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# U.S. SPECIALTY FOOD END-MARKET ANALYSIS

## COMPETITIVENESS AND TRADE EXPANSION PROGRAM

KNOWLEDGE MANAGEMENT SERIES - PAPER NO. 2



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## ACRONYMS

AGOA	African Growth and Opportunity Act
BOGO	Buy One Get One
CFR	Cost & Freight
CIF	Cost, Insurance & Freight
CIP	Carriage & Insurance Paid
COGS	Cost of Goods Sold
COMPETE	Competitiveness & Trade Expansion Program
DSD	Direct Store Delivery
EDLP	Every Day Low Price
EFTA	European Fair Trade Association
EU	European Union
FAS	Free Alongside Ship
FCA	Free Carrier
FDA	United States Food & Drug Administration
FLO	Fair Trade Labeling Organization
FOB	Freight On Board
FCL	Full-Container Load
HACCP	Hazard Analysis & Critical Control Points
IFOAM	International Federation of Organic Agriculture Movements
IP	Intellectual Property
IT	Information Technology
KPI	Key Performance Indicators
LCL	Less-Than-Container Load
NASFT	National Association for the Specialty Food Trade
NOP	National Organic Program
OCIA	Organic Crop Improvement Association
OU	Orthodox Union
ROI	Return On Investment
SKU	Stock Keeping Unit
TRP	Temporary Price Reduction
UPC	Universal Product Code
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WFTO	World Fair Trade Organization



## EXECUTIVE SUMMARY

The U.S. specialty food market is the largest in the world. With over \$70,000,000,000 in annual sales, the U.S. specialty food market has been open to emerging cuisines from around the world, including Africa. It represents a solid opportunity for African manufacturers to gain distribution, market-share and product awareness.

The popularity of African specialty foods has grown tremendously, and more manufacturers than ever are taking advantage of the U.S. market and their keen interest in African specialty products. Perhaps more importantly is the impact this movement has had on the economies across Africa. On a continent where the overwhelming majority of the population works in agriculture and commodity trade is often hampered by high operating costs and non-competitive classifications, specialty food offers a tremendous opportunity to highlight the best that Africa has to offer while inviting a huge cross-section of Africans to partake in the process and reap the rewards. Properly managed, the specialty food industry can substantially impact mass sectors of African industry

This report examines the various aspects of the U.S. specialty food industry, highlights market trends and opportunities, outlines specific requirements and standards for entering the U.S. specialty food market, and provides a directory of on-line resource contacts for additional assistance.

Africa is filled with exceptional cuisines and unusual ingredients. There is a marketing story waiting to happen in almost every corner of the continent. The entire specialty food industry is about telling stories, about highlighting the uniqueness of a particular culture, or value chain, or region of the world, and the United States is one of the most welcoming when it comes to embracing international food products.





## INTRODUCTION

The U.S. specialty food market is a big industry. Every year, tens of thousands of new specialty food products are imported into the United States from all over the world. They range as vastly as the specialty food industry itself. Some are huge successes, while many are tragic failures. One of the key points that could mean the difference between success and failure can be highlighted with one word...research!

Specialty food manufacturers interested in approaching the U.S. market need to do their research in order to limit the surprises that so often claim the success of an aspiring company. By understanding who, what, where, when and why, a manufacturer can alleviate many of the pitfalls so often experienced by the unknowing entrepreneur.

The U.S. specialty food industry is extremely logical. Buyers, whether from major distributorships or small, specialty shops, want to sell product...period. They leave very little to chance, and rely very heavily on sales data, SPIN reports and IRI statistics. Every single inch of a supermarket is carefully laid out, and every product that sits on the shelf is there for a reason – to generate sales.

There is a place in the United States for almost any compliant specialty food product, but knowing exactly where and how to position a particular product is the challenge. Is it a high-end, mainstream product? Does it belong in an international shop targeting the adventurous consumer and/or the diaspora? Should it go into mainline category or within an ethnic section? What about secondary distribution into convenience stores or the independents? There is no one answer that fits every product.

Understanding the market, and completing extensive market research will most certainly unveil what opportunities exist for each manufacturer and their specialty food products.

## OBJECTIVES

This paper aims to illustrate a streamlined approach to developing an export market in the United States for specialty food products created in developing countries. Specifically, the objectives of this paper are to:

- Define the various aspects of the U.S. specialty food industry
- Highlight market trends & opportunities
- Outline specific requirements and standards for entering the U.S. specialty food market
- Provide on-line resource contacts for additional assistance

## SPECIALTY FOODS DEFINED

The definition of “specialty food” has changed greatly over the past twenty years in the United States. What was once considered more niche, now describes products found on the shelves of mainstream supermarkets. Today, specialty foods can be found in almost every supermarket, convenience store, specialty shop and neighborhood grocery across the United States.

As per the National Association for the Specialty Food Trade (NASFT), “specialty food” is loosely defined as “a premium-priced food product that provides an added value appeal for one or more of the following reasons: quality of ingredients, manufacturing process and/or finished product; sensory appeal, flavor, consistency, texture, aroma and/or appearance; presentation (i.e. packaging or branding; origin (where the product was manufactured); distribution channel (i.e. specialty food retail outlets or sections within supermarkets/grocery stores).

That definition is pretty vague, but it highlights just how mainstream “specialty foods” have become in the United States. Every year, well over 20,000 new specialty food products enter the U.S. market, with thousands more being rejected for one reason or another.

This is an important concept for manufacturers in emerging markets to understand, as they are most likely, all too familiar with the competitiveness of their products. Manufacturers need to realize that they are competing on a global scale, and as such, need to arm themselves with as much knowledge as possible.

Knowing your target customer dictates everything when approaching the U.S. specialty food market. When presenting a new product to a buyer, whether that buyer is from a distribution company or retail organization, the only question that a buyer wants answered is “where is this product going to go”? Manufacturers who have an answer to that will find buyer presentations much, much easier and success more tangible.

