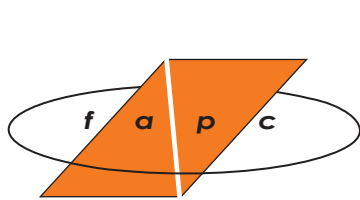


Robert M. Kerr Food & Agricultural Products Center



FOOD TECHNOLOGY FACT SHEET

Adding Value to Oklahoma

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Are Food Brokers Right for You?

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Introduction:

You have spent hours of time and money in the development of your product, and it is now time to make a very important decision as to how you intend to sell and deliver that product to the buying public. This decision may well be one of the most critical areas that you have to address because it will determine the initial introduction of your new company and product. Many startup companies have a tendency to neglect this part of the business in the early stages because of the tremendous focus placed on the product itself. There is also the issue of manufacturing the product in your own production facility or electing to use a co-packer that meets the standards in quality and product integrity that you require.

There are several options that a new company can consider. One is DSD or Direct Store Delivery. This is where you contact the buyer at each location, take their order and deliver from the existing inventory on your truck at the time or at a later date. You can also consider a jobber/distributor who represents a variety of products with a sales force that makes periodic calls, usually weekly, on a defined sales territory. These orders are normally processed at the end of the day by the salesperson and delivered by the jobber/distributor on the next truck in that geographic area. Most jobbers/distributors purchase the product from the manufacturer and establish a set sell price (18 percent to 35 percent) to the customer. However, some prefer to establish a consignment program for a startup company. This method means you place product in their distribution center on consignment, and you are paid at the end of the month based on actual sales from your inventory. One of the most common methods of selling and marketing your products is through an established and experienced food broker.

Food Brokers:

Some of the advantages of appointing a food broker are:

- 1) Knowledge of the local market conditions.
- 2) Existing professional relationships with the buyers.
- 3) Overall experience in representing multiple lines of products that may include yours.
- 4) End user calls.
- 5) Specialization in food service, retail grocery, bakery/deli and other specialty categories.

Brokers generally work on a commission basis of 5 percent to 8 percent of the total invoice amount on each order they receive and ship during a calendar month. This is important because it may take 30 to 60 days to complete presentations to all the buyers in the market for your product before orders are placed for shipment; therefore, no commissions are due initially until orders are shipped and received. Most food brokers represent 20 to 30 manufacturers in their company and try to avoid conflicts of products if at all possible. Examples of conflicting lines would be Tyson chicken vs. Pilgrims Pride, Libby vs. Del Monte and Ore-Ida vs. Simplot french fries. There are some occasions where two manufacturers will agree to use the same broker for representation in the geographic market, most commonly due to national accounts or restaurant chains like IHOP, Denny's, Outback Steak House, etc.

Food brokers will generally classify the companies they represent into three categories based on criteria that best fit their mutual goals and objectives for that particular market. National manufacturers and regional companies expect and usually require the broker to appoint an "account executive" that will devote 80 percent of their time each week working the specific lines for that

company. Brokers will generally agree to that arrangement because of the revenue potential, and most brokers will represent two to four manufacturers that will require some type of additional attention by the brokerage. The top four to five lines in a sound and established brokerage company will account for approximately 70 percent of their monthly income.

The second category of manufacturer is usually a regional company that is well known in a smaller geographic area, but generates opportunities to the market in both product lines and competitive pricing. These manufacturers will generally have a district manager that works directly with the food broker and his staff in the market and will schedule monthly or quarterly visits to establish a solid customer base for that market. Many of the regional manufacturers are more flexible in their operations and take advantage of the opportunities when customers require products or services where reaction time is important and sometimes critical. For the broker, these types of manufactures represent the majority of their lines and usually contribute about 25 percent of their monthly revenues.

The third classification of manufacturer is the smaller companies that offer niche products or more specific lines that compliment the overall mix of manufacturers represented by the brokerage company. Many brokers will represent up to four or five of the smaller product lines, but may not be able to give them the consistent attention compared to the major lines that provide their revenue. Generally, these types of manufacturers will account for 5 percent or less of the overall income for the brokerage company.

Broker Agreement (Contract):

A brokerage agreement, in most cases, is drafted by the manufacturer stating the conditions of the contract between the two parties. The contract is normally two to three pages in length and establishes what the manufacturer will require of the broker and defines what the broker can expect from the manufacturer. It is standard industry practice, when interviewing brokers to represent your product in a market, to meet with at least two or three brokers and always have a copy of your contract available for them to review. It is recommended that you take the contract with you when you leave the interview, unless you have made a decision to sign a contract with the broker at that time. The specifics of the broker agree-

ment contract can vary from company to company, but some of the conditions that must be included are:

- 1) What rate of brokerage do you pay?
- 2) Do you offer any incentives?
- 3) How will you calculate the monthly brokerage and when will it be paid?
- 4) Will you deduct brokerage for unauthorized credits or uncollected accounts?
- 5) What are your stipulations on competitive products?
- 6) What is the broker's defined territory?
- 7) What are the conditions for termination of agreement (e.g. 30 days)?

These are just a partial list of terms and conditions that need to be addressed when selecting a food broker. A generic copy of a brokerage agreement can be found at www.fapc.biz/news/factsheets.html under the FAPC-130 Are Food Brokers Right for You fact sheet link. It is strongly recommended that you always have a signed agreement on file to protect the reputation and integrity of your company and products.

General Information:

You will find in the process of talking to and interviewing food brokers that the vast majority of those operating successful companies have established professional relationships with the manufacturers they represent and the customer base they serve. The principal owner of the brokerage will always make every attempt to hire people who have many years of specialized experience in the food industry and people who compliment the lines of products they represent in the market. When major food manufacturers interview potential brokers to represent their product lines, one of the most important considerations in the process will be to determine the experience and ability of the account executive that will oversee their products. Food brokers must maintain a high level of integrity to both the manufacturer and the customers they serve, and their employees are expected to be professional, fair and consistent in working with their clients. It is also important to remember that food brokers are expected to meet the sales and profit goals for each of their manufacturers to renew their contracts each year.

Food brokers are an excellent source to assist you in establishing your new company and products in the market. Understanding how a brokerage company works can be helpful in making that decision.

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