BEGINNER'S GUIDE TO LAUNCHING INTO RETAIL

This eBook serves as a guide for businesses looking to launch into retail. Describing the reasons why businesses opt for retail along with ideas for the ideal infrastructural foundation, this guide offers a compilation of izba's supply chain management expertise.

Learn about retail contracts, shipping processes and requirements, order reception and delivery as well as invoicing operations involved when launching into retail.

Why Retail?

Businesses that start as DTC and are able to successfully grow will at some point saturate their market and will need to expand beyond the virtual world. And the only way to do that on a significant level is to launch their product into another marketing channel. For many the answer is retail.

The idea is simple, rather than engaging directly with your customers, you sell products to retailers (Target, Walmart, CVS, etc) who distribute them for you.
At first glance, a startup may assume that launching a new sales channel is similar to whatever they've done in the past.

In reality, expanding into retail is an enormous change from DTC both in the scale of a business, the core infrastructure needed, and the cash flow implications required. It's vital that startups fully understand these changes so that they can thrive in this new space.

One of the biggest challenges is supply chain. Things take a whole new turn when you're involving the production and shipping of thousands of products to retail stores that have a complex set of strict demands which require businesses to lay out cash for inventory stocking.

Foundations and Product Infrastructure

The first thing every business needs to understand is its product, and it is hopefully common knowledge. Of course, you'll need to know the ins and outs of your product and its market, but streamlining production is the first priority.

In DTC, meeting consumer demands and even processes like fulfillment can be taken care of rather easily. Your balance sheets look sorted and more often than not, ROI along with product manufacturing and related costs are calculated without problems as well.

However, when going into retail, you have to abide by the standards put forward by retail stores and that includes knowing how to manage and present your product to them.

GS1's

- Retailers work with hundreds or thousands of brands and companies, most of which deal in similar product categories. To be able to tell yours apart from the rest is not something they can promise when you consider the amount of inventory they deal with.
- This is why one of the first demands you'll have to meet from retail stores is to comply with the Global Standards 1 (GS1) criteria for labeling your products with their very own GTIN (Global Trade Item Number).
- Barcodes have universal acceptance as the reliable system that can distinguish SKUs.

Brief History of Barcodes and the GS1

N. Joseph Woodland, the man who invented the barcode, started his work from his early days as a Boy Scout. His interest in Morse Code and its applications gave him an idea when he drew four lines in the sand of the Miami Beach in 1948.

The initial design that he patented in 1952 was a circular bull's eye-type design which was bought by Philco for $15,000 at the time.

It was later and through countless innovations in printing and laser-scanning technology that the barcode was brought to the form we see it in today.

The invention of the Global Standards-1 is credited to the Ad Hoc Committee of the Uniform Grocery Code Council (UGCC), a council formed by trade union leaders in 1973 that agreed upon and presented the linear barcode as the Universal Product Code (UPC) symbology.

In September 1974, the UGCC became the Uniform Product Code Council (UPCC) and the administrator of the barcodes.

GS1 is the only provider of barcodes that registers your product in the massive directory that is shared across the globe in commerce. Every GTIN consists of segments that each serve as an identification for the particular product it's pasted on.

GS1 Registration Process:

- Select a GS1 US GTIN or GS1 Company Prefix and put them in your cart
- Provide your contact information
- Pay

GS1 US GTIN:

The GS1 US GTIN is for businesses that have a small list of products that require a barcode.

You can license a GS1 US GTIN for $30 and get a free lifetime subscription to GS1 US Data Hub, an online tool you can use to create your own barcode and manage your product data. There is no annual renewal fee for a GS1 US GTIN.

