as well as the cost.

- **Be confident:** Emphasise what your company can bring to the table when in discussion with any prospective distributor. Remember it is a partnership – so while you need a good distributor, the distributor also needs a good supplier.

It is important to review your distributor and the level of services provided on a regular basis.

8. General Negotiation Guidelines

Whether negotiating directly with a retailer/foodservice outlet or making a deal with a distributor, it is important to understand the dynamics of negotiation. The following are general tips that may help:

- **Prepare:** The secret to success for any meeting is preparation. You need to ensure that you have done plenty of research in advance.
- **Know the buyer/distributor:** It is vital that you find out beforehand who you are meeting, as well as being familiar with the company background. If it is a company that you want to be listed with, you should, at the very least, conduct internet research on the company, the type of products it sells and how it operates overall. It is also strongly advisable that you visit at least one of its stores in advance of the meeting.
- **Calculate your prices:** A fundamental mistake made by many food producers is not working out a robust cost model in advance. You need to spend considerable time working out the cost price for each product. You should have:
    - An ideal price
    - A fall-back position if you are under pressure to concede
    - A walk-away position representing a price below which you will not go
    - You cannot insist on a retailer selling your product at a specific retail price, as this is illegal under section 4 of the Competition Act, 2002. You are entitled to suggest a recommended retail price, which is an indicator of the selling price that the consumer is most comfortable with.
- **Samples:** Make sure you bring samples to the meeting. This will allow the buyer/distributor to see the product and view your packaging and labelling.

- **Talk to other manufacturing companies:** A good source of information about the buyer and the company he/she represents is by talking to other producers who are suppliers.
- **Research:** It will help you significantly if there is a piece of market research or new information which you can share with the buyer/ distributor. Some possible sources include Bord Bia, internet, etc. This will help to differentiate you from other producers.
- **Know the category:** You must give the buyer a clear impression that you know and understand your category and competitors extremely well.

The meeting – practical tips

- **Take control:** When you meet the buyer/distributor, it is advisable to take control of the meeting if at all possible. You can do this by saying something like, "I have prepared a presentation about my business and would welcome the opportunity to take you through it", as this will help you appear confident to the buyer. However, it is important to ensure that you are not overconfident as this can be misunderstood.
- **Presentation:** You will usually have no longer than 45 minutes with a buyer/distributor so you need to be very concise in the key messages you wish to get across. This means material must be prepared in advance. It can be presented through PowerPoint on your laptop computer, printed PowerPoint slides or a word document. (Do bear in mind that the buyer's time is limited so make sure you deliver a concise message.) You should take no longer than 10 minutes to present and this should include:
  - An overview of your business
  - History and key milestones
  - What is unique about your business and products

- What solutions, commercial support and the other benefits you can bring to the buyer/distributor
- What your company can do for the buyer's company
- Your overall reasons as to why the buyer should list your product

- **Unique selling points (USPs):** There is no point in going to a buyer/distributor with the same message as your competitors. You simply will not be successful. It is therefore vital that you are crystal clear on what is unique about your products and business. In other words, why should the buyer list your company's product over the current ones that are already in place? The uniqueness of your product should be examined under the following headings:

  a. Taste
  b. Provenance (the story of where the product comes from)
  c. Quality assurance (authenticity)
  d. Food safety
  e. The type of packaging you use
  f. The service levels you will bring to the buyer's company e.g. daily delivery, etc.
  g. Local sourcing
  h. Fresh
  i. In season
  j. Organic (as certified by the relevant organic certification body)
  k. Innovation

- **Appearance:** Remember that your own personal appearance is a statement about your company. Look professional, smart and business-like.
- **Be confident:** It is important that you are a clear and confident communicator but not overconfident.

- **Ask plenty of questions:** The buyer will obviously have specific questions for you and you will also need to have prepared lots of questions. This will be viewed positively by the buyer.
- **Notes:** Take plenty of notes during the meeting, to help you to be clear on what has been agreed.
- **Negotiation:** While it is unlikely that any serious decision will be made at the first meeting with a buyer/distributor, you need to have thought through the various concessions you are willing to trade off and at what point you will raise these at the meeting.

