TRY SWEDISH!

BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

HOW TO LAUNCH YOUR FOOD BRAND IN THE U.S.

A STRATEGIC GUIDE ON HOW TO PLAN FOR YOUR U.S. MARKET ENTRY

INTRODUCTION

Try Swedish and Business Sweden are pleased to offer our guide on how to successfully launch a food brand in the U.S.

We recognize that the overall process of planning for a U.S. launch can be complex and overall confusing at times. In addition, the supply chain, cost structure and partners required to get listed at U.S. grocery stores differs significantly from that of European stores. Our sincere hope is that we've pulled together the necessary information based on collaborations with industry experts, Swedish success cases, and our own experiences in order to make your launch as successful as possible.

The purpose of the Try Swedish program is to provide support and resources every step of the way for your U.S. launch. Over the years, we’ve built a strong eco system of local partners available to support you and your company across all aspects of this report. If you have any questions, or simply would like to brainstorm your U.S. strategy, please do not hesitate to reach out to set up a time to chat!

Enjoy reading, and best of luck bringing delicious Swedish food to the American public!

The Try Swedish Team

CONTACT

THERÉSE DALEBRANT

Try Swedish Program Manager USA

Therese.Dalebrant@business-sweden.se

TABLE OF CONTENTS

RETAILERS

WHAT TYPE OF RETAIL CHANNEL SHOULD I TARGET?

U.S. food retailers are divided into various channels for which the capital, purchasing process, and type of partners required varies greatly. The most relevant channels for Swedish food brands are specialty stores, natural stores, and if the Swedish company is large enough, conventional supermarkets. We have outlined how these different channels operate below. In addition to these, there are club stores (e.g. Sam's Club), value stores (e.g. Walmart), and drug stores (e.g. Walgreens) who all carry food products as well. However, these channels mainly sell low-cost items making them less appealing for Swedish brands who often fall under the premium category. E-commerce is another increasingly important channel within the U.S. food industry (i.e. Amazon Fresh, Thrive Market, Instacart) and will be addressed separately from this report.

SPECIALTY STORES

Specialty stores can also be referred to as local stores or independents and they typically have 1-30 locations. This channel specializes in premium specialty products as opposed to mass market products found in conventional grocery chains. Specialty stores strive to be the first retailers to introduce new innovative products and are less price sensitive than larger chains, making them a good starting point to launch a Swedish brand. They are open to reviewing brands throughout the year and they can buy the products either directly from the manufacturer or via partners. Specialty stores provide more hands-on support to their vendors compared to larger retailers, and their staff is trained to help guide customers in their stores. Purchasing decisions are often made on the store level as opposed to HQ, and slotting fees or promotional programs are unusual.

NATURAL STORES

The natural channel focuses on natural and organic food and has been growing significantly in the U.S. over the past few years. Natural stores are open to new innovative brands and tend to buy products from multiple distributors. Natural stores require brands to participate in promotion programs but do not typically require slotting fees, making this channel less expensive to enter compared to conventional supermarkets. Natural stores vary in size and number of locations but in general have more locations than specialty stores, while fewer than conventional supermarkets.

CONVENTIONAL SUPERMARKETS

Conventional supermarkets are by far the most competitive type of channel to target. Regional supermarkets as opposed to national typically have more products tailored to their market and tend to be more open to try new innovative brands. Regional players also aims to have a close connection with their customers and the communities that they serve. Both regional and national supermarkets have strict category review schedules for when to review certain product categories and primarily carry mass market items. However, more recently this channel has started adding new innovative products to stay competitive. Purchasing is centralized from HQ and new products are rolled out across all their locations. Slotting fees and promotional programs are a must to enter these stores, making it the most expensive channel to enter. These retailers work with one of the larger U.S. distributors, such as UNFI or KeHE, for distribution needs or buy direct into their warehouses.