**Table 1: The Specialty Food Buyer Profile**

	National Percentage	Specialty Buyers Percentage	Specialty Buyers Index
<b>Number of Persons</b>			
1	24.6%	17.2%	70
2	31.7%	37.2%	108
3	17.5%	18.8%	108
4	15.0%	15.6%	104
5+	11.1%	11.3%	102
<b>Household Income</b>			
<\$10,000	11.3%	6.5%	57
\$10,000 - \$19,999	14.7%	9.8%	67
\$20,000 - \$29,999	14.1%	11.3%	80
\$30,000 - \$39,999	12.9%	11.6%	89
\$40,000 - \$49,999	11.1%	11.3%	102
\$50,000 - \$74,999	18.8%	22.7%	121
\$75,000 - \$99,999	8.6%	12.4%	144
\$100,000+	7.9%	14.7%	185
<b>Household Age</b>			
18-24	5.2%	3.7%	72
25-34	19.2%	16.2%	85
35-44	23.1%	22.4%	97
45-54	18.2%	19.9%	109
55-64	12.4%	14.1%	114
65+	22.0%	23.9%	109
<b>Race</b>			
White	78.6%	79.3%	101
Black	10.8%	8.6%	80
Hispanic	7.5%	8.2%	109
Other	3.2%	3.5%	109

	National Percentage	Specialty Buyers Percentage	Specialty Buyers Index
<b>Age &amp; Presence of Children</b>			
Children < 6 years old	9.5%	10.0%	105
Children 6 – 17 years old	18.5%	17.5%	95
Children < 6 & 6 – 17 years old	7.5%	7.3%	97
No Children	64.1%	65.4%	102
<b>Housing Tenure</b>			
Owned Housing	64.8%	72.5%	112
Rented Housing	35.3%	27.4%	78
<b>Higher Education</b>			
Grade School	10.8%	8.2%	76
Some High School	14.4%	10.5%	73
High School Graduate	28.2%	23.55	83
Some College	25.8%	26.6%	103
College Graduate	20.9%	31.7%	151
<b>Nielsen County Size</b>			
21 largest metropolitan areas	39.6%	46.2%	117
Metro areas with more than 85,000 households	30.4%	29.5%	97
Counties with 20,000 to 5,000 households	15.4%	12.4%	79
All other counties	14.4%	11.8%	82
<b>Census Division</b>			
Northeast	5.2%	7.1%	137
Mid-Atlantic	14.4%	16.8%	115
South Atlantic	18.5%	17.5%	95
East South Central	6.3%	2.0%	47
West South Central	10.8%	9.5%	89
East North Central	16.5%	11.1%	67
West North Central	7.1%	4.6%	66
Mountain	6.1%	7.5%	123
Pacific	15.3%	23.1%	151

Source: Kent Wolfe, “The Specialty Food Buyer Profile”, The University of Tennessee (1999)

## UNDERSTANDING THE U.S. MARKET

The U.S. specialty food market is not one single entity, but rather multiple channels of sales opportunities for a manufacturer to pursue. There is an elaborate network of supermarkets, independents, convenience stores, non-traditional outlets (book stores, coffee houses, etc), club stores, dollar stores, ethnic shops, specialty stores and natural/organic channels, and all of them are serviced by separate networks of importers, distributors, wholesalers, consolidators and brokerage companies. To say the very least, the U.S. specialty food market is complex! However, this complexity allows almost any specialty food product to find a home somewhere.

When assessing opportunities in the U.S. market, the first step is for the manufacturer to determine their target consumer. Everything else will fall into place based on that understanding.

## CHALLENGES and COMPETITION

With so much variety and opportunity comes competition, and the U.S. specialty food market is one of the most competitive in the world. Newly presented products range from cutting edge flavors and state-of-the-art packaging to price-sensitive, low-end products.

When positioning a product for possible entry into the U.S. specialty food market, it is important to remember the three “P’s”: pricing; packaging & promotions. It is important to note that a consumer will never see a manufacturer’s facility, never meet the people who prepare the product with loving care, and never see the beautiful region from where the product originates. According to research group AC Nielsen, the average consumer will spend no more than three seconds looking at a specialty food product before they decide whether or not to buy it. That means that the manufacturer has to take their entire sales pitch and condense it onto a small label and convince a consumer to make the purchase.

Remember, quality and tastes are attributes a consumer realizes AFTER they have made the purchase. It’s what convinces a consumer to buy a product again, not for the first time. The average U.S. supermarket has over 800,000 shoppers per week, so that is a lot of opportunity to try and sell a product from 6,000 miles away.

Pricing, packaging and promotions...what else is there?

## **WHO’S BUYING SPECIALTY FOODS?**

Understanding the mind of the consumer is critical for understanding how to best position a particular specialty food product.

According to Progressive Grocer Magazine, the average specialty food consumer is between the ages of 25 and 34, with a combined household income of over \$100,000 per year. This group is thirty-five times more likely to buy a specialty food product than other demographics. Additionally, consumers living in the Northeast or Western United States are also higher consumers than the remainder of the population.

In the same Progressive Grocer study, we see that over 84 percent of all specialty food consumers believe that it is important to purchase foods produced under sustainable conditions, and “natural” and “organic” products were the most purchased during 2011.

Beyond the buying and shopping habits of the specialty food consumer, it is also important to look at their outside habits. The average specialty food consumer watches 4.5 hours of food television shows per week, with cooking competition shows (Top Chef, Chopped) being more popular than how-to-cook shows. Thirty-two percent of specialty food consumers claim that they “can’t cook very well”.

The specialty food consumer is most likely a fan of public television, and goes to the movie theater at least one per month, and listens to an average of one hour of digital music per day. The specialty food consumer also spends two hours per day on the internet outside of work, with 65 percent using Facebook and 35 percent visiting YouTube. Twitter, LinkedIn and other social media sites were significantly less popular.

Specialty food consumers buy most of their specialty products in supermarkets (70%), followed by natural food stores (35%), mass merchandisers (Walmart & Target) (34%), farmers markets (30%) and finally, specialty food stores (25%). Buying specialty products on-line is a small percentage, accounting for only 9 percent of all sales. Coffee is the number one product purchased over the internet.

These statistics are important, and understanding who is buying specialty food products will help manufacturers decide not only where to physically place their products, but also how to advertise, how to utilize social media and how to position themselves in the global marketing arena.