  The golden rule is never to give anything away without looking for something in return, (e.g. if the buyer/distributor requires you to drop the price of your products to secure a listing, you could suggest to the buyer that in return for the lower price you might be listed in 12 shops instead of 6). If the buyer is anxious to close the deal with you there and then, it will be vital that you have all the information necessary to make this decision. Be sure to bring your price file, calculator and any other relevant information so that you are in a position to make an informed decision.
- **Stay cool:** Meetings can become tense, especially if there is a possibility that you are about to secure a large deal. If you are under pressure to work out prices at the meeting, it is perfectly acceptable to ask the buyer/distributor to break the meeting for 15 minutes to allow you to work out some prices or possibly call your office for some further details.
- **Summarise:** At the end of the meeting, you need to summarise what the next steps are, or what you have just agreed with the buyer, to avoid any confusion.
- **Email:** It is always best practice, on return to your office, to email the buyer with a very brief summary of what was agreed at the meeting and what the next steps will be.

9. Agreement with Distributor

Having compared potential distributors and chosen the most suitable operator, it is important to have an agreement that sets out how the partnership will progress.

Failure to draw up such an agreement could result in misunderstandings.

Appendix IV sets out a guideline on possible topics you may wish to include in an agreement. You should include a number of key points in your agreement:

- A list of all the services the distributor will provide
- A clear outline of the expectation of sales that will be achieved and weekly and monthly targets demonstrating this
- A list of target retailers and foodservice operators which you expect the distributor to seek listings in
- A clear outline of how the distributor will charge and the frequency of payments. Special charges (e.g. brochure entries and promotional supports should also be set out so that it is clear who is carrying the cost)
- It is always advisable to have an agreed procedure for resolving disputes that may arise between the distributor and producer

10. Managing a Distributor

To achieve maximum commercial success, both producer and distributor will need to work at developing and progressing the relationship.

Many companies, once they have appointed a distributor, ignore the management process, leaving the distributor largely unmanaged, without any measurement in place.

Professional distribution companies welcome the involvement of the food producer. It should be a partnership, with both companies in regular contact, striving to grow and develop sales at every opportunity.

Tips for managing a distributor

- **Targets:** For an effective business partnership with the distributor, sales measurements must be in place. Setting annual targets for quarterly review with the agreement of the distributor is the most effective way of achieving this. All targets/reviews, etc. should be documented in the agreement.
- **Keeping control:** It is important to remember that although the distributor is the producer's representative, producers should maintain the relationship with the buyer at key account level. You should be meeting the buyer with your distributor at key meetings throughout the year. It is vital that a producer maintains strong connections with buyers and should be attending all initial buyer meetings together with the distributor. Most distributors encourage this as producers can communicate the authenticity of the product with real passion. Allowing a distributor to be the only point of contact with buyers is not in the best interest of the producer. It is also important to attend any review meetings which take place throughout the year in order to hear first hand the buyer's views on your product.

- **Relationship with your distributor:** It is important to keep the channels of communication open with the distributor, allowing both parties to raise any issues or concerns. Ideally, contact should be made on a weekly basis, to develop a focused relationship with the distribution company's account manger.
- **Weekly sales report:** Distributors should provide a detailed weekly sales report showing sales performance versus targets. This report should also list all the retailer/foodservice outlets where a producer's product is currently stocked.
- **Quarterly review meeting:** It is vital to review progress with the distributor once per quarter at a formal meeting, where sales performance and targets are compared. The objective of this meeting is to review progress based on results achieved and to alter targets as well as overall strategy, if necessary.
- **Annual senior review meeting:** An annual review is necessary to assess how the joint business is progressing and to identify business opportunities. It is also a chance to review goals and set objectives for the following year. Information on how to conduct an annual review with your distributor is contained in Appendix VIII.
- **Sales force meetings twice yearly:** A distributor's sales force is effectively the producer's sales team on the ground. It is worthwhile investing considerable effort in providing the sales team with relevant information and educating them about the product range. Briefings and product tastings for the sales force and telesales team can reap benefits and help to grow sales in the marketplace.