THE BEST WAY TO BUILD YOUR BRAND IN THE U.S. IS TO START TARGETING SPECIALTY STORES AS THEY ARE MORE OPEN TO TAKE ON NEW BRANDS AND DO NOT REQUIRE COSTLY SLOTTING FEES OR PROMOTIONAL PROGRAMS. ONCE YOU HAVE BUILT A SOLID CUSTOMER BASE WITHIN THE SPECIALTY CHANNEL AND THEREBY PROVED THAT THERE IS DEMAND FOR YOUR PRODUCT IN THE U.S., YOU CAN EXPAND INTO REGIONAL STORES WITHIN THE NATURAL OR CONVENTIAL CHANNEL. IT OFTEN TAKES YEARS OF BUILDING A BRAND ACROSS THESE CHANNEL BEFORE BEING READY TO WORK WITH A NATIONAL RETAILER. FOR THE MAJORITY OF SWEDISH BRANDS, A NATIONAL ROLLOUT WILL NOT BE OPTIMAL UNLESS THE COMPANY IS READY TO MAKE A SUBSTAINTIAL INVESTMENT OF CAPITAL AND RESOURCES IN THE U.S.

Working with national retailers require a strong local presence in the U.S. with a local sales team to support and manage your network of brokers and local partners. Conventional grocery chains will typically roll out the product in all their stores, which can be hundreds, requiring a huge amount of capital and a massive risk for the manufacturer if the product does not sell as expected. Page 12 provides an example of the capital required for such a rollout.

HOW DO I PREPARE FOR A BUYER MEETING?

Before you meet with a retailer you *need* to do your homework on a variety of topics, listed below, as well as prepare for the questions listed on page 6. It is recommended to attend retail buyer meetings together with your broker (if you have one) as the combination provides a powerful synergy; the broker knows the retailer best, their required paperwork, category reviews and buying processes, while you know your brand's story and mission best.

> **“TYPICALLY, THE VENDORS SPEAK WITH THE MOST PASSION ABOUT THEIR PRODUCT, WHICH MANY RETAILERS RESPOND TO FAVORABLY. WE OFTEN UTILIZE THE VENDORS ON THOSE PRESENTATIONS, BUT THE MEETINGS COULD HAVE EITHER COMBINATION OF JUST THE BROKER, THE VENDOR, OR BOTH.”**
>
> U.S. BROKER

MAKE SURE TO STUDY THE FOLLOWING INFORMATION ABOUT THE RETAILER:

Prior to a retailer meeting, you need to know the history of the retailer, the number of locations they have, where their stores are located, if they have ingredient standards, their promotional needs, and who their major competitors are. Before a meeting you should have visited the retail store to get a feel for their merchandising and provide suggestions for how your brand fits into the store as well as where you think your product should be placed. You should also understand what other brands the retailer carries within your product category, their pricing, and how these products are merchandised. In addition, always do your research on the buyer you are meeting with to understand their specific product category, background and how long they have been with the retailer.

Once in the meeting with a retail buyer, you should be prepared to present information about your product, competitors, customers, pricing, promotional plan and overall strategy. The following page includes a list of the most common question retailers will ask new food brands during a buyer meeting.

Buyer Questionnaire

Product, Competitors & Customers

- What is the story behind the brand and the company?
- What is your pack size?
- Who are your competitors?
- How does your taste compare to your competitors?
- What makes your product unique?
- What ingredients are you using?
- What is the product's shelf life?
- Does your product have a UPC code?
- Who is your target customer?
- Are you planning on adding any product lines of flavors in the future?

Pricing & Promotional Plan

- What is the landed cost?
- What is your suggested retail price (SRP)?
- How does the price compare to other similar products?
- Are you prepared to advertise in our promotional program?
- How will you promote the product to consumers in the store? (i.e. temporary price reductions, in store demos, coupons, etc.)
- What introductory program will you offer? (i.e. free fills, guaranteed sales)
- Do you have point of sales (POS) material?
- Can you provide an everyday low price (EDLP) at $xx?
- What is your B2C advertising plan for your target demographic?
- Are you prepared to pay $xx for slotting?

Sales & Strategy

- Would you consider signing exclusivity with us?
- What is your expected sales volume, and what is this number based on? (i.e. market testing, previous sales)
- Do you work with a broker?
- What other retailers are you targeting?
- What retailers are you currently selling to?

