

Food Brokers

The purpose of this factsheet series is to help producers and processors understand the key elements needed to manage a business. The factsheets also discuss some of the essential components used to develop a business plan and assess the profitability of a business venture.

Sales have been increasing at the Farmers' Market where you sell your unique sauce. You've personally worked hard to get your product on the shelves of several local stores. Now, your goal is to increase sales. Is a broker what you need?

Food brokers sell and market products. If you need a way to get your product into a new market or if your goal is to have your sauce on the shelves of a major supermarket chain in Western Canada, then hiring a broker might be right for you.

This factsheet tells you what a broker does, what the service costs and what you can expect them to do for you. It also gives you information on how to choose a broker. The first step is to clearly analyze your needs in the marketplace.

Where are you now and where do you want to go?

If most of your sales are direct to the consumer at the Farmers' Market or to the manager at the local grocery store, then getting your product on the shelf of a major supermarket chain is a big jump. It requires a major commitment in terms of both time and money. Do you have the financial resources? Do you have the production capacity? Do you have the distribution capability?

If your goal is to tap into specialty food stores, convenience stores or delis then your requirements are different again. It's still a big step, but the production and financial requirements are not so high.

You may also want to consider the potential for your product in the foodservice industry?

You may lose some of your product identity, but sales could increase.

It's essential to answer these questions. The direction you want to go in terms of the marketplace determines whether you even need a broker, and if you do, who to chose.

Who are food brokers?

If you check the yellow pages of the Edmonton or Calgary phone books, you'll find a long list of food brokers. Many of them are part of large national corporations. Some of them specialize in specific products such as beverages, grocery or produce. Others specialize in the foodservice, or hospitality industries. Others may have a geographic focus. Some are members of the Canadian Food Brokers Association. Others are independent.

Where do you start? As a small food processor, it may be difficult to get one of the large companies to handle your product. They want to know what levels of sales you're anticipating and whether they'll do well with the product. They consider whether or not your product is a good door opener for them in dealing with new accounts. Most of the large brokerage firms concentrate on large accounts – supermarket, convenience and drug store chains.

A few brokers specialize in working with small food companies. They are willing to take on new lines (pioneer), and work closely with you on developing your strategies. Some of these brokers may concentrate on gift or specialty stores.

Talk to other small food processors. Do they use a broker? Who? Participate in trade shows and see which brokers show interest.

Another source of information is the Alberta Food Processors Association. Information on this association can be found at the end of this factsheet.

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What does a broker do?

A broker represents your products to a variety of prospective buyers. These buyers could be specialty stores, retail grocery chains, wholesalers, foodservice operators and distributors, drug chains, mass merchandisers, industrial users or military installations. In trying to sell your product and achieve a listing, a broker may make presentations to the head offices of chains and wholesale groups. More and more, key buying decisions are being made at regional headquarters. If your product is listed, then it's on the list of products that the stores can order. Sometimes you have to pay a fee to have your product listed. If your product is unique or unusual, and if you have some sales data to show the demand for the product, then it's possible to negotiate on listing fees. Are you ready for this route in terms of finances? Will you be able to fill the orders? If you do get a listing and then can't meet the demand, your opportunity to sell through this chain may be lost. Once a product is listed, your broker may also schedule promotions. The broker keeps in touch with head office to ensure direct feedback and coordination between head office and the retail accounts.

As well as representing your product to buyers (selling), brokerage firms offer a number of other services. These may include merchandising (planning promotions, and keeping product on the shelf) computerized ordering and data collection services.

Your broker will call on retail outlets on a regular basis. Calls are normally made every four to six weeks in rural locations and once a week for major retail and wholesale accounts in the city. As a representative for your product a broker should make sure the product is on the shelf, adjust shelf space, handle complaints, pull damaged product, rush through an unplanned order, handle any special promotions or displays, and monitor competitor activity. They should also handle any problem situations for you.

As a small processor you may need specialized services. Some brokers will suggest product sizing and packaging that is most suitable to your desired marketplace.

What does a broker cost?