- **Annual price review:** While there must be an ongoing culture of price reviewing in the business, producers should ensure prices are reviewed at a minimum once a year as some increases in production costs will have to be passed on to distributors or retailer/foodservice customers. To be seen as efficient, a producer needs to demonstrate to its distributor that it has cost-reduction strategies to help absorb or deflect as many of these increases as possible. This will ensure that the distributor knows that only necessary costs are being passed on. It is important to remember that by accepting price increases from suppliers and service providers and not passing these on to your distributors, producers are automatically reducing their profits.
- **Review strategy (poor sales performance):** Despite the best efforts of both producer and distributor, sales do not always materialise as planned. This needs to be recognised and addressed with a new sales strategy for the product. Additional promotions, new listings, sales force reviews, fast track NPD (new product development) should all be harnessed to re-energise the relationship and drive sales forward.
- **Management by walking about:** Simply visiting retail outlets and foodservice customers, in order to see how your products are performing, is a valuable method of staying in touch with consumers and measuring sales performance. It also sends a strong message to the distributor's team that you are fully engaged at trade level.

11. Key Requirements for the Food and Drink Producer

Don't forget

Whether it is a distribution company, a haulier or a courier that is delivering product to the retailer or foodservice outlet, certain criteria are needed to ensure the distribution process works well. These include:

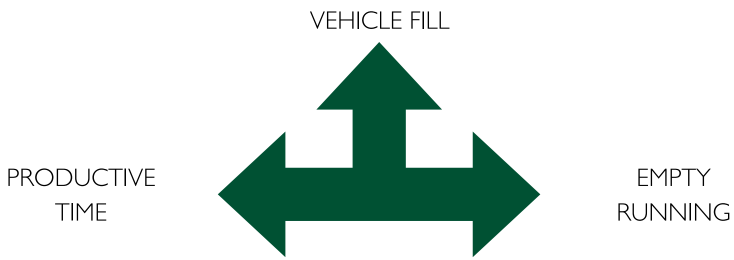
- Use a strong outer container.
- Cover vulnerable products with protective wrapping.
- Ensure products will not shift within the outer container while being transported.
- Ensure that there are clear lead times from production to dispatch so that both the producer and distributor are able to meet each other's production/delivery requirements.
- Ensure chilled product has adequate cooling agent when travelling in an unrefrigerated vehicle.
- Ensure that the haulier or distribution company has sufficient notice of collection dates and times.
- Ensure that the products are ready for collection at the agreed time.
- Ensure the haulier, distribution company or courier has all the appropriate customer details: address, telephone number, contact person, date and time of delivery, amount and type of product to be delivered.
- Ensure that lead times are sufficient to meet delivery slots.
- Ensure that outer cases are clearly marked for identification and that the outer bar code is visible.
- Develop a clear communication process so that information and data flows freely between producer and distributor. Communicate regularly and ensure data for sales/orders etc moves swiftly between both companies. Appoint a key point of contact in both companies.

Managing distribution costs

Continuous improvement will be required regardless of the method of distribution. Managing distribution costs so that they are as efficient as possible is an ongoing task.

Many Irish retailers and foodservice providers are changing the way they do business in order to be more efficient and improve product freshness. This means producers have to provide orders more quickly and at shorter notice, which inevitably requires changing the current use of transport.

When assessing the current transport system or when introducing change, the aim should be to maximise vehicle fill and productive time while minimising empty running of vehicles. Consideration of these **three key improvement areas** will allow you to assess the best balance of service, cost and minimised environmental impact.



i) Vehicle fill

Maximising the load of a vehicle is an obvious way to improve efficiency. There are many reasons for poor vehicle fill, including:

- Poor load building practices
- Small order quantities with individual products separated by "sandwich" pallets
- Lack of product volume to fill the vehicle
- Delivery schedule requirements can be inconsistent with maximising vehicle fill

- Lack of synchronisation between orders received and production activities
- Uplifts in promotional sales may not take into account transport constraints
- Location of warehouses, production sites, etc.
- Lack of adherence to pallet dimensions, load heights, etc. – efficient unit loads
- Weight limitations

Unit load optimisation refers to how full the truck is before setting off. No matter what size of truck is being used, you need to decide whether to use shelves or compartments or whether all product is placed on pallets, crates or roll cages. The best method will be that which allows the truck to be filled to capacity – from floor to roof.

ii) Empty running

Today, only about 10% of vehicles are running completely full, while between 30% and 40% are running completely empty, resulting in an average vehicle use of 50% (Heriot-Watt University, UK).

While improving vehicle fill will reduce the use of partially filled vehicles, reducing empty running focuses on reducing the number of trips travelled completely empty.

