

FOOD MAKERS CAN GAIN EXPOSURE TO NEW CUSTOMERS THROUGH SALES TO LOW-PRICE OPERATORS.

Specialty food makers seeking to get their products onto the shelves of discount food retailers need to remember that those types of stores are called “discounters” for a very good reason.

The retail prices that makers might be accustomed to seeing for their products in specialty food stores or supermarkets will not be found in the discount world. Accordingly, selling through discount channels requires manufacturers to think differently about their revenue and profit calculations—and in fact, in many cases it may not be feasible for small specialty food manufacturers to pursue the discount retail channel.

Still, there may be good reasons for specialty food makers to work with discounters, such as to sell through product that has been discontinued or is approaching its expiration date.

That strategy may not be appropriate for low-priced retailers such as Walmart, Target, or Aldi, but it is a viable way to sell product through retailers such as Grocery Outlet or through chains that specialize in discounted general merchandise or apparel, such as T.J. Maxx, and also have significantly discounted food departments.

North Kingston, R.I.-based Ocean State Job Lot is one such retailer that has developed a strong business selling specialty foods through its 41 years in operation.

“We tend to buy very large quantities of unusual specialty items and work on closer margins,” says Alan Perlman, one of the owners of Ocean State, which operates more than 130 discount stores in the Northeast. “We can go through extraordinary quantities as a result of bringing the price down to an affordable level for the consumer.”

The mix of food items varies between about 11 percent and 15 percent of SKUs at Ocean State, depending on the store, and food represents about 18 percent to 20 percent of the company’s sales. This year, total sales volumes at the chain are expected to be about \$750 million, Perlman says.

Ocean State works with many specialty food makers directly to source a regular supply of products at reduced prices, he says, and the retailer also works with these businesses to sell discontinued items or merchandise that they are seeking to unload. Perlman estimates that about 85 percent to 90 percent of the specialty food items his company sells are items that it carries on a consistent basis, and the other 10 percent to 15 percent are what he calls “opportunity” items that are brought in temporarily at sharp discounts.

“Many vendors sell to us regularly, then when they have a problem—whether it’s a package change, or a dating situation—they come to us,” he says.

Although Ocean State might pay a reduced price for product that is discontinued or nearing its expiration date, that doesn’t mean that the retailer won’t pay a higher price for other specialty items if it can agree to terms with the manufacturer, Perlman says.

Specialty food has been such an important element of the Ocean State offering that the retailer recently launched a blog called Frugal Food Guys on its website that showcases the variety of food products in its stores.

Although Perlman says Ocean State works with vendors of all sizes, many small specialty food brands might find it difficult to achieve the efficiencies needed to be able to supply discounters on a regular basis.

“Sometimes a small player doesn’t have the volume to buy their jars or packaging or other raw materials at a low enough price to sell you an item at a sharp price,” he says.

TRANSPARENT PROCESS

Jeffrey Landsman, owner of Specialty Food Sales, a Baltimore-based specialty food broker that specializes in alternative retailers, says selling product to discounters tends to be much more transparent and straightforward than selling to traditional supermarkets.

“None of the discounters that I know of have any sort of slotting fees, require any discounts, make deductions, or have supply chain requirements,” says Landsman.

Most discount retailers have their own captive supply chains, Landsman says, and they work directly with brokers and manufacturers to bring product into their warehouses. Supermarkets, by contrast, tend to work with third-party distributors for specialty food items.

Perlman agrees that Ocean State is very straightforward in working with specialty food manufacturers.

“We are a very lean operation,” he says. “It’s very simple: What’s the price? We are not going to ask for money for advertising or all of these other things,” such as slotting fees or warehouse fees.

“A lot of supermarkets and distributors are working on tight margins, and so they are looking for other streams of revenue,” says Perlman.

In addition, Ocean State makes decisions quickly.

“We don’t have to go to a committee and get back to you in 10 weeks,” he says. “We can make a decision the same day.”

RETAIL STRATEGIES DIFFER

Every discounter is different, however, Landsman says, and it is incumbent upon manufacturers to do their homework and make sure that the products they are pitching are appropriate for the retailer they are seeking to sell to. Some discounters are looking mostly for gift-type specialty items such as chocolates or cookies, for example, while others might be seeking items that convey a certain cachet through their packaging.

Some discounters are specifically looking for specialty food items that are nearing their expiration date so they can get the cheapest price possible, and others seek out brands or products that have been discontinued. Still others might simply want to be able to say that a certain specialty food item is available at a discount compared with other retail stores.

Selling to discounters can provide a vehicle to expose a specialty food brand to new customers.

“Some consumers will buy those specialty items no matter what the price, but there are many other consumers who can’t afford specialty pricing, and when you bring that price down to a reasonable level, they are willing to try that item at a reduced cost,” Perlman says.

Landsman says the exposure that discounters can provide is one of the biggest benefits of working with such retailers.

“Selling to the discount market or the alternative market is a great opportunity to expose your specialty food products to a larger audience,” he says. “To me it’s a marketing tool.”