GS1 Company Prefix:

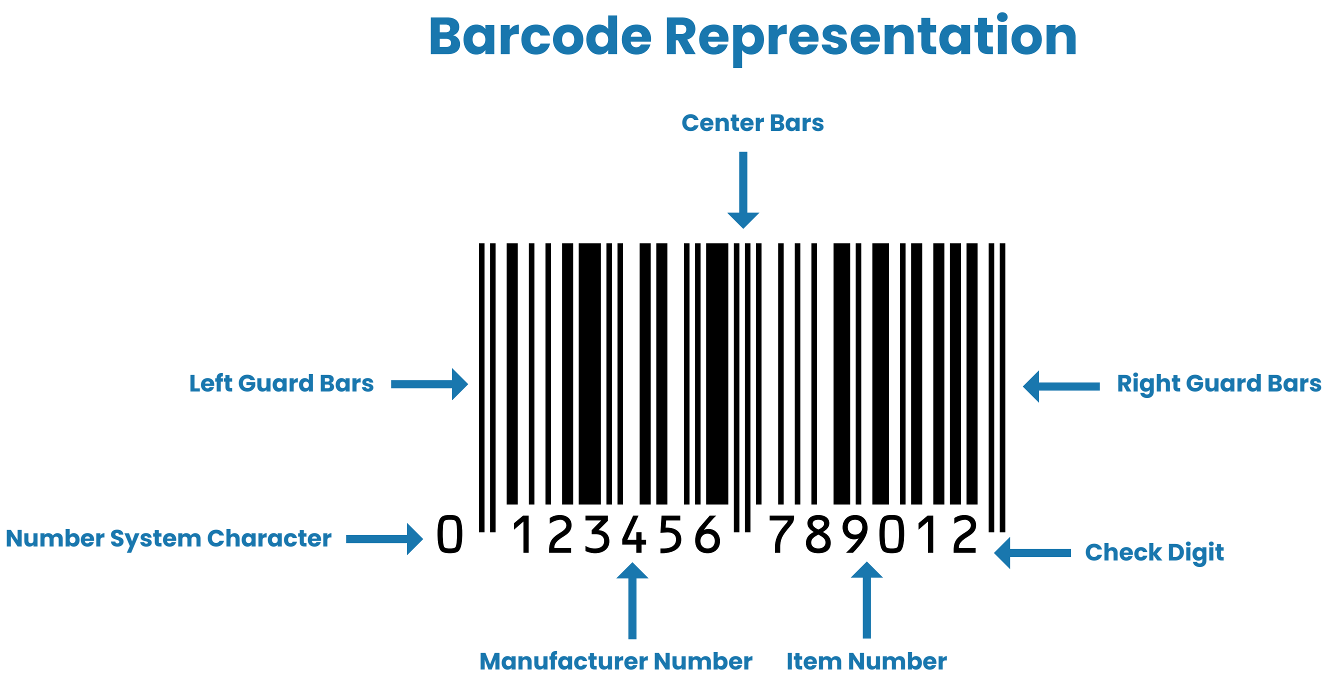
If you need several barcodes for a wide range of products, you can select the GS1 Company Prefix that gives you a separate manufacturer number as well.

The GS1 Company Prefix also allows businesses to create higher levels of packaging for pallets or cases, while also letting them identify individual locations, mixed packages or cases and coupons with a pricing table as follows:

Number of items needing a barcode/GTIN**	Initial fee	Annual renewal fee
1 GS1 US GTIN	$30	None
10	$250	$50
100	$750	$150
1,000	$2,500	$500
10,000	$6,500	$1,300
100,000	$10,500	$2,100
GS1 Company Prefix including U.S. FDA NDC Labeler Code.	$2,100	$2,100

What does a barcode look like?

The barcodes that GS1 offers include EAN-13, UPC-A, EAN-8, UPC-E, GS1 DataBar family of symbols, GS1-128, ITF-14, GS1 DataMatrix, GS1 QR Code, and Composite Component.



- Number System Character / Country Code
- Manufacturer Number
- Item Number
- Check Digit

The five-digit manufacturing number that will be unique for your company followed by the item number denoting the product specifically.