> **CONTACT A SUPERMARKET ONLY AFTER YOU'VE DONE THIS ESSENTIAL HOMEWORK. TO DO LESS WILL IDENTIFY YOU AS A BUMBLING AMATEUR IN A FIELD OF SHARP-EYED PROFESSIONALS.**
>
> SPECIALTY FOOD ASSOCIATION

Below is an example of what a typical template looks like for companies pitching a new product to a retail buyer.

(Template) Insert Title

- Product Type (Grocery, Dairy, Frozen)
- Estimated Maximum Unit Cost
- Suggested Retail Price
- Gross Margin %
- Case Pack
- Promotional Support Program (Total allowance in form of % and frequency of support)
- Support account specific programs (each one is different)
- Demo Support Program (# of Stores / Frequency)
- Exclusivity
- Manufacturer Launch Date (If new item) (Month/Year)

- Selling Points of the products
- Unique call-outs of the product
- Key Facts of interest about your company
- Sustainability / Efficacy/ Packaging / Facts
- Other attributes

Insert Picture(s)/Charts here

Insert scannable bar code here

Projected Sales for this product or line over 52 weeks are $XX
Vendor Contact Information (Manufacturer Company, Name, Email, Phone)

WHAT REQUIREMENTS DO RETAILERS HAVE FOR THEIR SUPPLIERS?

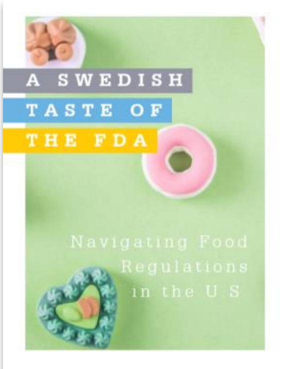
The requirements will vary depending on channel, the retailer, and their size. All retailers require FDA compliance, while slotting fees and free fills are mainly required by larger retailers. All retailers will ask for your sales strategy for the U.S. and your promotional plan including your B2C marketing strategy for the U.S. market. The next page outlines the basic requirements a retailer has on new vendors.

FDA COMPLIANCE

All retailers, importers, distributors and brokers will require your product to be FDA compliant prior to engaging with them. This means that the manufacturer (i.e. your own company or your co-packer) will need to be registered with the FDA. The factory must also have an assigned U.S. agent for all FDA communication, as well as an FDA compliant "HARPC" food safety plan, which differs slightly from the European HACCP plan. Finally, all labels must be updated in accordance to FDA's labeling rules and all ingredients must be verified to be allowed by the FDA.

Business Sweden has written an FDA handbook with more information about the compliance process, which can be downloaded here.

Business Sweden offers full FDA compliance support for Swedish companies. If you have any questions about how to comply with the FDA, we are more than happy to set up a call to help guide you through the process.



U.S. STRATEGY & MARKETING PLAN

The retailers will ask what your U.S. strategy is in order for them to assess if the way you plan to position and grow your brand in the U.S. aligns with their overall position in the market. A natural store such as Wholefoods for example will want to see that you plan to sell through natural stores in key geographies, as opposed to going national and targeting mass retailers and discount stores. The retailer will also ask about your internal strategy of adding new flavors and products over the coming years.

Your U.S. strategy should answer all questions listed in the buyer questionnaire on page 6 of this report, as well as your future expansion and marketing plan. It is very important for the retailer to trust that you have the capability to market your product to your target demographic in the U.S. and that you have the resources required to succeed in the U.S. More and more retail category managers will also review your brand's social medial presence to ensure that you are actively engaging with your target customers and presenting the story and mission behind your brand efficiently.

SLOTTING FEES

Slotting fees are one-time payments made to the retailer to get a new product listed on the store's shelves. Slotting fees are used by national retailers and some regional players. Some have flat fees per SKU, some charge case cost equivalent, and some chains do not charge slotting. Slotting fees can get very expensive so it is important to understand if this is required and to budget accordingly for this.

FREE FILLS

Free fill means offering a free case per store to retailers whenever they add a new product line to cover the retailer's administrative costs for setting up a new product in their system and for the shelf space. A lot of retailers require a free fill for all their store locations, especially conventional supermarkets, which can get expensive. Specialty stores rarely require free fills, but some regional chains do.

