

Thinking of Taking your Brand from D2C to Retail?

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If your CPG brand is thriving in the direct-to-consumer market, you may be thinking of taking that leap into the wholesale/retail channel. Entering into retail distribution can be a huge driver of growth and positive change, but it is not a decision to be taken lightly.

Here are a few things to consider before you move forward:

1. **Do your manufacturing and warehouse facilities have the capacity to increase the volume that comes with retail?**Expanding to retail requires additional planning and making sure all involved parties are on board to scale. You should have discussions with your warehouses and co-packers to understand their capabilities to determine if you need to add resources/facilities to handle additional volume.
2. **Are exclusivity contracts right for you?**In some cases, especially with beauty brands, certain retailers require exclusivity contracts that would prohibit you from pursuing the shelf space of competing retailers for some period of time. You need to determine whether this is right for your company or if you think you would have a better opportunity entering different retailers.
3. **Is your gross margin high enough to scale to retail?**A key thing to remember is that direct to consumer sales enjoy relatively low dilution. Dilution represents chargebacks for discounts, promotions and other allowances. Once you enter the retail market, you will be absorbing

significant deductions for slotting, free fills, advertising requirements, and other discounts and promotions that will reduce the gross margin you are used to seeing. A lot of companies ask what the right gross margin is before entering this channel, but it depends on your product and industry. You should start by discussing this with your key advisors and others in the industry to see if your gross profit is in line with industry standard prior to launching into this new channel.

4. **Are you correctly calculating gross profit prior to going to wholesalers/retailers so you can correctly price your product?**As you are growing your company, your attention and focus may be on key priority areas and you may not have had an opportunity to scrutinize your gross margins. Before setting your wholesale/retail price, you should evaluate what is in your gross margin calculation and if you are missing any costs prior to making your decision. We commonly see certain costs excluded from the calculation of gross margin such as discounts, spoilage, freight-in, and distributor charges, but they should be included when calculating gross margin.
5. **How should you determine your wholesale/retail price?**Once you are accurately reporting gross margin, it is time to determine the price point for this new channel. A great place to start is to take your costs, add the average dilution for your industry and then add a gross profit margin you want to achieve on each product. Once that is determined, you should look at competitors to see if your price is within the range, so you don't price yourself out of the market. Also, be sure to factor in broker fees, incremental sales and fulfillment expenses.

Naturally, there are many factors that may be worth considering before launching your product on retail or wholesale platforms. Having a discussion with your key advisors about the associated risks and benefits, also factoring in any supporting data about your customers, and brand loyalty, could be a great place to start.