Reasons for trucks running empty include:

- Imbalances in delivery quantities between regions and customers
- Large variances in delivery quantities for each day of the week, particularly at the weekend
- Multi-temperature trucks make it more difficult to plan
- Delivery times demanded by customers
- Poor planning and scheduling

Delivery vehicles returning to base empty are a substantial source of transport waste and environmental pollution. The most effective way to reduce this is through greater collaboration between supply chain participants.

iii) Productive time

Productive time refers to maximising the use of the truck. It should be on the road, earning a return on its investment, as often as it possibly can. It is estimated that 60% of trailer time is unproductive.

Reasons for a loss of productive time include:

- Traffic congestion
- Delays in loading and unloading
- Poor planning of routes and delivery schedules
- Limitations on available delivery windows
- Time required for vehicle maintenance
- Access restrictions to Dublin, major cities, towns
- Limitations on operating hours – weekend, night-time

None of the above three target areas can be improved in isolation without considering its impact on at least one of the others, since links exist between all three.

For example:

- It may be better to have a truck wait for a return load than have it run back empty over a long distance.
- A better truck fill may require more time for loading and unloading.
- Vehicle fill can be optimised and empty running reduced by consolidating loads from partially filled trucks to full trucks, although this may increase handling costs. This could also incorporate pooling with neighbouring producers.

Measuring distribution costs

The overall target in reducing distribution costs is to achieve the best balance of service, cost and minimised environmental impact. Some measurements that can be used for this are:

- Total distribution costs as a percentage of sales
- Deliveries on time, in full without errors
- Environmental impact – monitoring kilometres per litre on a weekly basis may identify vehicles that are heavy on fuel consumption
- Congestion costs could become a feature in the future

Environmental sustainability

In recent years, environmental issues have become increasingly important on the food producers' agenda:

i. Some retailers now require producers to provide carbon footprints for products they supply.

ii. Local authorities are looking at ways to increase truck fills and increase vehicle efficiencies.

iii. Producers are trying new biofuels as a more eco-friendly solution with a cost benefit.

iv. Congestion charges are being introduced in the UK to limit vehicle usage.

v. Consumer awareness of food miles and carbon footprints has increased significantly.

The message for producers is clear: environmental issues will have a serious impact on your future business. Environmental sustainability must be part of your distribution strategy.

12. Summary

Distribution is the key to increased sales growth. It must be seen as a key element of your overall business plan. You have many options when choosing a method of distribution and you need to put considerable time and effort into choosing the right one for you. Collaboration with other producers may offer new opportunities and give your business a competitive advantage. Regardless of which option you choose, make sure you have explored every option before you make that all-important final decision.

Some questions to consider:

- Is distribution a key part of your overall business strategy?
- Have you reviewed the wider supply chain issues as part of your distribution strategy?
- Are you maximising all possible channels to market?
- Have you examined the various distribution options and identified which one (or which combination of options) is best for your business?
- If you are already using a distributor how good are you at managing its performance?
- If you are using your own transport, is there a possibility that its limited capacity is hindering sales growth?
- Are you collaborating with other producers to provide new distribution options?

Your ability to answer the questions above will be an indicator of how focused your distribution strategy is and equally how strong your sales potential is.

Successful Distribution = Sales Growth

The stronger the distribution model, the stronger the sales.

Appendices

Appendix I

Glossary of Terms

Name	Description
Agent	An agent will perform the sales function for your business. He/she represents your company and your products with retailer and foodservice clients, but does not usually provide a distribution service.
Backhaul	Backhaul is used when the distribution company or transport vehicle collects product from your premises and transports it back to its central distribution centre.
B 2 B	An abbreviation for "business to business" relationships.
Cash and carry	A cash and carry is a wholesale outlet where retailers and foodservice outlets can purchase product in bulk.
Category	A category is a group of products that are similar in usage and are grouped together in a manageable range e.g. a soup category will contain cup-a-soup, packet soup, tinned soup.
Consolidator	A consolidator is a company that specialises in handling small volume specialist lines, selling them on to the retailer. A consolidator is expert at managing products from small food producers and in some cases will even break down cases where smaller volumes are required.