This can sometimes be negotiated, and one industry trick is to pack cases of 6 instead of 12 to cut your free fill fees in half while at the same time doubling your volume turnover. This will increase your chances of being kept on the grocery shelves. Another commonly used strategy is to push for a BOGO instead of a free fill. BOGO is often done for smaller or independent stores. In most cases you will pay the *retail* price for these refills to your distributor, meaning if your product cost 20 USD per case, you'll likely need to pay your distributor closer to 25 USD per case for the free fills.

UNIVERSAL PRODUCT CODE (UPC)

The U.S. uses UPC barcodes as opposed to EAN codes. If you have an EAN code it will need to be converted into a UPC code for most U.S. retailers.

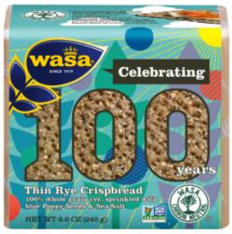
PARTNERS

WHAT PARTNERS DO I NEED TO SUCCESSFULLY LAUNCH IN THE U.S.?

The type of partner you will need will largely depend on what type of channel and specific retailer you are targeting. The most common partners for food brands are importers, distributors, and brokers, which all provide different and complementary services. In other words, you will need multiple partners for a complete supply chain.

In short, a broker is key for sales, but will not handle distribution or warehousing. A distributor is excellent at providing distribution but will only offer passive sales support and may not provide warehousing or importing services. That said, there is no strict definition of what services a typical importer, distributor or broker provides, but below is a general overview.

> **OUR MAIN RECOMMENDATION FOR SWEDISH COMPANIES LOOKING TO ENTER THE U.S. MARKET IS TO FIND THE RIGHT PARTNERSHIPS, WHICH HAS BEEN ESSENTIAL FOR WASA'S SUCCESS. ALSO, BEING CLEAR ON THE TARGET CONSUMER AND WHICH RETAILERS TO FOCUS ON CAN UNLOCK OPPORTUNITIES. THIS APPROACH WAS MUCH BETTER FOR WASA THAN TRYING TO GO EVERYWHERE AT ONCE.**
>
> WASA (OWNED BY BARILLA), JIM MICHALAK, SENIOR TRADE MANAGER AT BARILLA AMERICA



IMPORTER

An importer is the purchaser of goods from a foreign entity with the intent to resell in the importer's country to distributors, retailers, and/or the end consumer. Some will take possession of goods from Sweden, and some want the product to go through customs before they will take possession at their warehouse in the U.S., meaning the manufacturer has to deal with all the logistics of getting the product into the country. A Swedish food manufacturer can also act as its own importer by setting up a U.S. entity.

Business Sweden can assist with establishing a U.S .entity

DISTRIBUTOR

A distributor operates as a middleman by purchasing large quantities from the food manufacturer or importer and then reselling and delivering the products to retailers, meeting their quantity and frequency needs. The two largest distributors servicing regional and national retailers are KeHE and UNFI. A larger distributor will typically provide passive sales support by listing your product in their catalog supplemented by monthly or seasonal flyers using sales representatives for key accounts. Some distributors have their own "tabletop shows" where food manufacturers can participate and show products to account managers and retailers. If you use a distributor, you are expected to work with a broker and/or have an internal sales team actively selling your product towards retailers. Smaller distributors tend to offer more services and support to the food brand, which may include more active sales outreach.

BROKER

A broker is an external and independent person or organization that functions as a sales representative to call on distributors and retailers. They work with multiple brands and companies, typically within a specific region, and are compensated by a taking a percentage commission. Brokers have an existing network of distributors and retailers with whom they work with and may specialize in a certain category of food products or in specific retail accounts. They know the category schedule of their retailers and have often spent years building a relationship with buyers of specific retailers. The brokers strictly provide sales support, meaning you will need to find other partners for warehousing and distribution. There are two types of brokers: “full-service brokers” that will support with developing your overall Go-To-Market and sales strategy, and “commission brokers” that only support with sales. Full-service brokers are more relevant for a Swedish brand that are new to the market, as these brokers will help formalize a long-term stales strategy and choose which retailers to target in what order. As mentioned earlier, this strategy is essential for meetings with retailers.