All you have to do is sign up for GS1 GTINs and get your unique barcodes. That means submitting all information required to identify your product. Once done, your products will be easily scannable at the retail store, making it easier for them to start selling them.

Weight & Dimensions

The matter of separating your products and their variants brings us to another challenge that businesses face when asked to identify their SKUs (Stock Keeping Units).

Extremely important to your product's infrastructure design is choosing which products you want as unique SKUs.

Think of it this way - if you're selling cucumbers, your customers won't care which specific cucumber they're getting regardless of its size, shape or even color.

However, when you're dealing with shirts, phones or something else, weight and dimensions make all the difference. Which is why you need to make sure that all possible variants of a particular product are identified as distinguished SKUs.

For example, if you have a black bottle of deodorant, that weighs 500 grams and has a specific diameter and height as your product and you have registered it in the GS1, it'll have its own barcode.

Since a barcode ensures that your product isn't replicated anywhere else, you can't make changes to your product's specifications and paste the same barcode on it. Retailers can and will reject your product if the specifications don't match those of the SKU registered in the system.

Whenever companies have to change their product's DIMs, i.e., weight, size, quantity, etc., they have to go through **soft** or **hard** transitions.

Hard Transitions: Hard transitions are when companies order an immediate return on a set date to replace old products on every shelf in every distribution. While it's obviously a waste of resources, there are many situations that hard transitions can save brands from.

Soft Transition: As opposed to urgently ordering a roll-back, companies can opt for soft transitions and let retailers run out of the old product at their own pace.

Organization

When you enter the world of retail, you'll probably be overwhelmed by the nuances involved in the organization of the products. Some of the things most companies think about are the UPCs (Universal Product Code) and the DU (Distribution Units).

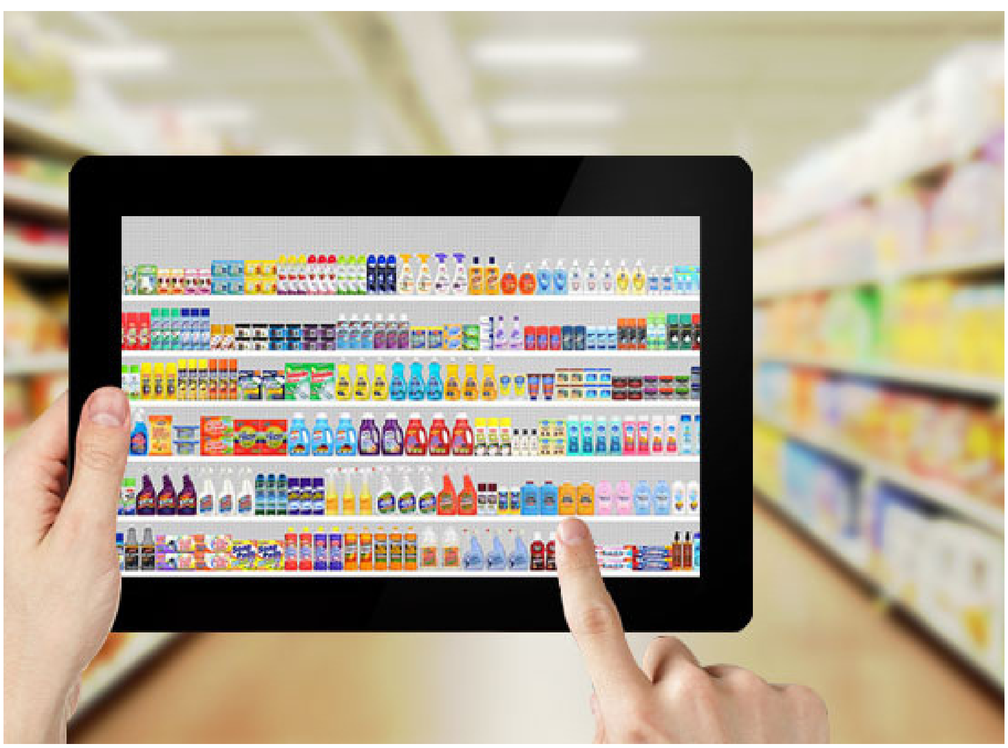
The UPCs or the GS1 barcodes that you get after registering your product within the system will be the primary identification for your product in any store around the world.