## **RETAIL OUTLETS**

As discussed, there are many retail options to look at when focusing on the U.S. specialty food market. There is stiff competition between supermarket chains, and also between the various categories of stores. Understanding the available retail options that each manufacturer has will make it easier to determine how to best approach reaching the target, consumer demographic. Finding the best fit is critical, as placing the wrong item in the wrong type of store will be disastrous for sales, and will result in products being discontinued because of low volume movement.

On average, retailers mark-up specialty food products between 25 and 40 percent, depending heavily on the geographic region and consumer profile. Upscale retailers in major metropolitan areas have been known to mark-up products to 100 percent.

## **SUPERMARKETS**

As mentioned, chain supermarkets make up over 70 percent of all specialty food sales in the United States, and this number has grown considerably in the past twenty years. Back then, “specialty” foods were only available in higher-end, gourmet shops, but today, they are in every supermarket.

The supermarket industry in the United States is huge. Some 3.4 million Americans are employed by supermarkets, and the total sales volume for 2010 was \$562.746 billion dollars.

U.S. supermarkets have had to change, just to keep their share of the business. As consumers have more and more choices for where to buy their food products (convenience, drug and book stores all sell food; not to mention, the internet), supermarkets have had to create compelling reasons for shoppers to come and spend.



Fred Meyer Supermarket – Portland, Oregon

## NATURAL & ORGANIC MARKETS

The natural and organic market channel is one of the most rapidly expanding segments of the U.S. specialty food industry. In recent years, natural and organic products have left the confines of the independent “natural and organic markets” and have become prevalent in mainstream supermarkets. According to The University of Vermont, independent natural and organic markets represent less than 25 percent of all organic food sales in the United States, and have been in steady decline since their heyday in the early 1990’s. The segment still accounts for over \$10,000,000,000 in annual sales, so it should not be discounted. As large as the independent natural & organic markets industry is, it should be noted that over 46 percent of all organic product sales happen in mainstream supermarkets, led by such pioneering organizations as Whole Foods Markets and Wild Oats. Seven percent are sold through farmer’s markets, food service and other non-retail stores.

Certification is a critical element when deciding to approach the natural & organic market channel.

## CONVENIENCE STORES

In the United States, there are literally hundreds of thousands of convenience stores, which range from small neighborhood stores to chain, gas station outlets. In Spanish speaking areas, convenience stores are commonly referred to as a “bodega”, which literally translated means “warehouse”. In 2009, U.S. convenience stores posted total sales of over \$511,000,000,000, with

\$328,000,000,000 in petroleum sales, and the remainder from their array of food products, ready-to-eat meals, cigarettes, phone cards, newspapers and household items.<sup>1</sup>

Convenience stores can be a viable market opportunity for the right product. Generally speaking, products successfully sold through this channel are more “price sensitive” than either natural & organic stores or supermarkets, as convenience stores generally work on a higher margin than either class of trade, averaging around 75 percent profit margin.

## **DISTRIBUTORS**

There are hundreds of companies who focus on distributing specialty foods across the United States to retail accounts. Distributors serve as the logistical, critical link between importers and retail accounts. Working through a distribution model opens up thousands of more retail accounts than any one manufacturer could ever logistically handle, so the attraction to work with leading distribution companies is immense.

Across the United States, distribution companies come in as many varieties as there are the retail outlets they service. From large, national distributors like Kehe Foods, United Natural Foods and DPI, to smaller regional distributors like Renaissance, Chex Finer Foods and Haddon House, to metropolitan-area distributors like Royal Foods, Abraham Natural and Pitco, distributors range dramatically in terms of market scope and areas of concentration. It is important to identify distributors who operate successfully in the target demographic of the manufacturer; and again, it’s critical to have that target demographic and competitive landscape fully defined, in order to make the best choices of partnership.

Regardless of their scope of operations, all distributors are responsible for physically getting products from the manufacturer/importer to the retail outlets. Most distribution companies will pick-up at the importer’s warehouse. It is important to keep in mind that most major distributors will prefer to pick up on either the East or West Coast, so it’s wise to not select an import company based in Nebraska (though, there probably aren’t that many anyway).

In addition to providing these logistical services, almost all distributors maintain a full sales force of local and regional account managers. These salespeople make regular presentations at the account they are responsible for, and offer suggestions and promotions to the retail buyers. It is important to note, however, that these salespeople work for the distributor, not the manufacturer. With an average of over 75,000 products to present, one can imagine how many seconds they spend thinking about or presenting one particular item. Hence, it is important for a manufacturer to guide and direct their own sales initiatives.

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<sup>1</sup> Loh, Choon-Min James; “The Adoption of A Retailing Innovation in a Newly Industrializing Country: The Modernization of Local Provision Shops”; 1988



Nine KeHE Warehouses  
with National Coverage



One key element of mainstream distributors is their ability to plan-o-gram. Plan-o-grams are computer generated shelving schematics. Every item has a template loaded into the system, with information including unit dimensions (in inches), unit weight (in pounds), case pack (how many units per case), shelf life, UPC code, TI/HI, and a frontal image of the unit. With that, distributors often create in-store plan-o-grams for major retail chains. It is worth mentioning that it is because of this that launching a new item into a large supermarket chain is harder than an independent. Their review periods are set in an annual calendar, and making changes to plan-o-grams is a major activity that only happens once or twice per year. It is important to work closely with the distributor, as they are generally the ones who coordinate these re-set activities.

For their services, most distributors will work on twenty-five to thirty percent margin. Most will expect a solid marketing program to support a new product launch, as discussed further in this document.

## **BROKERS**

Specialty food brokers are contracted sales people who work on behalf of a manufacturer or importer to generate sales of a particular range of products. Brokers have different areas of focus, including different sales channels and categories of products, so it is important to locate a broker who focuses on the channels and categories that make sense.

Typically, brokers work for a percentage of consummated sales; most often at 5 percent. To launch a new brand into the market, most brokers will expect a monthly, cash retainer be paid, as generating sales for a new product can take several months of hard work. When recruiting a brokerage company, it is important to understand where their focus in, both geographically and categorically. Supermarkets have many buyers that handle many different categories, so a manufacturer producing chocolate bars should not retain a broker who only works with the condiments buyer.