OTHER

Rapidly growing brands that need more support than a broker or distributor can provide, but lacking finance to hire a full-time sales manager, may hire a **contract sales manager.** A contract sales manager can manage your network of brokers and typically represents a few different brands. They charge a monthly retainer of several thousand dollars a month for their services.

Lastly, retailers and some distributors require a U.S. warehouse to pick up products from, or have products delivered to them. For Swedish companies without their own U.S. warehouse, a **third-party logistics provider** can be a good solution for warehousing and distribution.

HOW DO I FIND AND PRIORTIZE WHICH PARTNERS I NEED?

The best way to find importers, brokers, and distributors are at trade shows such as Expo West, Expo East and the Fancy Food Show which are the main U.S. trade shows for natural and specialty foods. Business Sweden organizes an annual Swedish pavilion at Expo West and also offers tailored partner searches to identify, screen and qualify potential partners specifically for your company’s needs.

> **WE WENT TO EXPO WEST AND PEOPLE CAME TO US FROM ALL ANGLES OF THE ICE CREAM BUSINESS: CONTRACT MANUFACTURERS, BROKERS, SUPPLIERS, CUSTOMERS, INFLUENCERS. FROM ABOUT 300 BUSINESS CARDS, WE GOT 10 OR 20 EXTREMELY GOOD CONNECTIONS WHO WE ARE NOW WORKING WITH.**
>
> NIKLAS LUTHMAN,
> FOUNDER, N!CK’S

When selecting a broker, it is important to review your options proactively as opposed to reacting to incoming broker requests. The Specialty Food Association recommends requesting the following information from each broker: their key accounts, geographic region, distribution channels, principal listing, services offered, prior accomplishments, references, and their fees. Once you have gathered this information and checked their references, you are in a much better position to make an active decision. Always try to meet the brokers in person before signing a contract.

A distributor is typically not a strategic first point of contact when forming U.S. partnerships since their first question will be “what retailer wants the product?”, The exception might be if they are a smaller, more niched distributor. The retail demand typically triggers the distribution, not the other way around. Therefore, the most efficient way to find a distributor is to already have a customer base for the distributor to take over and grow. This customer base will be built by your own sales team and together with brokers, by approaching small to midsized chains and independent stores in order to build up a list of pre-commits. The next step is to consider working with smaller distributors to start, as they provide more services to the manufacturer than larger distributors and are more eager to take on a new product, especially if you have stores pre-committed. Working with the larger distributors can also drain a lot of your capital due to forward buying and manufacturer charge backs defined in the glossary.

Ideally, you should already sell to 15-20 stores before scaling up. Once you have this in place, you are ready to approach new distributors and retailers. Distribution is the key to the grocery industry, but working with the two biggest national distributors, UNFI and KeHE, can sometimes be challenging. In order to work with these players, it can take 20 to 30 smaller food retail accounts to get them to consider reviewing your product. Ultimately, the only way to really scale a business is to work with these national distributors as their reach is far and wide.

OUR RECOMMENDATION FOR SWEDISH COMPANIES ENTERING THE U.S. IS TO FIRST OF ALL START WORKING WITH AN AGENT AND BROKERS THAT BELIEVE IN YOUR PRODUCT. COMPANIES SHOULD ALSO BE AWARE THAT ENTERING THE U.S. COSTS A LOT OF MONEY IN THE BEGINNING, SUCH AS SLOTTING FEES, DEMOS, BOGO (BUY ONE GET ON FREE) AND OTHER MARKETING STUFF. I'D ALSO RECOMMEND BRANDS TO TRAVEL AROUND THE U.S. FIRST TO GET SOME KNOWLEDGE ABOUT THE MARKET IN DIFFERENT AREAS.

ANTON LÖWING
EXPORT MANAGER, ALMONDY

WHAT MARGINS DOES EACH PARTNER REQUEST?