This means that all the specifications that are particular to your product will need to remain the same.

Planogramming:

You will also need to think about planogramming, the process of identifying the best way to display products in retail store shelves in order to encourage buying.

With tools like planogram builder, you can run simulations and see which organization seems the most appealing.



Understanding Retail Contracts

The first thing you need to understand about retail stores is that they don't deal in simple contractual terms. In fact, getting a $10 million dollar purchasing order from Walmart might not exactly mean getting $10 million dollars.

You'll have to ensure a supply that serves their purpose of stocking inventory as well as take responsibility for shipping, which isn't as simple as it is with DTC.

There are several things that come into play here, all of which need to be dissected individually to grasp the complex web of retail businesses.

Retailer Expectations

A retailer is not going to buy items from you at the same cost as your consumers. They expect margins that are nowhere less than 30-50%.

That means if you were selling a product that cost you $10 to consumers for $20, the retailers will want a rate of at least $13.

It's important to call your end users (the people who use your product) consumers, while middle-man retail partners now become your customers.

This is where things can get tricky on Gross Margin and several businesses choose to not pursue retail further because when you include the cost of shipping, fulfillment and other fees you accrue throughout the process, your Profit or Margin might fall below acceptable thresholds for your business.

Therefore, if you're thinking of launching into retail, you'll have to make your wholesale price drop down to at least 50% of your DTC price and that means double and triple-checking the figures to make sure you're not just barely breaking even.

Negotiations and Ensuring ROI

There are ways you can go about pricing to create a win-win situation. One is to negotiate your price and bring it up to a level that retailers agree with and that can cover all the costs you'll be accruing.

Of course, this will be easier said than done because retailers are not famous for being that considerate.

Which is why you should adopt an innovative strategy and come up with ways to present your product that benefits retailers and without taking profits away from you.

You could offer a unique variation of your product to the retailer that cannot only convince them to put your product on their shelves but also creates profits for both parties.

An example of this could be offering packages and bundles that involve two or more types or variants of products at a price that benefits you as well as the retailer.

Similarly, you could combine DTC with retail if you offer BOGO offers or promote one-time purchases in retail stores while offering DTC subscriptions online.

Not all businesses close themselves off to DTC opportunities once they go retail because even though the sales numbers go up by a lot in the latter, there's more profit to be made in DTC.

Shipping Costs

An integral part of negotiations is discussing the shipping costs or more precisely, who pays for shipping when moving products from your manufacturing plant to the retail store.

As opposed to DTC, in retail you're not shipping products to end consumers. This is critical because it can make all the difference in your profit.

Shipping will mean taking on transportation and logistics or hiring a reliable 3PL with a substantial SLA and order accuracy figures. As you'll find later on, these factors can pile up and become costs you accrue as you do business.

Just because a retailer may offer to take shipping from your hands, doesn't mean you are better off - they'll likely quote an equally high margin for themselves by doing so.

Calculating finances is going to be tough considering you're also going to be charged for damages should you take responsibility for shipping.

Per product manufacturing as well as shipping costs can't just break even with your profit. You need to think long-term and extremely realistically.

Just like errors, there's no room for optimism when it comes to risk management. You have to be absolutely certain about what you're getting out of a deal while considering the probabilities and likelihood of bad days.

Other fees

Not all retailers are the same. Since you're going to be in the market, you'll find several different stores that demand you meet their specific criteria for fulfillment.

This could range from packing things in specific poly bags with unique labels to identify your product to wrapping units individually.

All in all, this would result in a substantial cost increase on your part as your fulfillment center will charge you for following these directions to the letter. And should there be any errors in the whole process, the retailers will straight up deny having received your products altogether.

Therefore, when negotiating with retailers, make sure that you factor in costs that are going to be accrued other than simply shipping products to the retailer's warehouse.

Laying It All Out

When launching into retail, businesses have to change the way their finances work and more often than not, it can get overwhelming to get into big contracts that reserve orders six weeks to months in advance.

Retailers don't give simple orders, to say the least. Since they'll be demanding a whole lot of products and paying you for it later, you'll have to lay your cash all out to meet production requirements.

While these may seem like profitable deals in the beginning, it can become difficult to manage finances in the long term since you won't be able to take much out in between POs.

To illustrate and help, here's how retail contracts usually go, the questions and problems you'll face in the process and their possible solutions.

Traditional Net 60s

The most commonly negotiated contracts contain the terms Net 60 or Net 120. This means that once a purchase order is received, the buyer has 60 days to pay for the goods purchased.

You won't be getting your cash until the 60th day. With retailers, this can be tricky to manage because as stated above, you have to ensure production of the substantially large inventory stock they want and ship it whenever they order it.

Purchase orders (POs) will be coming in every month, every other month or even on a weekly basis, meaning you'll have to keep up with the inventory demand regardless of whether they actually order the stock or not.

While this will transform the way your business works, it won't be without a whole lot of new stress to your supply chain.

Keeping Up with Inventory

Several businesses tend to give out under the stress of changing tides and rises in demand, and end up stocking out. This is one of the major problems you can face as a business but as bleak as it may seem, there are ways to go about planning that can save you the trouble.

One way to keep up with your inventory is to use your retailer and supplier's sheets to give yourself an advantage. That is to say, if you can strike a Net 120 deal with your supplier, you can gain a timely advantage to circulate finances before having to pay them back.

Whereas, your products will be manufactured and shipped to retailers who'll pay back twice in the same time period.

One of the problems here is that while retailers sign off on massive contracts and promise a figure on which you base your estimations, this figure is not exempt from deductions. This means that any deductions that the retailers charge you will come out from your agreed amount.

Whether it's damaged or expired inventory, mistakes in shipping, packaging, the retailer will deduct the amount from the PO.

Financing Options

Ensuring that you can keep up with these demands and still make a profit can be difficult. Most businesses lay all their cash out and still find themselves running short. This is where you have to consider options like financing.

The good thing about retail POs is that based on them as collateral, you can get yourself financing to keep production up. However, make sure to not get stuck in the cycle and keep yourself out of debt as much as possible.

Shipping Requirements

Keeping up with changing shipping requirements with each different retailer can be tough, which is why many brands choose a specific list of retailers to work with.

The complexity of these demands can vary with regard to different labeling requirements, routing guides and even the carriers you're supposed to use. Regardless of whatever technological stack your company uses for ERP, you'll have to incorporate orthodox and almost obsolete software based on EDI.

Labeling Requirements

One of the most important parts of shipping products to retailers is meeting their standard labeling requirements. Retailers can make this tough for businesses even though they try to follow a standard that's best for everyone.

The Electronic Data Interchange system that is used in retail stores has been around since its advent.

While several big stores like Walmart and Target have their own slightly different versions of EDI, the fact remains that you'll have to get used to labeling your products as per the system.

The only thing that helps is getting to know the EDI and how to use them. These serve as templates that can help you simplify the process, though not by a lot. As most modern businesses are using APIs that support cutting-edge integrations, EDI mapping can be painfully difficult.

Every package you send to the retailer must be labeled with the right tags and description as per the retailer's requirements. For example, Amazon demands that you have their Amazon FBA label on the outside of the carton when it ships.

This standard must be met regardless of whichever way you choose to ship your products to their warehouses.

Routing Guides

Another tricky and painful part of retail contracts is getting through routing guides. When all is said and done, this is a lengthy book that retailers will throw at you.

Since they're handling thousands of brands and products that come with their own storage and shipping guides, retailers keep a system that is to be followed by every vendor.

Although this system is specifically designed to make things easier, it's almost impossible for someone new to be able to read through it all and figure out what applies to you.

There'll be shipping routes, packaging details, labeling instructions, the kind of pallets and cartons you need to have for which of your products, etc.

This is where you'll need help from FCs or supply chain management consultants like us at Izba to simplify it all. We can be the ones who tell you how you should proceed, the rules you can bend and the rules you'll get penalized for.

Carriers

Retailers can demand that you use specific carriers that they're already dealing with because this makes it easier for them to sort through the millions of products that they're storing in their warehouse.

Carriers like UPS and Old Dominion may be needed when you're dealing with retailers because of their reliance on traditional shipping methods. Similarly, they can also deny carriers that they don't work with even if it's favorable for you to do so.

The routing guide will tell you the retailer's preference for the carrier as well as the method of shipping along with other details.

Can Fulfillment Centers Handle it?

Fulfillment centers are going to charge you for every peculiar demand you make of them. This includes shipping and labeling nuances that retailers mandate to you. Since you can't afford to not follow their guidelines, you have to ensure your FCs are doing the job right.

Given the complex situation of figuring out routing guides and labeling requirements, FCs can get overwhelmed with a series of different requirements. Seeing as how FCs are always dealing with multiple brands, it's no secret that their inevitable order accuracy drops can cause problems for their clients.

What's more, is that these errors are only being caused because FCs are overburdened with a tremendous number of products that need to be shipped out individually often with specific packaging and labeling requirements.

This is why you have to make sure that you have complete visibility over the FC's operations regarding your shipment. Having an app, like Capabl can help you streamline the process and oversee operations like shipping, inventory and order management.

Simplifying Order Reception and Invoicing Operations

Compared to DTC and contrary to how some might think, order management becomes much more complex when you launch into retail. The process of doing business with retailers is drastically different from the operations set up of DTC only.

You will have to get used to their systems and ensure that you're following everything to the letter. Needless to say, unless you choose experienced help to guide you, there'll be some hiccups that will catch you by surprise. Some of these are discussed below.

Penalties for Mistakes

Remember the deductions discussed earlier? In addition to those, retailers can also charge you extra fines for not following their guidelines. For example, if your EDI isn't set up correctly, you'll miss a PO made by the retailer. When a retailer has to rescind a PO, they'll charge you for it.

Similarly, if you ship something that doesn't transact the EDI back to them in the correct format, the retailers will deny receiving the order even if it reaches them. They'll deny payment as they weren't expecting it.

Sometimes these fines can be up to $10,000, which is why it's crucial that you don't miss anything on the routing guides or the shipping and labeling details.

Infrastructural Integration

To put it all in simple terms, you'll have to get used to the retail supply chain management system and that means integrating your own with theirs. Not only will this be a cumbersome task, but it will also be critical as your ROI will be depending upon it.

Many retailers offer vendor portals on their websites that give you routing guides and try to explain the process as much as they can. Some retailers even give out tests to vendors to see if they'll be compatible for doing business.

Infrastructural integration will be inevitable and you have to make sure you're not missing out on any detail that can result in a loss.

Final Thoughts

Launching your product into retail is one of the biggest steps you'll take as a business. Not only will it transform the way your business works but it will also substantially increase your revenue should you succeed.

Retail is definitely more difficult and complex than DTC and there's an undeniable need for guidance and consultation if not a long-term partnership with supply chain management experts.

At Izba, we can partner with you to understand your business and streamline product infrastructure to help you with retail contracts and negotiations.

We can also help you integrate flawlessly into any retailer's systems, set up your EDI and equip your tech stack with all the required modern and necessary software you'll need to run your business smoothly.

When it comes to shipping and ensuring inventory supply, we bring Fortune 500 experience to the table which is why we can guarantee to take care of everything from shipping to inventory management assistance while helping you look for financing options as well as consultation wherever and whenever needed.