Having a broker is essential for international specialty food manufacturers, as they are a cost-effective way of maintaining a sales force in the United States without having to hire a national sales manager, whose average annual salary would be well over \$100,000, according to the U.S. Labor Department.

## U.S. MARKET TRENDS

In July of 2011, the National Association for the Specialty Food Industry (NASFI) and Mintel International asked a representative sample of U.S. consumers about their usage and attitudes towards specialty food. Here are some of the highlights:

- Fifty-nine percent of U.S. consumers purchase specialty food
- Consumers ages twenty-five to thirty-four are most likely to purchase specialty food, at seventy-one percent
- Chocolate, olive oil and other specialty oils and cheese were the most purchased categories
- Forty-one percent of specialty food consumers will purchase upon a recommendation from friends or relatives
- More than two-thirds of consumers buy specialty foods to “treat” themselves
- Fifty-nine percent of specialty food consumers buy natural foods and fifty-five percent buy organic certified foods
- Social media is utilized by thirty-seven percent of specialty food consumers to communicate about food, with Facebook being the most popular tool
- Nearly four out of five specialty food consumers like to experiment with a new ingredient
- Professional cooking competitions are the most popular food television programming for specialty food consumers
- Almost half of specialty food consumers purchase foods that support charities
- Sixty-two percent of specialty food consumers read cooking magazines
- Eighty-one percent of specialty food consumers say they are cooking more at home to save money

**Table 2: 2011 U.S. Consumer Survey – Usage and Attitudes toward Specialty Food**

	<b>ALL %</b>	<b>18-24 %</b>	<b>25-34 %</b>	<b>35-44 %</b>	<b>45-54 %</b>	<b>55-64 %</b>	<b>65+ %</b>
Chocolate	60	62	65	61	54	66	53
Olive oil & other specialty oils	57	39	59	54	54	71	65
Cheese	48	45	57	47	48	50	40
Yogurt & Kefir	42	38	46	45	45	39	32
Cold non-alcoholic beverages	41	46	46	41	38	39	32
Coffee	41	31	43	41	48	38	43
Pasta	40	42	47	35	36	45	34
Cookies & snack bars	39	46	49	37	34	39	25
Meat, poultry & seafood	38	37	45	33	38	38	35
Tea	37	36	36	37	41	40	33
Bread & baked goods	36	38	40	33	33	37	34
Salad dressing	36	30	37	39	34	41	33
Salty snacks	36	37	37	37	37	38	28
Pickles, peppers, olives & other vegetables	32	28	32	35	30	35	33
Crackers, crisp breads & breadsticks	31	26	32	28	32	38	31
Frozen desserts	30	38	34	32	30	29	19
Seasonings, spices & spice rubs	30	25	32	31	31	32	25
Jam, jelly, preserves, honey & other sweet spreads	29	27	33	29	28	30	25
Salsa	29	28	37	30	26	27	22
Condiments	28	23	37	31	21	30	22
Prepared & ready-to-eat foods	28	27	34	30	26	31	19
Pasta sauces	28	25	36	31	26	29	19
Alcoholic beverages	27	23	41	30	21	19	18
Cooking sauces	27	28	35	33	25	17	20
Cakes & pies	26	24	34	26	23	28	19
Frozen lunch & dinner entrees	26	26	32	29	27	19	18
Barbeque sauces	26	26	32	27	23	29	20
Baking mixes, supplies & flour	25	21	35	22	25	29	19
Nut & seed butters	25	26	29	26	25	30	16
Vinegar	25	19	29	22	23	32	27
Non-chocolate candy	22	31	28	22	18	20	10
Sauces & marinades	19	15	26	24	17	17	12
Other	1	1	1	1	3	0	1

Source: Mintel

	All %	Northeast %	Midwest %	South %	West %
Supermarket	72	78	73	74	65
Natural food store (e.g. Whole Foods Markets, Trader Joe's)	36	36	27	33	47
Mass merchandiser (e.g. Walmart, Target)	34	21	39	42	26
Farmers market	34	37	32	35	32
Supermarket prepared foods section	30	32	28	32	26
Specialty food store	24	29	20	24	23
Club stores (e.g. Costco, Sam's Club, BJ's Wholesale)	28	27	23	26	34
Coffee house (e.g. Starbucks)	18	15	15	21	20
Deli	24	23	27	26	19
Bakery	22	27	17	22	21
Fast-casual restaurant (e.g. Panera Bread, Corner Bakery, Baja Fresh)	20	27	19	19	16
Quick-service restaurant (e.g. McDonald's, Subway)	18	14	16	24	13
Wine or liquor store	13	15	15	12	12
Convenience store	10	17	12	8	8
Internet	7	10	7	7	5
Home store (e.g. Bed, Bath & Beyond; Cost Plus World Market)	7	8	7	7	7
Gift store	4	6	3	3	3
Other	1	1	2	1	1
None of the above	1	1	2	1	1

Source: Mintel

	ALL %	18-24 %	25-34 %	35-44 %	45-54 %	55-64 %	65+ %
Italian	55	49	64	55	51	54	50
Mexican	52	57	62	55	50	51	36
Asian – Chinese	39	44	49	45	33	28	28
Regional American food (e.g. Cajun, Southern)	29	28	38	32	25	23	20
Asian (non-Chinese) (e.g. Thai, Vietnamese, Japanese, Korean)	28	31	38	37	22	18	14
Spanish	20	26	29	17	21	12	14
Mediterranean	20	20	24	24	14	16	17
Hispanic (non-Mexican) (e.g. Central or South American)	19	18	30	24	14	13	8
Indian	13	14	20	18	6	9	6
Middle Eastern	11	12	11	16	7	13	9
Eastern European	7	12	13	6	3	5	2
African	6	9	10	6	5	7	1
Scandinavian	4	3	10	4	1	2	2
Other	2	2	2	3	1	3	4
None of the above	14	6	7	11	18	18	27

## **SPECIALTY FOODS IN A RECESSION**

Despite some rough years, specialty food sales are stronger than ever. According to the NASFT “2011 State of the Specialty Food Industry” report, retail sales increased 7.4 percent in 2010 over the previous year, well above the rate of inflation. Total sales of specialty foods were at \$70.32 billion, with \$55.92 billion sales at retail, notes the study, which was a collaboration among market researchers, Mintel International and SPINS.

