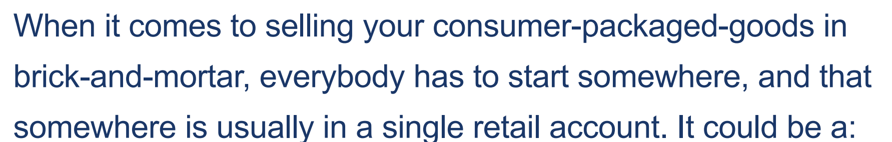
FIRST RETAILER

SURVIVAL GUIDE

Jekyll+Hyde LABS

For most start up CPG brands, life begins by selling product direct-to-consumer via web or Amazon-type platforms. This can be a great place to start, but to really build a brand to significant volume and value, most companies need the reach and distribution of brick-and-mortar retail stores, often known as Food/Drug/Mass or F/D/M.

While Amazon has captured tremendous market share and is expected to pass Walmart as the largest retailer, the majority of CPG is still sold in F/D/M retailers.



When it comes to selling your consumer-packaged-goods in brick-and-mortar, everybody has to start somewhere, and that somewhere is usually in a single retail account. It could be a:

- national account chainwide
- national account test market (usually a few hundred stores)
- regional retailer

The initial plan of many marketers is to roll out their product nationwide in several accounts at once. Although this does sometimes happen, it's a rare occurrence unless you are part of a very big national company or have some breakthrough technology that is sweeping the market.

The reason it's so difficult is simply human nature. Even though a buyer at a big retailer will be far more sophisticated about products than the general public, they'll still have mental and emotional biases that play into their decision-making.

Understanding The Retail Buyer

The performance of retail buyers is measured by the overall sales and profitability of their section of shelf space. Since every square inch of a retail store is accounted for, in order to bring a new product like yours, the buyer has to make the decision to remove something else that is generating sales and take the risk on you. In other words, it is safer to say no to a new product than it is to say yes.

Typically, once one retail account says yes, the rest of the accounts take a "wait and see" approach, knowing that they can jump on the band wagon in six to twelve months if your product takes off. This is because they can simply watch the IRI or Nielsen Data (which reports your retail sales for all to see). This data lets the buyer know if it is worth taking a chance on bringing your product in, by eliminating, or at least greatly reducing the risk of the retail buyer making a bad choice.

Right now, the retail buyer is taking a risk on you. If you fail or do not hit the minimum sales figures, they are going to be the first person to turn on you and cut your product. They cannot afford to have their career marked with selecting bad items and keeping them on the shelf. ("Bad" doesn't mean the product itself is bad, only that it doesn't sell the required volume.)

Conversely, buyers also get rewarded for picking the best new, winning items. If you and your product can turn the buyer into a hero via strong sales, they will become your advocate in the account.

Regardless of the type of retailer, once you are in your first account, things will change for your business… and there's no looking back. You've jumped in to the deep end of the pool and you HAVE to swim.

It's critical that every CPG firm understands that **your first retail account is not about making money; it is about proof of concept and viability, so the other retailers will say "yes"** in six to twelve months from now. Brands that try to focus on profit while only having one account will fail in the long run.

This first retail account period is often the most dangerous and difficult time for a new or emerging brand.

Even a great new product or technology can fail a test run if not supported properly.

Let's look at the challenges:

The Challenges of Your First Retail Account

#1 The retailer is likely to have you on a short runway regardless of what they tell you. Many accounts will make a decision on whether you are going to survive or not within 60 days.

#2 The retailer expects you to be driving new consumers into their store and will not accept you selling product to their existing customer base.

#3 Your sales figures will now appear in IRI and Nielsen and every other account in the country will make their decision to bring you in based on those sales figures.

#4 Should the account delist you, it will be years before you will ever get back in that account (if ever).

#5 You cannot be profitable on a single account.

#6 Due to only being in one account, you cannot advertise cost effectively since most CPG products require an ACV (All Commodities Volume) above 40% to be profitable and about 70% to have sustainable long-term growth and profit.

Now let's drill down deeper into these issues.