Name	Description
Cost price	This is the price the producer charges the next company in the supply chain. This could be a distribution company or a retailer.
Courier	A courier is a specialist transport company that focuses on delivery of goods to specific customers and locations. It may offer a same day or next day service.
Cross docking	Cross docking is a system where products are packed by the producer into orders for individual retail outlets and sent to the distribution centre. Once at the distribution centre the product is moved through (as opposed to being stored) and loaded directly for delivery to individual customer outlets.
Direct store delivery	Also known as DSD, this refers to the process where the producer delivers product directly to the individual customer outlet.
Dolly	Used by retailers to transport product instore, this is a wheel-based unit onto which retailer crates/totes are placed for ease of transport within individual outlets.
Distribution	Distribution encompasses both the physical movement of goods and the establishment of intermediary relationships to guide and support such product movement.

Name	Description
Distribution centre	This is a large central facility that is stocked with products to be redistributed to a particular retailer or foodservice outlet.
Efficient Consumer Response (ECR)	ECR is an approach to supply chain management where retailers, suppliers and producers work together to meet customers' needs.
Electronic Data Interchange (EDI)	EDI is an exchange of documents in a structured form between the retailer and producer using internet or telephone-based technology. Types of documents transferred by EDI could include: - Orders (the amount of stock required) - Invoices (the bill for the stock sold) - Delivery dockets (proof that the stock was received) - Statements (an update on the bill outstanding) - Direct payment instructions (bills directly paid into the bank)
Electronic Point of Sale (EPOS)	EPOS is the data that is gathered each time a product is scanned through the till. This data is then used by retailers to create orders, build layouts, etc.
Factory gate pricing	This refers to the price of goods, excluding transport, at the point of leaving the production facility.
Haulier/haulage firm	A company that specialises in moving stock - sometimes over long distances.

Name	Description
Key Performance Indicators (KPIs)	KPIs are agreed measures used to monitor business performance. Examples are order fill rates and out of stocks.
Out of stocks	This occurs when a product is not available on the shelf for the consumer.
Outer case	This is the external packaging in which the product is packed while it travels through the supply chain.
Merchandising unit	This is a dedicated temporary unit used for the promotion of products and is usually funded by producer or supplier.
Pallets	As there are a number of pallet types (Blue pallets/Euro pallets), producers should check with retailers or distributors on what type of pallet is required. Blue pallets (GKN) are a standard recognised size and shape of pallet. You must also be registered with GKN to use its pallets. GKN is also known as CHEP Ireland.
Product lead time	This is the time between ordering a product and expected delivery time to the customer.
Proof of delivery (POD)	A POD is a delivery docket that the customer has signed to acknowledge delivery of stock.
Roll cages	These are lightweight metal cages that are used to transport stock within the distribution centre. They are also used on trucks delivering to individual customer outlets.

Name	Description
Sales based ordering	A sales based ordering system tracks the sales of each product and automatically places orders for new stock, based on sales to date. This system is predominantly used by retailers.
Stock Keeping Unit (SKU)	A SKU refers to one single item of product which is a unique line within a product range.

Appendix II

Distributor Checklist

As there are a number of key points to consider when choosing a new distributor, it is a good idea to have a relevant checklist. Your list will very much depend on your own requirements.

Some areas you may wish to measure:

- Time in business
- Sectors serviced (retail, foodservice, multiple, specialist, etc…)
- Coverage
- Facility
- Sales structure
- Payment terms
- Sales information
- Trade feedback
- Delivery requirements
- Charges
- Market research
- Formal agreement
- Extra charges
- Accreditations required
- Conflicting lines
- Transport
- Targets
- Key account responsibility
- Overview

Appendix III

Distributor Comparison Matrix

Question	Distributor A	Distributor B	Distributor C
Time in business			
Sectors serviced			
Coverage			
Facility			
Sales structure			
Trade feedback			
Payment terms			
Sales information			
Deliveries			

Question	Distributor A	Distributor B	Distributor C
Cost structures			
Trade analysis			
Formal agreement			
Extra charges			
Accreditation requirements			
Conflicting lines			
Transport			
Targets			
Overview			

Appendix IV

Producer/Distributor Agreement

Points of agreement

- **Market** – Area to be covered:
  - Republic of Ireland
  - 32 counties
  - Regions (e.g. Leinster, Dublin, north Cork)
- **Channels** – Sectors to be covered:
  - Foodservice
  - Multiple
  - Symbol
  - Independent
- **Products** – List of products (choose one option):
  - List of all products on supplier's list
  - List of only those lines being stocked by the distributor
- **Commencement date** – The date when the agreement begins
- **Renewal and duration:**
  - A fixed period with automatic rollover
  - A new agreement put in place when present agreement ends
- **Termination notice:** Period of notice either party is obliged to give to terminate the agreement
- **Payment terms:**
  - 30 days from end of month
  - A specified or agreed date each month
  - Better terms based on a discount given by the supplier

- **Head office representation** – Frequency of attendance at meetings:
  - Attendance at all meetings
  - Quarterly review meetings
  - Yearly review meetings
  - Only at distributors' request
- **Special charges:**
  - Brochure entry
  - New product launches
  - Sales incentives
  - Promotions
- **Packaging:**
  - Pallets – Distributors use two types of pallets: Euro pallets and GKN (Blue pallets) – there is normally a charge for these
  - Shelf packaging – some multiples require you to have your product in shelf-ready packaging
- **Trays/crates** – These are normally used by chill distributors to sell such products as desserts, salads, ready meals and are easily stored, helping to make the product easier to transport

Agreement detail: distributor obligations

- **Sales targets** – Targets agreed by both parties:
  - Targets by value
  - Target by volume
  - Weekly targets
  - Quarterly targets
  - Yearly target
  - Achievement of an agreed figure for a fixed period e.g. six months

- **Customer complaints** – How the distributor will handle complaints:
  - Distributor collects the product but the supplier handles the complaint
  - Distributor handles complaint
  - Distributor passes complaint on to supplier who deals with it
- **Forecasting** – Order planning process:
  - Distributor agrees to give supplier daily orders based on average order requirement (multiples)
  - Distributor gives supplier weekly or monthly order based on average sales
  - There is a standing order sent to the supplier
- **Sales information** – How often sales information should be sent to the producer and type of information:

- Weekly or at specified times (e.g. monthly, quarterly) – your aim should be to get this information weekly
- On request
- End of each financial year

- **Stock holding** – Minimum distributor stock:
  - The distributor agrees to hold a minimum stock
  - The distributor agrees to hold a fixed amount of stock agreed by the two parties

Agreement detail: supplier obligations

- **Exclusivity agreement** – For geographical area and channel (e.g. foodservice):
  - The distributor will only sell in those areas agreed with the producer
  - The distributor will only sell in those channels agreed with the producer
- **Food safety** – Best before dates and minimum dates on all products which have a finite shelf life:
  - The supplier should be responsible for making sure the minimum dates on all products meet the health and safety guidelines
  - The producer should ensure that minimum agreed dates are available on all products to allow them to pass through the supply chain with sufficient shelf life for the consumer
- **Promotions** – Any promotional activity agreed or promotional calendars:
  - These are used to help drive sales growth and gain consumer awareness. They include:
    - Price reductions
    - Extra fill
    - BOGOF (Buy One Get One Free)
    - Non-price promotions e.g. tastings
- **Product indemnity** – Indemnity against product liability:
  - The producer should be responsible for any problems which arise with the product if it has been handled by the distributor in the proper and agreed manner

- **Pricing** – Agreed pricing on all product lines:
  - The prices for all products should be as set out in the price list, which should accompany the agreement
- **Price increases** – Minimum notice period to be given:
  - All price increases should be given in writing to the distributor with a minimum notice as agreed between both parties
- **PR and media exposure:**
  - Who is responsible for generating publicity for the product through journalist briefings, etc?
  - If formal advertising is being run, how much are the distributor and producer contributing to the campaign?

Signed For Supplier……………………………. Date

Signed For Distributor………………………… Date

Appendix V

Calculating Margins

Whether you are talking to a distributor or a buyer from a retailer or foodservice operator you will need to calculate prices which include margins. Pages 64-65 contain a simple matrix that will simplify the process for you.

For every product there is a cost price and a selling price with a profit in between. This profit can be expressed as a percentage of the cost price, which is referred to as the mark-up, and can also be expressed as a percentage of the selling price which is referred to as a margin. Distributors and buyers most commonly refer to margins, however in order to calculate the margin the producer must mark up the cost price to arrive at the selling price.

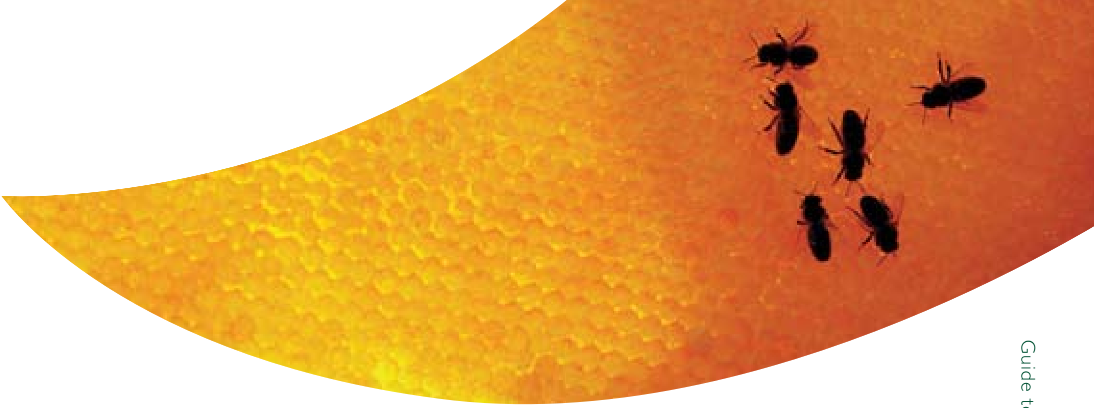
On pages 64-65 is a simple matrix that will assist in calculating margins. To calculate the margin required, locate this margin in the centre column and multiply your selling price to the distributor by the appropriate figure in the right-hand column.

A Practical Example:

- You have completed your cost model and you know you need to charge the distributor €1.78 for product "A" if you are to make a profit. This is your cost price.
- You have spoken to a number of other producers who have told you that the distributor will look for 30% margin to carry the product.

Calculating Distributor's Margin:

- When you check the margin column (middle column) in the matrix and locate 30% margin (30.07%) it tells you that you must mark the product up by 43% or simply multiply by 1.43.
- €1.78 x 1.43 = €2.55. This is the price the distributor will charge the retailer giving the distributor a 30% margin.



Calculating Retailer's Margin:

- If you know that the retailer will look for 35% margin you again go to the matrix which tells you to mark the distributor's price to the retailer up by 54% (multiply by 1.54).
- €2.55 x 1.54 = €3.93. This is the price the retailer charges the consumer giving the retailer a 35% margin.

In Summary:

- €1.78 = Producer selling price to the distributor including profit
- €2.55 = Distributor selling price to the retailer giving them 30% margin
- €3.93 = Retailer selling price to the consumer giving them a 35% margin

This margin matrix allows you to work out all the cost inputs throughout the supply chain so that you can see what the retail price should be.

Margin Matrix

Markup Percentage	Margin Percentage	Multiplier Percentage
20	16.67%	1.20
21	17.36%	1.21
22	18.03%	1.22
23	18.70%	1.23
24	19.35%	1.24
25	20.00%	1.25
26	20.63%	1.26
27	21.26%	1.27
28	21.88%	1.28
29	22.48%	1.29
30	23.08%	1.30
31	23.66%	1.31
32	24.24%	1.32
33	24.81%	1.33
34	25.37%	1.34
35	25.93%	1.35
36	26.47%	1.36
37	27.01%	1.37
38	27.54%	1.38
39	28.06%	1.39
40	28.57%	1.40
41	29.08%	1.41
42	29.58%	1.42
43	30.07%	1.43
44	30.56%	1.44
45	31.03%	1.45
46	31.51%	1.46
47	31.97%	1.47

Markup Percentage	Margin Percentage	Multiplier Percentage
48	32.43%	1.48
49	32.89%	1.49
50	33.33%	1.50
51	33.77%	1.51
52	34.21%	1.52
53	34.64%	1.53
54	35.06%	1.54
55	35.48%	1.55
56	35.90%	1.56
57	36.31%	1.57
58	36.71%	1.58
59	37.11%	1.59
60	37.50%	1.60
61	37.89%	1.61
62	38.27%	1.62
63	38.65%	1.63
64	39.02%	1.64
65	39.39%	1.65
66	39.76%	1.66
67	40.12%	1.67
68	40.48%	1.68
69	40.83%	1.69
70	41.18%	1.70
71	41.52%	1.71
72	41.86%	1.72
73	42.20%	1.73
74	42.53%	1.74
75	42.86%	1.75