But just because people are spending more doesn't mean that they've reverted to pre-recession behavior. Ogilvy & Mather Chicago, in partnership with the consumer insight company Communispace, also recently published a study on the post-recession consumer's mindset. Among their findings: Consumers are far more likely to research a product before making a purchase, large or small, and will choose the brand with better information and a more personal message.

During the recession, a trend arose to scale back on volume of purchases while focusing on quality. The commitment to premium products remains, even if the changing economy has allowed for purse strings to loosen. According to the Ogilvy & Mather Chicago study, quality is still “in,” with 73 percent of consumers surveyed saying they would rather have fewer, high-quality things.

The consumer trends during a recession, or simply darker economic times, indicates that consumers will cut back on quantity, but focus as heavily, if not more so, on quality. That would explain why most of the specialty food industry is somewhat “recession proof”.

## **RETAIL SALES OVER RESTAURANTS**

During these times of economic “crisis”, it is common knowledge that consumers are spending less and less time eating out in restaurants. In both New York City and Los Angeles in 2010, restaurant sales decreased by an average of about 4 percent. Consumers are simply dining out less as they guard their finances and their entertainment expenses quite carefully.

But what does that mean for the specialty food industry? Well, what it really equates to is that consumers, who now dine out with less frequency, actually spend more on specialty foods, per shopping trip, than ever before. Families are very reluctant to remove the joys of eating from their routine. For those who have cut back the number of trips to a restaurant, they have increased their willingness to prepare gourmet meals at home.

The overall trend is eating at home, but consumers still want to eat well. This has brought about a lift of 25 percent in the past two years for specialty product sales, according to Savenor's Market of Boston, Massachusetts. This uplift can be felt across the specialty food industry, and includes wines, alcoholic beverages and prepared foods.

## **WHETHER OR NOT TO EXPORT**

Exporting specialty food products into the United States is a full-time venture, and one that can be extremely challenging for the unprepared manufacturer. As discussed, the U.S. specialty food market is big, very big, but the sheer size of the market gives some indication of the competitiveness that manufacturers face when trying to position their product. In today's global

economy, manufacturers must be prepared to commit to an export program, and invest accordingly. The first and most obvious step in this process is performing a company assessment, as outlined below. Having this infrastructure in place is critical for success.

## **COMPANY ASSESSMENT**

- International sales experience?
- English language capabilities?
- Streamlined customer service?
- Phone, fax & e-mail?
- Strong domestic sales?
- Sufficient capacity to target international sales?
- Working capital to focus on international sales?
- Competitive products & defined target market?
- Working capital to grow brand?

If you answered “no” to the questions above, then approaching the United States or any other international market is probably not a good idea.

## **COMPETITIVE LANDSCAPE ANALYSIS**

As mentioned above, conducting a competitive landscape analysis is one of the most important steps a manufacturer can take when deciding whether or not to pursue the U.S. specialty food market.

Much of this analysis can be done via the internet, which is ripe with relevant information. Manufacturers should identify who their competition would be in the U.S. market, and highlight as much information about their products as possible, including:

- Varieties available and packaging/size
- Retail price points
- How often they are on promotion
- Retail point-of-sale support
- What stores are they sold in
- What regions of the country do they focus on
- What trade shows do they attend
- What brokers and distributors do they work with

Much of this information can be purchased from any number of market survey companies, but even doing free internet searches is a great place to start. Many manufacturers list much of this information on their website, as do many of the brokers and distribution companies. Organizations like NASFT generate many free reports on market trends, publish press releases of industry news, etc.

Simply preparing a solid competitive landscape analysis will save much time and heartache.

## KEY DIFFERENCES BETWEEN DOMESTIC & U.S. CUSTOMERS

There are obvious differences between marketing specialty food products domestically and in the United States. First and foremost, is the need to understand the customer. A product's marketability will depend largely on the target demographic. As discussed above, the U.S. specialty food market is not one, solitary entity, but rather a collection of sub-sectors, each with different requirements and product norms. One obvious example is the topic of caloric intake. In many parts of Africa, food products are prized for their high calories, giving the consumer a full-day's supply of energy in one, low-cost purchase. In much of the U.S. market, high calorie foods are frowned upon, as consumers try desperately to stay below their "daily recommended allowance" of 2,000 calories.

Most notably, one of the most common differences involves payment terms. In many parts of Africa, it is all too common for a manufacturer to receive payment (or a portion of it) prior to production. That payment can be received in cash, check or an irreversible letter of credit. With very few exceptions, this never happens in the United States, and potential buyers will expect the manufacturer to fund the entire cost of production. Letters of credit, irrevocable or otherwise, are almost impossible to come by. Additionally, in most cases, potential buyers will expect the first order to be on consignment (good paid for only after they are sold into retail), in order to grow the market.

Remember, that a manufacturer's distribution model, including all brokers, distributors and retailers, are part of the sales channel. Each of them has a monumental task of placing the manufacturer's products in as many retail outlets as possible. Since most of these players work on either commission or on a percentage of sales, they are not making any money until a sale is consummated. The manufacturer must be willing to support the effort, and that support usually comes in the form of free goods, attractive initial payment terms or financial backing.

These differences represent a huge challenge for African specialty food manufacturers, but they are differences that need to be addressed in order to successfully enter the U.S. specialty food market.

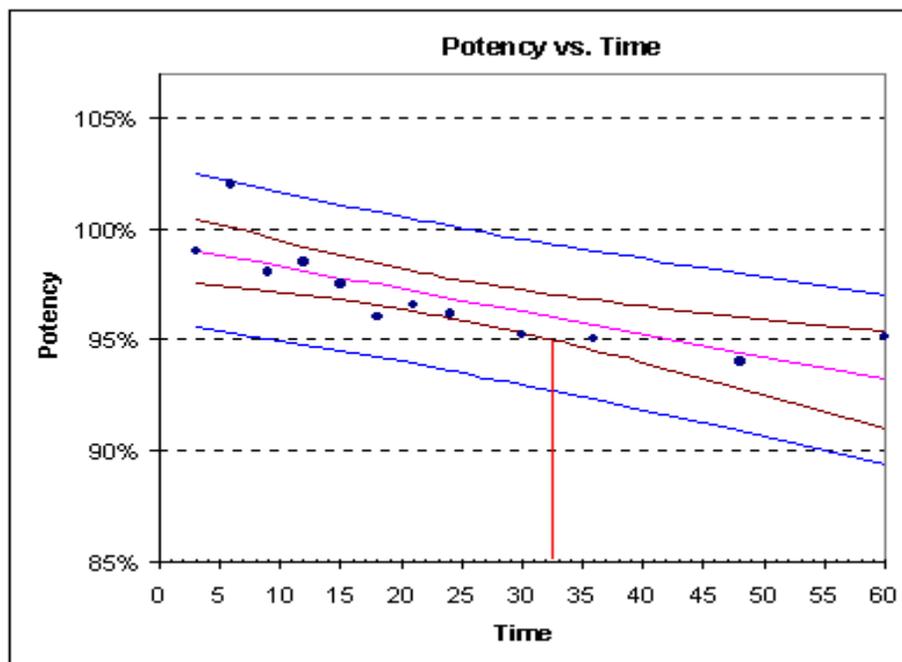
## LEGAL REQUIREMENTS

### NUTRITIONAL ANALYSIS

Conducting a full, nutritional analysis at a certified laboratory is required for all specialty food products entering the United States. While you will not be required to show proof of all analyses conducted, your nutritional label must be one hundred percent accurate, and this accuracy can only be achieved through proper, laboratory analysis. Inaccuracies on a nutritional panel do result in heavy fines from the U.S. Food and Drug Administration. Depending on the country, costs range dramatically from public-sector laboratories to private companies. Samples may also have to be sent abroad, if the required analyses are not available in your area. The required analyses for all specialty food products entering the United States are:

- Protein
- Moisture
- Ash
- Fat Profile (total fat; saturated fat; mono-saturated fat; transfat from fatty acids)
- Sugar Profile (fructose; glucose; sucrose; maltose; lactose)
- Total Dietary Fiber
- Sodium
- Calcium
- Iron
- Cholesterol
- Vitamin A
- Vitamin C
- Carbohydrates by Calculation
- Calories by Calculation
- Calories from Fat

**Table 3: Food Stability**



Chow, S. & Liu, J. “*Statistical Design & Analysis, Validation, Process Controls & Stability*”, 1995

The Standard Food Panel consists of Aerobic Plate Count, Total Coliform/E. Coli, Staphylococcus Aureus, PH, Yeast & Mold; Salmonella; Listeria; EC:0157H7.

### SHELF- LIFE STUDY

Analyzing the shelf-life of any specialty food product is a requirement for importation into the United States. “Shelf-life” is defined as “the length of time that food, drink, medicine, chemicals and other perishable items are given before they are considered unsuitable for sale, use or consumption”. Shelf-life is commonly examined using two types of stability testing: either real-time stability tests or accelerated stability tests. During each, a product is stored at elevated stress conditions, including temperature, humidity and PH for a required amount of time to measure chemical and micro-biological changes in the product.

A thorough shelf-life analysis from a certified laboratory is required. Manufacturers cannot “guess” how long their product will last, and they cannot use industry standards to apply to a new product.

There are a variety of terms used to define the suggested use of a product. Manufacturers should refer to their competitive analysis to see what is standard practice for their product type and category.

- Use by: this is self-explanatory, and literally means by what exact date the product can no longer be safely consumed. This category applies to most specialty food products.

- **Sell by:** these dates are intended to help stores keep track of their stock levels. Products that have passed their “sell by” date but have not passed the “use by” or “best before” dates will still be edible and marketed to retail customers.
- **Best Before:** this indicates that the flavor or quality of the product is adversely affected after this date. These dates are only advisory, and refer to the quality of the product, not the safety. It is worth mentioning, however, that most retail organizations will remove products whose “best before” date has passed.

It is important to note that items with a short shelf-life rarely make it into the U.S. specialty food market. Consider the amount of time required to ship a product by sea (as air freight will add dramatically to the retail cost), and it’s easy to see why. In general terms, most distributors consider a product “short coded” (i.e. too short to sell) once it falls below six months (depending on the category). Products that become too short-coded to be sold into mainstream supermarkets are then passed on to a sub-sector of distributors who specialize in short-coded products. However, it is important to note that these liquidators will sell product for a fraction of their normal retail value (typically around 70-90 percent off).

Therefore, it is strongly recommended to include a thorough shelf-life analysis in any product development activity, and to push the development to generate the longest shelf life possible.

## BAR CODE REGISTRATION

In the United States, most supermarket retailers can only read Universal Product Codes (UPC), which is a barcode type used throughout North America, the United Kingdom, Australia and New Zealand for tracking food items in stores. The most common form is the UPC-A code, consisting of twelve digits. UPCs are uniquely assigned to each product by the manufacturer. UPCs are critical, because it is the only way retailers and distributors track the success or failure of a product. All sales data is generated based on the UPC for each unique product.

When registering UPCs, manufacturers must acquire all codes through the international organization known as GS1.



UPC Bar Codes can only be purchased through GS1. Using bar codes purchased by unauthorized consolidators can result in heavy fines and having illegally-coded products removed from the shelves. There are many companies who advertise such services, and they are all operating illegally. Be warned...your products will be destroyed if the UPC is illegally sourced.

 **CONTACT: GS1 ([www.gs1.org](http://www.gs1.org))**

## FDA REGISTRATION

The Bioterrorism Act (the Public Health Security and Bioterrorism Preparedness and Response Act of 2002) has been directing the Food and Drug Administration (FDA) to take additional steps to protect the public from a threatened or actual terrorist attack on the U.S. food supply and other food-related emergencies.

It requires domestic and foreign facilities that manufacture, process, pack, or hold food for human or animal consumption in the United States to register with the FDA.

To carry out certain provisions of the Bioterrorism Act, the FDA has established new regulations requiring that food facilities are registered with the FDA, and the FDA be given advance notice on shipments of imported food.

Owners, operators, or agents in charge of domestic or foreign facilities that manufacture/process, pack, or hold food for consumption in the United States are required to register the facility with the FDA.