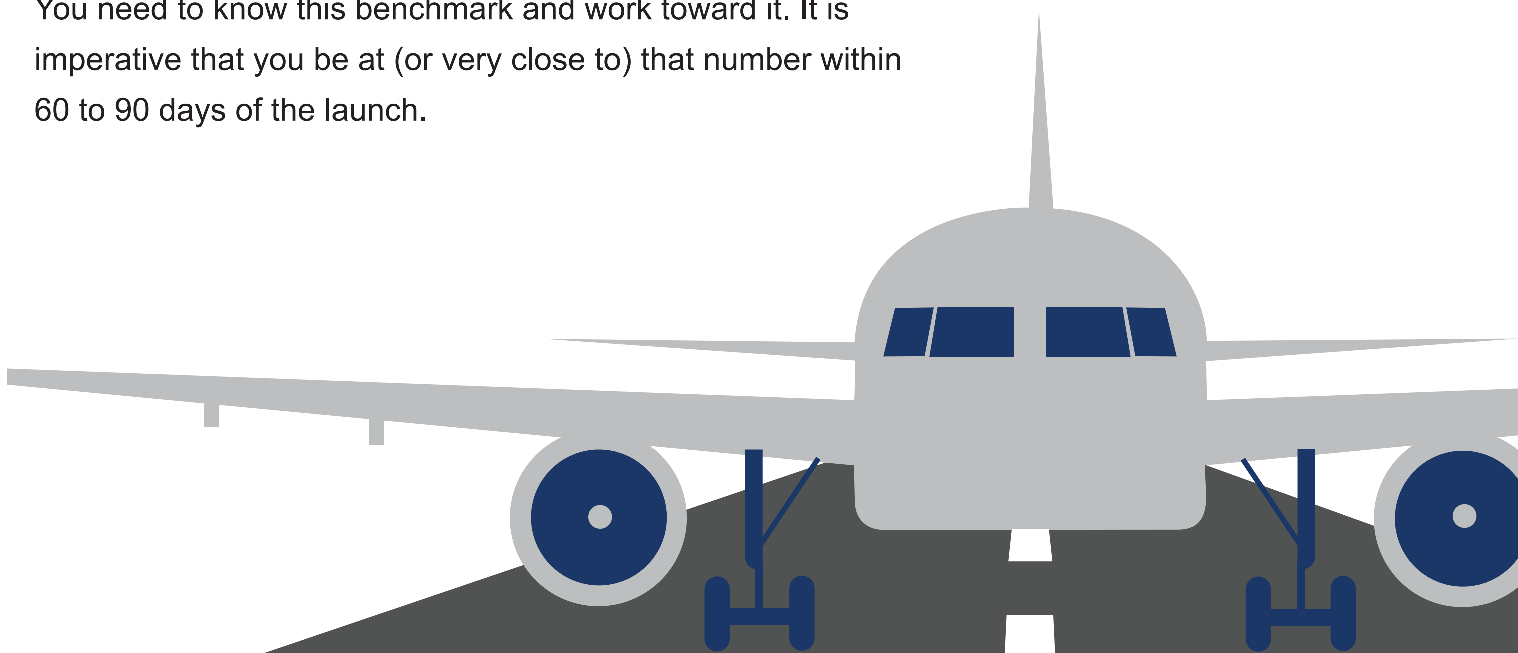
#1 Short Runway

The first item is being on a short runway. It is true that **most accounts will be measuring your viability in the first 60 to 90 days.** This can be true even if you have a commitment from them for six months to a year. Within 90 days of launch, retail buyers are already considering which products are their winners and losers and will be entertaining alternatives.

Because of this, it is important that your product hits the ground running. There is little time to ramp up, or wait and see how the product performs. **You must have an advertising campaign ready to roll out after the first two to three weeks of the product launch.**

The reason we wait about three weeks is simple: it takes that long for all of the retail locations to actually get the product planned (on shelf), and it also gives a quick baseline of how the product is doing with no ad support.

You should know in advance what is expected. Discuss with your retail buyer or broker what is considered a success. Is it one piece per week, per store? Maybe it's two, depending on the price point. Also, it is important to note that different categories have different sell rates. You need to know this benchmark and work toward it. It is imperative that you be at (or very close to) that number within 60 to 90 days of the launch.



#2 Advertising for New Retailer Customers

The most important part of any retail buyer meeting is the point where you explain your advertising program. The retailer must be convinced that you are going to bring in new customers. Without you bringing in new business, they really don't need your product, since they already have something on their shelves that address the needs of your consumer. **Without additional customers bringing in additional revenue, there is little reason for the buyer to take much of a risk on you.**

As stated earlier, buyers are still consumers; if you can convince them that customers are specifically seeking your product out, you can also **convince them that if they don't carry your product, that customer will leave** and go someplace else that has your product. No one wants to be left out.

#3 Everyone Will Know Your Business

Once your product is on the list of any reporting retailer, **the entire world of CPG will know your sales.** As stated earlier, the reason you start with one account is because every other account now knows they can wait a couple of months and learn just how viable your product is with no risk other than a few lost sales.

Assuming that your first account is a national or regional chain, odds are they report to IRI and Nielsen. These two agencies record the sale of every product as it passes through the scanners. They then compile monthly reports showing the sale of every item by SKU and by retailer. This information is available to all of their subscribers, which include all major retailers.

There is no faking it, and there are no secrets in the retail world.

It is critical that your sales numbers demonstrate that you have a hot product and that it is one that every retailer should have in their store. **Without good IRI data, you will keep hearing "no"** from every other retailer in the country.

#4 Failure is Not an Option

There is an old saying, “Don’t chase the dog.” That holds true in retail. Buyers will avoid a failed product like a plague. To get back in requires years, some really new event like advertising, and most likely a change of buyer. It bears repeating; your first retail account is not about making money; it is about:

a) proving you belong on the shelf
b) showing other retailers the value in carrying your brand

Chances are, you will have some type of test run going. Prepare to overspend on your advertising. It is exceptionally rare for a product, even those from big name brands, to survive the test without overspending.

Remember that you are playing for keeps here; if you fail on your first time out, it is unlikely you will get a second chance.

#5 Making Money vs. Viability

This is the most important lesson here:

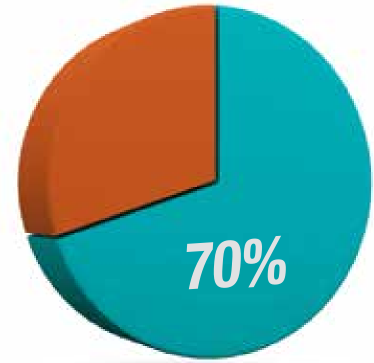
Your first account is not about making money, it is about proving your product is viable and that it deserves to be in distribution.

In fact, most CPG brands will take three years to get full or significant distribution and until that happens, they are forced to overspend on marketing. Every available dollar needs to be invested right back into growing the brand and lifting the IRI sales numbers.

As a rule, our model of advertising for new CPG brands is to find opportunities for the most cost-effective way to promote the product with the least amount of waste, and to expand on all digital platforms such as Amazon, Walmart.com etc., to maximize sales and advertising return, so that we can offset the ad costs and get our client as close to breakeven as possible or hopefully even with a small margin.

Think about it like this: A radio ad for a product at Walgreens is the exact same ad, at the exact same cost as an ad that says, “Available at Walgreens, CVS and Rite Aid”. The only difference is that the product is now available to more than twice as many people, and you will sell twice as much product for the exact same investment.

#6 A Passing Grade is 70%



No matter what account you're in, you cannot reach long term growth and profitability until you pass the 70% ACV (All Commodities Volume).
This means that you are available to at least 70% of the *market*, not that you are in 70% of all stores.

For example, Walmart can range for ACV for most products between 20% and 40%. This means that they have a *20% to 40% share of all sales in a given category*, not that they own 40% of all stores.

The reason you must cross the 70% line is simple: Consumers are loyal.
As an example, Walgreen customers are 86% loyal. This means that 86% of their shoppers will not go to CVS right across the street to buy a product if Walgreens does not have it. They will instead buy what Walgreens has available.

If you had a radio or TV campaign running telling people that your product is in Walgreens but no other retailer, you know that only about 28% of the people seeing the ad actually shop at Walgreens.
Of that 28%, only 14% will go to another store other than a Walgreens to buy your product.

So, even though your ad campaign is showing to 100% of the market, based on consumer shopping habits, only a portion of them can buy it. This is why, until you cross the 70% ACV line, it is very hard to monetize an ad campaign. You need to be in excess of 70% ACV to make your advertising campaign financially efficient, as this is the approximate intersecting point to campaigns being able to self-fund.

What is the Road Map to First Retail Success?

Step 1 - Find the Niche

Don't try to be everything to everyone. Figure out the specific person who will be most passionate about having your product, and can't live without it. Put all your focus on them.

Step 2 - Be Hyper Focused

In today's digital world, we can hyper-target these users and the actual physical location where your product is on shelf. By keeping the targeting tight and accurate, you don't waste advertising dollars marketing to people who are not within reach of purchasing your product at the desired destination.

Step 3 - Spend Enough to Make it Work

Most brands budget between 15% and 30% of wholesale numbers as the annual advertising budget, but currently you have no sales. Every customer you acquire during this period is a brand-new user, so you have to go out and buy them. Remember, your goal is to prove you are viable, not to be profitable. Furthermore, everyone is a first-time user, which costs more than a returning brand consumer. If your product delights them, they will have a lifetime value to you. These proof-of-concept budgets typically run 50% to 100% of actual sales for the first one to three months.

Summary

Launching a new CPG product is a process. It is a marathon; not a sprint. It takes focus and patience, and is not for the faint of heart. But few businesses today offer the extraordinary opportunity for success and wealth creation as the CPG industry.

There are very few industries where someone can launch a $10 product from scratch and five years later sell their business for hundreds of millions of dollars.

There are two dynamics operating at all times with your CPG business:

a) making the right choices that move your brand forward
b) avoiding the mistakes that can cost you dearly

Often, the pitfalls that you were able to avoid become the defining moments in your company. In other words, sometimes what you didn't do is what actually makes you the most money.

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