IMPORTER. Typically, an importer will have a gross profit margin of between 30% to 50% of the selling price, but this varies depending on the item, to whom the product is being sold and the amount of additional services the importer is offering the manufacturer. The margin for a small importer is usually 35%-50%, while other importers are around 40%-45%.

DISTRIBUTOR. Distributors typically charge retailers 33% to 50% more than they originally paid for your product, which results in a 25% to 35% profit margin. The leading national distributors UNFI and KeHE typically charge a 30% margin. Make sure to include slotting fees and promotional activities into the price towards the distributor, as this is the industry standard and often expected by the distributor.

BROKER. A full-service broker will charge a monthly retainer as well as a commission. The monthly retainer varies depending on the broker and can be as low as $500 per month all the way up to $20,000 per month depending on the size of the team directly supporting your brand and services offered. Retainers are usually in place until a pre agreed monthly commission amount is achieved. Once that amount is achieved, the retainer goes away and the broker compensation moves to commission only. Avoid signing a broker agreement where the time frame for the retainer is not specified, as this should act as a temporary fee, unless the broker is acting as an outsourced management team on behalf of your company.

In turn, broker commissions range anywhere from 2% for commodity items, and up to 5% for sales to distributors. And for direct to retailer the rate can be as high as 10-15%. Since commission rates have been reduced over the years they are now usually paid on gross sales.

RETAILER. According to the Specialty Food Association, supermarkets usually have a gross profit margin of 33-42% for specialty products, and 10-33% for mass market products. The margin for the retailer can vary depending on what the retailer needs from the distributor. At the lower end of the margins, the stores place their own orders, the distributer might ship to each store, or might ship directly to the store's warehouse. At the higher end of margins, there may be salespeople in each store taking the orders, an account person working with the buyers showing them new items and working up promotional programs, shipping orders directly to the store and possibly packing out the orders.

IMPORTER	DISTRIBUTOR	BROKER	RETAILER
			
~30-50%	~20-30%	~2-10%	~30-50%

HOW DO I DRAFT A BROKER AGREEMENT?

You should *always* have a written contract before starting to work with a broker, as the lack of one may cause serious legal implications such as getting stuck in an exclusive deal with an underperforming broker while being unable to start working with a new one for several years, resulting in major revenue losses. The more specific the agreement the better. It is always recommended to have a U.S. lawyer review the contract before signing. Business Sweden works with several trusted law firms and can provide introductions.

The Specialty Food Association provides the following advice for drafting your broker agreement:

- **Specify products assigned to this broker.** A broker may be assigned food service items, retail items, specific items or brands. This structure can create the possibility of working with several brokers in one region.
- **List the classes of trade handled by the broker.** Classes of trade can be supermarkets, specialty grocers, independent brokers, discount stores, as well as private label, e-commerce, foodservice or military.
- **Map out applicable geographic area.** This could be listed by states, counties, cities or zip codes.
- **Write down the commission and specify conditions for it.** A reasonable commission is around 2-5%, and can be as high as 15% for specialty products.
- **Agree upon what is commissionable income.** These items usually relate to promotional activity and trade show participation.
- **Specify the broker's authority.** It is important to list the responsibilities of the broker including what authority the broker has when it comes to discounts and promotions.
- **Include a termination clause.** It is industry standard to include a clause stating that either party can terminate the partnership with 30 days written prior notice, with or without cause.

Other areas that should be discussed with your broker, but does not necessarily go into the agreement include topics such as a list of accounts the broker will target, competing brands carried by broker, number of samples provided, order process, sales update frequency, sales goals, as well as consider adding an arbitration clause to resolve any dispute outside of the courts.

LEGAL & FINANCIAL

DO I NEED A U.S. ENTITY TO START SELLING IN THE U.S.?

You are not legally required to set up a U.S. entity in order to sell food products in the U.S., but there are several advantages in doing so. These include increased liability protection for the AB, the possibility of opening a U.S. bank account and hiring local employees, obtaining U.S. insurance policies, and showing a commitment to the market. Business Sweden can help evaluate if your business model would benefit from a U.S. entity or not, as this is often evaluated on a case by case basis based on existing operations, customers, liability risks and future goals.