Foreign facilities that manufacture/process, pack, or hold food also are required to register unless food from that facility undergoes further processing (including packaging) by another foreign facility before the food is exported to the United States. However, if the subsequent foreign facility performs only a minimal activity, such as putting on a label, both facilities are required to register.

Registration of the facilities is an easy and fast process, after a brief online questionnaire, you will be given an account number and each facility will be given registration number.

It is important to note that all FDA registrations are free. There are many companies who advertise themselves as “affiliates”, offering to register companies for a fee. They are not legitimate, and there is no reason to retain their services.

## CERTIFICATIONS



**CONTACT: FDA (<https://www.access.fda.gov/oaa/>)**

Various certifications are available to specialty food manufacturers which can both improve their business practices and make their finished products more marketable. Depending on the specific, target demographics, manufacturers could look at a variety of certifications that highlight the quality practices, value chains, religious affiliations and social impacts. Analyzing what certifications, if any, to pursue is entirely up to the leadership of the manufacturer and should be done in conjunction with a well-thought-out pricing model and competitive analysis.

ISO and HACCP certifications are extremely important because they force manufacturers to implement good quality manufacturing practices. However, they do not offer any retail value, as most consumers are not aware of these organizations. As discussed in the brand development section, limit the amount of information on a label that does not bring either legal compliance or consumer recognition.

## INTERNATIONAL ORGANIZATION FOR STANDARDIZATION

ISO (International Organization for Standardization) is a global network that identifies and develops International Standards for business, government and societies. ISO has member organizations in every country that propose new standards and participate in their development. ISO developed because many companies within the European common market have decided they need a set of standardized rules to ensure that they receive quality good from their suppliers.

Most companies seek ISO certification to do business in Europe. Companies also seek ISO certification because they find that being certified gives them a marketing advantage over their uncertified competitors.

ISO has developed two series of standards:

- ISO 9000 is concerned with quality management, in terms of enhancing customer satisfaction by meeting customer needs and applicable regulatory requirements.
- ISO 14000 is concerned with environmental management, especially minimizing harmful effects on the environment caused by company activities.

Both ISO 9000 and ISO 14000 have sub-categories specific for each type of business. Thus, each type of business can apply for certificates in the 9000 or 14000 series and will obtain a specific ISO certification number in their sub-category. Firms who attain ISO certification also commit to continue to improve their performance in these areas.

ISO does not itself certify organizations. Many countries have formed accreditation bodies to authorize certification bodies. Both the accreditation bodies and the certification bodies charge fees for their services. Accreditation bodies have mutual agreements with each other to ensure that certificates issued by accredited Certification Bodies (CB) are accepted world-wide. The company applying for ISO certification is assessed based on extensive samples of its sites, functions, products, services, and processes. A list of problems ("action requests" or "non-compliances") is made known to the management. If there are no major problems on this list, the certification body will issue an ISO 9001 certificate for each geographical site it has visited once it receives a satisfactory improvement plan from the management showing how problems cited will be resolved.

An ISO certificate must be renewed at regular intervals, recommended by the certification body.



**CONTACT: International Organization for Standardization ([www.iso.org](http://www.iso.org))**

## HACCP

“HACCP” stands for “Hazard Analysis & Critical Control Points”, and is a systematic, preventive approach to food safety that addresses physical, chemical and biological hazards as a means of prevention rather than finished product inspection. HACCP is used in the food industry in the United States, and is required for all imported food products in the juice, seafood or meat categories. The use of HACCP is voluntary for other food categories, though the practices of HACCP should be included in any manufacturer’s best practices policies.

HACCP certification is based on the seven principles outlined below, which can be referenced in ISO 22000 FSMS:

- Principle I: Conduct a hazard analysis
- Principle II: Identify critical control points
- Principle III: Establish critical limits for each critical control point
- Principle IV: Establish critical control point monitoring requirements
- Principle V: Establish corrective actions
- Principle VI: Establish procedures for ensuring the HACCP system is working as intended
- Principle VII: Establish record keeping procedures

Though not required for all product categories, HACCP principles should be included in any manufacturer’s “best practices”, as quality controls and system effectiveness are a major concern of any food producer.



**CONTACT: U.S. Food & Drug Administration ([www.fda.gov/food/foodsafety](http://www.fda.gov/food/foodsafety))**

There is a growing demand for organically certified products; they usually sell for higher prices than regular products. Still, the constraints on production and the cost of certification are dissuasive for most producers. Certification may take up to three years before being awarded and recognized by important distributors on foreign markets.

Being able to put the word "organic" on a food product is a valuable marketing advantage in today's consumer market. Certification is intended to protect consumers from misuse of the term, and make buying organics easy. Specialty food products that are certified as “organic” yield a higher retail of 30-40 percent in the U.S. market.

In some countries, organic standards are formulated and overseen by the government. The United States, EU, and Japan have passed comprehensive organic legislation, so the term "organic" may be used only by certified producers. In countries without organic laws, government guidelines

may or may not exist, and certification is often handled by non-profit organizations and private companies.

In the United States, the National Organic Program (NOP) was enacted as federal legislation in October 2002. It restricts the use of the term "organic" to certified organic producers. Certification is handled by state, non-profit and private agencies that have been approved by the USDA. Quality Assurance International (QAI), a private U.S. corporation, is the largest organic certification body in the U.S. Federal organic legislation in the U.S. defines three levels of organics.

Products made entirely with certified organic ingredients and methods can be labeled "100 percent organic" and products with 95 percent organic ingredients can use the word "organic." Both may also display the USDA organic seal, as shown. A third category, containing a minimum of 70 percent organic ingredients, can be labeled "made with organic ingredients." In addition, products may also display the logo of the certification body that approved them. Products made with less than 70 percent organic ingredients cannot advertise this information to consumers and can only mention this fact in the product's ingredient statement.