Brokers are paid a percentage of sales. Fees can range from three per cent to 10% depending on the volume and the amount of labor required. Commission rates are usually negotiated along with fees for special services such as the planning of promotions or data collection. There may be a start-up fee of \$1,000 for the first six months. This might be deducted from future commissions.

As a small food processor you will probably be paying commission at the high end of the scale. Because your

product is new, unfamiliar and without a track record it's likely to take more work to get your product on the shelf.

Why use a broker?

A broker has personal contacts and established relationships with buyers the importance of which can't be underestimated in today's competitive food industry. Brokers also have expertise in select markets. They may also have regional expertise and the ability to address the region's individual characteristics. For example, they may know what outlets in Vancouver will be interested in your sauce. A broker can provide you an expert sales force, local representation and stable sales costs.

Because a broker is representing a number of products (usually non-competing) there are efficiencies. Overhead costs are spread over a number of product lines. Thus your sales costs are shared by other manufacturers.

A broker serves as your eyes and ears in a region. He can monitor developments, find distributors and handle problems. If a customer has a complaint, your broker can handle it for you.

When would you choose not to use a broker?

When you use a broker you share his time with other companies. Many brokers are willing to provide specialized customer service and learn all about the intricacies of your product. You must decide if your sales strategy and product is one that needs dedicated sales staff. If you think your sales volumes will be high enough that brokerage fees will cost you more than sales staff, you may not need a broker.

Selecting a broker

- Know your needs and expectations. Do you want retail market coverage or head office contacts? Do you need help with marketing and trade programs? What about a merchandising service? Would you like specialized services including translation, meeting government requirements, computer services and reports?
- Find broker candidates. Check the listing under Food Brokers in the Yellow Pages of the Calgary and Edmonton phone books. Check with other small food processors to get the names of their brokers. Check with the Alberta Food Processors Association or the Canadian Food Brokers Association.
- Trade shows are an opportunity to meet brokers and see them in action. You might consider sending letters to selected brokers in a territory, inviting them to

respond and meet with you or contact you at a trade show.

- Evaluate the candidates. The most important criteria may be how comfortable you would feel working with them. What strengths does the broker offer in the areas of retail market coverage, trade contacts, quality employees, market knowledge and good communication skills.
- Here are some questions you might ask.
 - May I see a list of your major clients? By asking for a business portfolio, you will find out what products they are carrying and where you will fit in.
 - What are your five largest retail/foodservice accounts?
 - Do you have any items in your product line that would complement our product?
 - Are there people in your organization familiar with our product category?
 - To whom would you assign our accounts and what accounts does that person have now?

The flip side – what’s a broker looking for?

After meeting with you, the broker will have an impression of you, your company and your product. The broker will consider:

- Your commitment. What research have you done, what is your marketing program like, and what financial resources do you have available?
- Product match. How well does your product fit in with his product line? Are there conflicts with other products? Does it fit with his goals?
- Potential volume. Where is the product being sold now? What are the current listings or present distribution in the grocery network?

Once you’ve done your interviews, make a decision that is mutually beneficial to you and the broker.

Building an effective working relationship

A productive relationship is based on communication and trust. Because your broker is putting your sales plan into effect, seek the broker’s advice during the planning stages. Inform the broker about your product. Work with the broker to develop product information sheets to leave with the buyers. Invite him to your plant.

To get the results you expect, provide direction and guidance. Be sure the broker knows your limits and doesn’t present exceptional deals on your product that you can’t afford. Make sure you both agree on sales targets. The broker must know the criteria to be used to measure performance. Be realistic about your expectations. Remember, the broker represents several principals (manufacturers). To get the results you want, provide ample lead time. Allow the broker to plan ahead for market visits, new product launches, promotions and meetings.

Summary

Using a broker to sell your product is a big step if you’re a small food processor. It’s just one of many distribution channels open to you. A broker is useful when you’re attempting to market a product into a new outlet or region. Be sure your company is in a position to take this step. Then, take the time to find a broker that suits your company and product. You should also feel comfortable working with the broker. Work with your broker in the same way that you would a salesperson. Make the broker part of the planning and strategy as it will make them part of the team. You both want to succeed in this venture into a new market.

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