If you are planning to make it on a national level in the U.S., you will need to set up a local sales office and hire local sales staff to work side by side with your U.S. partners. It is *very* difficult to drive national growth from Sweden, exclusively via partners.

> **PASSIVE SALES FROM SWEDEN THROUGH A LOCAL U.S. PARTNER MAY SEEM LIKE AN ATTRACTIVE OPTION, HOWEVER, IT WILL ONLY GET YOU TO A CERTAIN POINT. BROKERS AND DISTRIBUTORS CARRY MULTIPLE BRANDS AND WON'T NECESSARILY PRIORITIZE YOUR PRODUCT. TO REALIZE YOUR FULL POTENTIAL IN THE U.S., YOU ABSOLUTELY NEED A LOCAL SALES TEAM TO ACTIVELY DRIVE SALES AND BUILD MOMENTUM.**
>
> MIKE MESSERSMITH
> GENERAL MANAGER, OATLY INC

HOW MUCH DOES IT COST TO ENTER THE U.S.?

The cost for entering the U.S. varies greatly based on what retail channel you are planning on entering and how many locations you are listing your products in. In general, it is expensive to enter the U.S. market and we strongly recommend Swedish brands to launch at a local or regional level as opposed to going national from day one. Launching at a national level may seem like an appealing idea but poses a tremendous risk for you if the products do not sell as planned. Even if they do, you will need to invest a hefty sum up front to cover free fills and slotting fees just to get into the stores.

A national retailer is often happy to roll out a new product across all their stores, as there is close to zero downside for them while you take on all the risk. If the product does not sell after a few months, they will take your product off the shelf after you have spent several thousand dollars on slotting fees and free fills (see definition on page 8). For example, a large chain wants to roll out your product across 300 stores and they require a free fill of one case per store. If your case cost $20 and you are launching three products in 300 stores, your cost for free fills alone will land at $18,000. In addition, you might be required to pay a slotting fee for the shelf space, which can cost up to $20,000 per product by some of the more competitive retailers.

Some retailers also require you to do in-store demos in at least half of their stores, which is usually run by a third-party demo company who charge around 120 USD for a three-hour demo. A retailer with 300 locations would in other words cost you another $18,000. Many larger retailers also require you to be part of their advertising programs, such as being featured in their quarterly magazine, which can cost $15,000+, as well as participating in their table top shows, which can cost $7,000+ excluding travel costs.

AN AMBITIOUS NATIONAL STRATEGY CAN COST SEVERAL MILLION DOLLARS FOR THE FIRST FEW YEARS, WHILE A REGIONAL EXPANSION CAN COST BETWEEN $500,000 TO $1 MILLION. IN CONTRAST, A LOCAL LAUNCH IN SPECIALTY STORES CAN BE DONE ON A BUDGET OF $50,000 - $100,000 FOR THE FIRST YEAR TO COVER BROKER FEES, PROMOTIONAL PROGRAMS, LEGAL FEES, ADVERTISING AND TRAVEL.

IT IS IMPORTANT TO NOT BE AFRAID TO SAY NO TO RETAIL OPPORTUNITIES IF YOU PERCEIVE THE RISK BEING TOO HIGH. SPREADING YOURSELF TOO THIN BY JUMPING ON ALL INCOMING REQUESTS IS A COMMON, YET AVOIDABLE, MISTAKE NEW BRANDS MAKE WHEN FIRST ENTERING THE U.S.

GLOSSARY

There are many terms commonly used in the U.S. food industry that are essential for new brand entrants to be aware of prior to engaging in partner or retailer dialogues. We have defined the most common terms below. More definitions can be found here.

BOGO

BOGO stands for "Buy One, Get One" free discount and is often used as an incentive for retail buyers to try listing your product. This is often used as a counteroffer by vendors to retailers when they ask for a refill.

CATEGORY REVIEWS

A category review is an annual schedule with set weeks for when the retailer will review and list new brands within set product categories. Most national retailers will follow category review schedules which are set on an annual basis. Most follow these pretty strictly, unless there is new innovation that they want to jump on first. Not one retailer behaves like another retailer, so there will be different times to keep track of for different retailers throughout the year. If you miss that review period, you will have to wait a full year before you can be considered again (or if declined).

