

Choosing the Right Distributor for Your Food Product



Finding and choosing the right distributor for your food product is essential to securing your markets and growing your business. Your search needs to be thorough, so you can identify all potential distributors, evaluate them to see if they're a good fit with your company and set out the expectations for your relationship with the distributor. The right distributor can assist you in entering a new market and provide you with access to new distribution channels that will help promote and launch your product(s) quickly.

Five Steps to Choosing a Distributor

Step 1: Make a list of potential distributors in the industry.

- Ask your customers and potential customers from which distributors they currently buy or prefer to buy.
- Research distributors that carry similar products to yours.
- Find out which distributors your competition is using.
- Look for food distributors online.
- Ask other food manufacturers for distributor referrals.
- Attend meetings, tradeshow and networking events sponsored by other organizations in the food industry to meet potential distributors.
- Review listings of potential food distributors in trade publications and on distributor association websites.

Step 2: Narrow down potential distributors.

- Identify who each distributor sells product to, e.g., the food service, grocery or hospitality industry.
- Find out what sales territories the distributor covers.
- Research the types of food products the distributor carries and whether your product fits their existing portfolio.
- Find out how long the distributor has been in business.
- Review the distributor's vision and goals to see how they align with your company's core values and goals.
- Ask other food manufacturers about the distributors they have worked with in the past, to see what their experience has been.
- Identify the distributor's largest competitors.

Step 3: Assess your list of distributors.

- Contact each of the potential distributors from the list you created. Identify the decision maker and ask to speak to him or her. Gauge that person's interest in your product, ask for a meeting if they are interested, and if not, thank them for their time and contact the next distributor on your list.

- If a meeting is granted, ask the distributor if they can provide you with an overview of their capabilities. This way you can find out before the meeting if they are still a good fit for your company and limit the questions you need to ask.
- Prepare a presentation for your meeting. Include information about:
 - your current sales and market research to demonstrate a demand for your product, and information on what makes your product different from competitors
 - your marketing activities, such as demos, a promo schedule, sales materials, sell sheets or introductory allowances
 - your terms, such as your minimum order, payment schedule and discounts for early payment
 - your production capacity, lead time for orders and how you would handle shortages
 - your product liability information, proof of insurance and how you will handle returns or spoilage
 - your packaging sizes and weights, Universal Product Code (UPC) and labelling that meets regulatory requirements
 - your product's shelf life, best before dates and guaranteed shelf life when shipped
 - your product delivery including how the product will be shipped, delivered pricing, pickup allowances, shipping carton strength and your damaged product policy

It is essential to have a thorough knowledge of the distributor's business to demonstrate that you are serious about working with them. During the meeting, ask for additional company information including:

- Do they use an upcharge (markup) or gross margin method to calculate their pricing? Typically, a distributor requires a gross margin of 20 to 30 per cent to purchase, stock, sell, deliver and invoice a vendor's product.
- Does the upcharge or gross margin change based on the type of product, department or the type of customer to whom they are selling? Find out what the upcharge or gross margin is for your product.
- What types of services are included in the upcharge or gross margin?
- Are there any additional processing, storage or freight fees?
- Are there any program fees, such as co-operative advertising, volume rebates or central billing allowances?
- Is there an opportunity for you to train their sales staff?
- How do they manage a vendor? Do they have a history of building strong relationships with vendors? Who are their vendors, how long have they worked with them, how often do they call on them and how do they prefer to communicate with them, e.g., by phone, in person or by email?
- How do they manage a customer? Do they have a history of building strong relationships with customers? Who are their customers, how long have they worked with them, how often do they call on them and how do they prefer to communicate with them, e.g., by phone, in person or by email?
- What is the process for handling inventory? Find out:
 - who your warehouse contact would be
 - if there are any product packaging requirements
 - where their warehouse is located
 - how much space the warehouse has
 - how the distributor monitors inventory levels
 - their ability to track turnover
 - details about the ordering system
 - turnaround time for orders
 - their shipping methods
- What are their sales and marketing capabilities? Find out:
 - the size of their sales force
 - technical competencies
 - their ability to generate leads
 - their sales skills
 - how they promote and present products
- What is the distributor's knowledge of their market? Find out:

- the size
- their ability to accurately forecast future sales and keep up with potential growth
- their response to changes in consumer expectations
- What do they require from a vendor to work with them, e.g., shipping and insurance requirements?
- How do they measure a product's success?
- Do they carry a product similar to yours? If so, how have sales been in the past?
- What are their current sales trends and are they different from those of the last three years?
- How is their financial stability? Find out:
 - their credit history
 - annual sales
 - growth rate
 - performance measures and how they compare to similar businesses in the industry
 - size of their accounts and their longevity
 - how and when you will receive payments
- What are their future plans? These may include their growth strategy, anticipated acquisitions or mergers, or succession plan.
- Are they interested in carrying your product(s)? If so, ask about next steps in the process. If they are interested, ask about the first order, how many SKUs they are interested in and what volume they would need. If they are not interested, thank them for their time.
- After the meeting, identify and prioritize the most important characteristics you are looking for in a distributor. Enter all the information into a matrix so that you can easily assess the distributor's overall fit with your company's core values and goals. See example below.

Example: Evaluation Based on Distributor Characteristics: 0 – Very Poor, 1 – Poor, 2 – Good, 3 – Excellent

Priority	Distributor Characteristics	Potential Distributor 1	Potential Distributor 2	Potential Distributor 3
1	Acceptable upcharge/gross margin requirements	2	3	3
2	Adequate sales and marketing capacity	3	0	2
3	Sound financial stability	2	3	0
4	Adequate growth potential	3	1	3
5	Strong knowledge in market	3	1	3
6	History of building strong relationships with vendors and customers	3	3	2
7	Overall fit	2	1	1
Total		18/21	12/21	14/21

Step 4: Follow up with your short list of distributors.

- Contact your short list of distributors to gauge their continued interest in working with your company and distributing your product(s). If they are interested in working with you, schedule another appointment to discuss your business relationship, your expectations and close the deal.
- During the discussion, both parties should clearly identify their roles and responsibilities and work out any discrepancies in expectations that exist. It is important to discuss:
 - setting up order codes
 - pricing and sales strategy
 - volumes
 - timelines
 - payments
 - product shrink
 - maintenance of a well-qualified and trained sales staff
 - commitment to maintain stock
 - shipping package requirements
 - insurance requirements
 - communication styles
 - exclusivity or non-competition clause
 - length of your contract
 - demonstrations, trade show or other program participation requirements
- If the meeting goes well, offer to supply samples of your product(s) to give to order desk staff, sales and marketing representatives and executive sales staff with the distributor's first order.

Step 5: Close the deal.

- Clearly understand the distributor's offer and limitations.
- Review the contract before signing it. Make sure all details of your relationship are clearly documented and you agree with them. Don't sign and then bring up concerns after the fact. Make sure both parties understand the terms of the agreement.
- Sign the contract, prepare and send your first order.
- Closely monitor performance over the first six months and meet with the distributor to discuss. If you don't continue to see growth, find out why not and work with the distributor to address problems directly.

Choosing a distributor for your food product can be exciting and stressful all at the same time. Remember to do your homework and thoroughly research your options. Once you have decided on a distributor, make sure the terms of your relationship and expectations are clearly defined. You will also want to determine what corrective measures you will take should your expectations outlined in your contract not be met by the distributor, including termination of your contract if your issues cannot be resolved.

This is one of the most important relationships you will create for your business. Your distributor is an extension of your business and your brand, so make sure they are the best fit possible for you and your company.

For more information:

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