

SAFA Entrepreneurial Lesson

Pros and cons of working with retailers

What does it mean to work with a retailer?

Retailers are people or businesses which publicly sell goods or services for consumers. At first, as a start-up company, you should be using direct to consumer models (DTC). This means bypassing any third party intervention, and selling the product you invented and manufactured directly to the consumers.

After working through DTC for a period of time, working with retailers is an important decision to consider. Like most other decisions as an entrepreneur, working with a retailer will have its benefits and drawbacks which you need to be aware of.

First, your products need to be able to make it into retail.

Watch this video which explains how you can bring your innovative product into major retail stores like Walmart and Target. Start at (6:15), as much of what is talked about before that will be covered after the video.



Benefits of working with retailers

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1. Your company will get more exposure.
 - a. This is important as you will build your reputation.
 - b. Other products/services you offer if you have a multi-product/service line will get attention.
 - c. If you are still maintaining direct to consumer in some way, those sales will also increase.
2. You will have an increased volume.
 - a. Retailers often increase your amount of orders significantly.
 - b. You will reach many more consumers than you would have with direct to consumer.
 - c. Your manufacturing costs will decrease as you can pay for larger bulk orders.
 - i. Remember how manufacturers give discounts for larger orders.
3. Your company will gain credibility.
 - a. Having your product on the shelves of major retailers increase the validity of your businesses.
 - b. You will increase professionalism (remember that from the previous lesson?)
 - c. You will be taken more seriously in negotiations with your manufacturers and other businesses dealings.

Drawbacks of working with retailers

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1. Your profits are cut down strongly.
 - a. The retailers will take most of your profits, and leave you with less amount of money per product sold compared to if you would use direct to consumer.
 - b. Retailers mark up the product. The price they sell it for is twice the price that they buy it from you.
2. You have less control over packaging and selling your product after you give it up to the retailer.
 - a. After giving up a bulk order to the retailer, they are now in control of selling your products.
 - b. You cannot offer promotions or such to your customers, as pricing is now in the retailer's control.
3. Retailers also face competition
 - a. All retailers face some kind of competition, so your product still might not sell as quickly as you want it to.
 - b. You also risk dependency on a retailer which could be disastrous for you as an entrepreneur if the retailer goes out of business.

Things to consider when working with retailers

1. Order Minimums

- a. Order minimums help ensure that working with retailers will be financially sustainable.
- b. These ensure that you make a good amount of total profit from the entire bulk order that you give up to the retailer, in order to make it worth working with them.
- c. These turn into reorder minimums. After they sell out of the first bulk order, they would need to buy a minimum quantity to reorder again.

2. Turnaround time

- a. Consider how quickly you are able to manufacturer and meet the demands of your retailers. How long does it take you to restock on inventory?
- b. Volume changes when you switch away from direct to consumer. You need to make sure you have the capacity to fulfill the retailers orders on time.

3. Payment Terms

- a. At what point in the transaction process do the retailers pay for your bulk order.
 - i. Before you give the order, after they receive the order, or during a certain time period?

4. Shipping Terms

- a. Who is liable for lost/damaged packages throughout the shipping process?
- b. How will the return process work?

Activity Time

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In your entrepreneur journal, write down whether or not you will work with a retailer. After you do so, write down two reasons why you made that decision, and then share them with a partner or group of three.