CONSIGNMENT

A model used by some retailers where instead of buying the product, they will list the products in their stores and if they do not sell, they will return them to you. Your own margin will be higher along with your risk as there is less commitment from the retailer and an additional workload for you in case the products don't sell.

FORWARD BUYING

Both retailers and distributors sometimes utilize forward buying techniques. Forward buying means that the retailer or distributor requests a discount from the manufacturer for purchase quantities exceeding their current demand without lowering the retail price in order to get a higher margin. It's important to be aware of this as a vendor for negotiation purposes. Brokers are often skilled at helping vendors identify when this is happening and can help with this negotiation.

GUARANTEED SALES/BUYBACKS

Larger retailers often require guaranteed sales, meaning that you will pay for any damaged or unsold products. The retailer will pass on the risk to the distributor, who in turn will pass it on to you though MCBs. Make sure to be selective with which retailers you work with to ensure the demographic of the store is a good fit for your products to minimize the risk for large buybacks. Another way to minimize your risk is to suggest a spoilage allowance to your distributor instead.

LANDED COST

The total cost for a buyer when it arrives at the buyer's site. The cost includes all importation fees, including customs, taxes, currency conversion, insurance, duties and so forth, meaning it can only be calculated precisely after the product has arrived.

MANUFACTURER'S CHARGEBACK (MCB)/BILLBACK

A chargeback is the most common way for distributors to charge for promotions, spoilage, short shipments, free fills etc. The distributor will make deductions for these items off the bill they owe you. Make sure to closely monitor these chargebacks to ensure there are no mistakes made, as they can often be traced back months back. It's common for vendors to dispute some of these chargebacks.

MARKETING PROGRAMS

Marketing programs are the activities your distributor will provide to you to help market your products. The two categories of marketing programs are trade programs, defined above, which are targeted towards retailers, as well as consumer programs, which are targeted towards consumers. Distributors will charge you for this service and it is important to get an understanding for what capabilities they have to support with these marketing programs before signing.

OFF-INVOICE DISCOUNT

When you offer a trade promotion discount to a distributor or retailer that is passed on to consumers, it is charged to you by an off-invoice discount. The discount is taken off the invoice to your distributor or retailer and if given to distributor, they pass it on to the retailer as an off-invoice allowance as well. Be aware that distributors and/or retailers may try to stock up on your products while they are offered a lower price, a strategy known as "forward buying", and it is important for you or your partners to closely monitor and attempt to minimize this. Another option is to suggest MCB'S or scan-backs instead as they are on what is sold, not purchased.

SCAN-BACKS

Scan-backs are an alternative way to pay retailers for trade promotions for which you reimburse the retailer with a per-unit discount for every product sold during the promotion period. This is an alternative to off-invoice discounts which removes the risk of the retailer stocking up on your product for a discounted price.

SPOILAGE ALLOWANCE

Spoilage allowance is a less risky option compared to guaranteed sales where you agree to provide your distributor with a 2-3% discount to cover any unsold or expired products. This option provides more control for you as a vendor.

TRADE PROMOTION/TRADE PROGRAMS

Trade promotion is a marketing program used by distributors when selling to retail buyers. The purpose is to incentivize the retailer to stock their shelves with the distributors' products, as opposed to the thousands of other products they are approached by. Examples of trade promotions include free fills, slotting fees, and BOGOs. Retailers may also have their own advertising programs or trade shows that they expect their retailers to be part of, such as being part of a quarterly magazine, tabletop shows, or in-store demos.

We help Swedish companies grow global sales and international companies invest and expand in Sweden.

BUSINESS SWEDEN SAN FRANCISCO
100 Montgomery Street Suite 1780
San Francisco, CA 94123
T +1 415 835 3000
Ask.USA@business-sweden.se

BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden
World Trade Center, Klarabergsviadukten 70
T +46 8 588 660 00 F +46 8 588 661 90
info@business-sweden.se www.business-sweden.se

BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL