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Getting a Food Product to Retail

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There is no easy way to get a new food product into retail establishments. In fact, manufacturing may actually be the easiest part of the business enterprise. Products can be sold directly to consumers, wholesalers, distributors and/or retailers. However, product distribution through any channel is not free. Each step involved in getting a product in front of consumers has an associated cost. Selling direct to consumers has a direct cost, i.e. mail-outs, developing and obtaining mailing lists, etc. Similarly, there are costs associated with distributing your products through other channels.

Inevitably, the mark-up percentage will vary by product, broker, distributer and retailer. However, general "rule-of-thumb" mark-up percentages for each marketing channel are available. The "general" mark-up percentage range for each channel is given below.

Organization	**Mark-Up Percentage Range**
Manufacturer/Producer	20%-30%
Broker	5%-15%
Distributor	25%-30%
Wholesaler	10%-20%
Retail	30%-50%

These mark-up percentages represent the percent of a product's total cost that is equal to profit. Lets work through a simple example to demonstrate how these mark-up percentages affect the retail price of a product. In our example, let's assume that a manufacturer wants to market the product to retail outlets. The business is not large enough to employ a sales representative and decides to contract with a food broker. The food broker sells the products they represent either directly to retailers or to distributors. We will work through both of these scenarios to demonstrate the movement of a product through different channels, the cost of such movements and the effect on the price charged to the end consumer.

First of all, the business needs to determine what percent mark up they are going to receive for their products. The percent mark up for a product is dependent on the competitiveness of the market. For instance, a product like cardboard or corn can be thought of as commodity products. These products are competing with very similar products in a very competitive market. The manufacturers chance for marking up a product's price in an extremely competitive market can lead to disastrous results, because as the product's price continues to increase with each distributor organization, the end-price increases exponentially.

The following tables work through two examples of how the price of a product changes as it works its way through the distribution channels. The first example assumes that the manufacturer or producer wants to mark their products up by 25%. This means that on each product sold, they will recapture a profit equal to 25% of their total costs. Thus, the price to either the broker or the next organization in the distribution channel will bb 25% higher than the cost of manufacturing the product. The various channels will then add their mark-up percentages thus increasing the product's final price.

Table 1.
Producer to Retailer Mark-Up Percentages Through a Broker

Organization	**Category**	**Dollars**
Manufacturer/Producer	Total Cost per Unit	$10.00
	Markup (25%)	$2.50
	Selling Price	**$12.50**
Broker	Cost	$12.50
	Markup (10%)	$1.25
	Selling Price	**$13.75**
Retail	Cost	$13.75
	Markup (40%)	$5.50
	Selling Price	**$19.25**

Referring to the example in the above table, the final selling price of the product is 92.5% higher than the total cost of the product [(Retail Price - total cost per unit) ÷ total cost per unit]. The product's price increases at an increasing rate as the product moves from the manufacturer to the retailer. In this example, the producer is receiving 65% of the products selling price.

Table 2. Producer to Retailer Mark-Up Percentages Through Broker and with Distributor		
Organization	**Category**	**Dollars**
Manufacturer/Producer	Total Cost per Unit	$10.00
	Markup (25%)	$2.50
	Selling Price	**$12.50**
Broker	Cost	$12.50
	Markup (10%)	$1.25
	Selling Price	**$13.75**
Distributor	Cost	$13.75
	Markup (27.5%)	$3.78
	Selling Price	**$17.53**
Retail	Cost	$17.53
	Markup (40%)	$7.01
	Selling Price	**$24.54**

Referring to the example in table 2, the final selling price of the product is 145% higher than the total cost of the product. Again, the product's price increases at an increasing rate as it moves from the manufacturer to the retailer. By including the distributor in the distribution channel, the product's retail price has been increased by $5.29 ($19.25 to $24.54). In this example, the producer is receiving 51% of the product's selling price versus the 65% observed when the distributor is excluded. Thus, it is very important for a business to understand the distribution process and the costs associated with each step as distribution can have a significant impact on the retail price of a product.

The mark-up percentages used in the various distribution channels are industry averages provided by industry professionals. These percentages can vary significantly and it is worthwhile to haggle over the mark-up percentages charged by various channels. Very large companies often do not pay these high mark-up percentages because of the leverage they obtain with the volume of products they move. However, smaller companies do not generally have the sales volume associated with large companies and therefore may not have as much leverage to negotiate lower mark-up percentages.

If the retail price of the product is determined to be too high, assuming that the percentages charged by the distribution organizations are fairly rigid, and the manufacturer does not have the sales volume needed to negotiate with the various distribution organizations, it (the manufacturer or producer) may have to lower the price it receives to achieve a retail price that is more acceptable to the end customer.