Appendix VI

Distribution Price Model

Production Costs:

Raw material	€
Wages	€
Light, Heat, Power	€
Machinery Costs	€
Loan Repayment	€
QA	€
Packaging	€
Insurance	€
Profit	€
Factory gate price	**€**

Selling Costs

Sales/Marketing	€
Promotions	€

Delivery Costs:

Van Expenses	€
Distributor Charge	€
Haulier Charge	€
Backhaul Charge	€
Courier Charge	€
Delivered Cost	**€**
Retail Margin	€
LTA/Rebate	€
Returns	€

Selling Price €

N.B. VAT is applicable to the selling price of certain goods.

Appendix VII
How to Conduct an Annual Review

Introduction

The following is a guide to holding an annual review meeting with your distributor.

Preparation

Like all other meetings, preparation is critical for your annual review. You need to prepare analysis of sales throughout the year and any other key issues, which have arisen.

- **Agenda**
  Create an agenda of the items you would like to cover, prioritised in order of importance. It is good practice to send this to your distributor before the meeting and also offer them the opportunity to add any items they wish before the meeting.
- **Sales targets**
  You will have agreed targets at the beginning of the year with your distributor and it is vital that these are reviewed thoroughly with agreed action points depending on how the sales targets have performed over KPIs (Key Performance Indicators). You will also be measuring your distributor on other indicators as well as sales targets. These may include order fill rates, shelf availability, etc. You will need to have all these measures with you for the meeting

Meeting

- **Chairperson**
  For this review it would be ideal if you were able to chair the meeting yourself but you need to agree this with the distributor before your meeting.
- **Venue**
  If you can persuade the distributor to come to your premises it would be a good opportunity to display your production facilities and get the distributor further engaged in your business.
- **Action**
  As you progress through each item on the agenda, it is important that a clear action arises from each of the headings. Set out what the action point is, who is responsible for it and when it is to be completed by.

- **Motivation**
  You will only see your distributor a number of times per year, and the annual review might be the only time you meet the owner/managing director. Therefore it is an ideal opportunity for you to get renewed interest from the distributor and to re-energise their selling of your product.
- **New targets**
  You will of course be setting new targets for the coming year and you should bring ideas to the meeting about where this growth might come from. This could be a possible list of new customers or target market sectors that are not already covered.
- **Tasting**
  If you have any new products, the annual review meeting can be an ideal time to showcase these with your distributor, so a product tasting at the end of a meeting can be a good idea.

Follow up

It is important that you minute the actions and email them to all those who attended the meeting and that you use this list at follow-up meetings to drive the relevant actions.

- **Your tasks**
  You might also have been requested to follow up on certain issues during the meeting and it is important that you do this as soon as possible.
- **Relationship**
  A well-structured review meeting will always deliver good results. However, you must remember that the relationship between you and your distributor is equally important, and you must nourish this throughout the year if you are to achieve maximum results.

Appendix VIII
Useful Contacts

Bord Bia
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www.bordbia.ie
www.bordbiavantage.ie
Email: info@bordbia.ie
vantage@bordbia.ie

City and County Enterprise Boards
Department of Enterprise,
Trade & Employment
23 Kildare Street
Dublin 2
Tel: 01 6312121
www.entemp.ie/enterprise/local
Email: info@entemp.ie

Comhar LEADER na hEireann –
Irish Leader Network
James O'Keefe Institute
Newmarket, Co. Cork
Tel: 029 60633
www.irishleadernetwork.org
Email: info@irishleadernetwork.org

Department of Agriculture, Fisheries and Food
Agriculture House
Kildare Street
Dublin 2
Tel: 01 6072000
www.agriculture.gov.ie
Email: Info@agriculture.gov.ie

Department of Enterprise, Trade and Employment
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info@entemp.ie

IBEC
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www.ibec.ie
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IGD
Institute of Grocery Distribution
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Watford
Hertfordshire
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Tel: 00 441 923857141
www.igd.com
Email: igd@igd.com

Irish Small and Medium Enterprises
17 Kildare Street
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Tel: 01 6622755
www.isme.ie
Email: info@isme.ie

Rural Food Company Training Network
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