EU countries acquired comprehensive organic legislation with the implementation of the EU-Ecoregulation 1992. Standards for organic food production and labeling in the EU are laid down in Council Regulation (EEC) 2092/91. This regulation and subsequent amendments establish the main principles for organic production at farm level and the rules that must be followed for the processing, sale and import of organic products from third (non-EU) countries. Certification is handled on the national level. The EU imposes similar percentages and labeling requirements to the U.S. Internationally, negotiations are underway to harmonize certification between countries, facilitating international trade. There are also international certification bodies, including members of the International Federation of Organic Agriculture Movements (IFOAM) and the Organic Crop Improvement Association (OCIA). Where formal agreements do not exist between countries, organic products for export are often certified by agencies from the importing countries, who may establish permanent foreign offices for this purpose. Ecocert is the world's largest organic certification organization with offices in 20 countries, and operating in over 85 countries. They certify over 40,000 farms and companies worldwide.



## **FAIR TRADE CERTIFICATION**

Though not as popular in the United States as it is in Europe, a Fair Trade certification can offer a unique selling point to your products. Fair Trade certification can yield certified products an additional retail margin of approximately 10-20 percent higher than the non-certified varieties.

While there is no formal definition of what constitutes a "fair trade", the most commonly referred to definition comes from FINE (Fairtrade Labeling Organizations International (FLO), International Fair Trade Association (now known as the World Fair Trade Organization – WFTO), Network of European Worldshops (NEWS), and European Fair Trade Association (EFTA)) which states that fair trade is:

*“A trading partnership, based on dialogue, transparency and respect, that seeks greater equality in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair trade organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.”*

The Fair Trade certification program covers an ever-expanding range of crops, including bananas, honey, coffee, cocoa, cotton, fruits, vegetables, nuts, oils, rice, spices, sugar and tea. In Africa alone, between 2004 and 2006, the number of FLO-certified producer groups rose from 78 to 171, with nearly half of those in Kenya. The estimated value of all Fair Trade certified products coming out of Africa (South Africa, Ghana, Uganda, Tanzania & Kenya) is over \$24,000,000.<sup>2</sup>



**CONTACT: Fair Trade USA (formerly Transfair) ([www.fairtradeusa.org](http://www.fairtradeusa.org))**

## RELIGIOUS CERTIFICATIONS

Various religious organizations offer certification programs, with the Islamic “Halal” and the Jewish “Kosher” being the most popular. These certifications are relatively inexpensive, and the process is quite straight forward, though specifics range, depending on the type of product.

When debating whether or not to pursue such religious certifications, manufacturers should refer back to their business model and examine their target demographics. In New York City independent supermarkets, as an example, a Kosher certification might come in handy. If a manufacturer were targeting demographic markets with a high Muslim population, then a Halal certification would make sense.

The word “Kosher” is Hebrew for “proper” or “acceptable”. For Kosher certifications, there are three categories of food products: meat; dairy and Parve. The steps to obtaining Kosher certification, as listed on the Orthodox Union’s (OU) website, are as follows:

- Complete and send New Company Application back to the OU office by fax or mail. The application asks for logistical information about the company, as well as a list of the products you want certified, and their ingredients.
- A Rabbinic Coordinator (RC, account executive) will be assigned to handle your application. This RC will be your designated point person at the OU, and will be available to answer your questions, address your needs and guide you through the certification process.

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<sup>2</sup> Laura T. Reynolds & Siphelo Unathi Ngowangu, “Fair Trade Rooibos Tea: Connecting South African Producers & American Consumer Markets”, Geoforum (2009)

- A qualified Rabbinic Field Representative (RFR) will visit your facility to observe your operation and the feasibility of certifying your products. There is a processing fee and a travel expense fee that is billed prior to your inspection. The RFR will tour the facility and file a written report to OU headquarters.
- Application and inspection will be reviewed by your Rabbinic Coordinator, who will advise you whether or not the OU can grant certification. In some instances, some system modifications may be required for certification to be awarded.
- The RC will draft a contract which includes all of the requirements of the OU for Kosher certification. If acceptable, the contract is signed and returned to the OU office, and a letter of certification is sent out.
- The manufacturer may then submit the new product labels carrying the OU symbol for final approval.

“Halal” is an Arabic word meaning “lawful” or “permitted”. According to the Islamic Food & Nutrition Council of America (IFANCA), all food products are considered “Halal”, except:

- Swine/pork and its by-products
- Animals improperly slaughtered or dead before slaughtering
- Alcoholic beverages and intoxicants
- Carnivorous animals, birds of prey and certain other animals
- Foods contaminated with any of the above products

The steps for acquiring Halal certification are clear and straight forward:

- Complete an application for Halal certification and supervision.
- Arrange for an audit/inspection of the facility in order that IFANCA may review the process, products, materials and sanitation of the production process.
- Provide the required information, such as specification sheets, labels, flow charts, cleaning procedures, etc.
- Negotiate an agreement, including the fees involved. Supervision fees vary depending on the number and complexity of the products to be certified and breadth of market coverage.
- A Halal certificate is issued for either one year or for each batch produced, depending on the type of product.

Manufacturers should take note of their other target markets before committing to one or both certifications. Many buyers who prefer one or the other will not purchase products with the other symbol on it.



**CONTACT: Kosher Orthodox Union ([www.oukosher.org](http://www.oukosher.org))**



**CONTACT: Islamic Food & Nutrition Council of America ([www.ifanca.org](http://www.ifanca.org))**

## SOCIAL CERTIFICATIONS

Specialty food manufacturers struggle to make their products as unique as possible, and often times, this can be a challenge. What distinguishes one strawberry jam from the next? Probably not that much! In order to achieve “uniqueness”, many manufacturers look towards social certifications as a way of not only contributing to their own corporate responsibility, but also as a way of distinguishing themselves from their competitors.

Social certifications can take on many forms; from standardized certification like The Rainforest Alliance or Breast Cancer Awareness to less formalized programs like “women’s empowerment”. Social certifications let consumers know that a manufacturer’s company cares about a particular issue, and is doing something about it.



Whether deciding to join a formalized social certification program, or creating a new one based on the needs of the manufacturer’s community, social certifications can be a great way to merge corporate social responsibility with consumer awareness and marketability.

# PACKAGING AND LABELING STANDARDS

## PURPOSES OF PACKAGING AND LABELING

There are many reasons for a manufacturer to spend time deciding on what quality packaging to use, including:

- Physical protection – packaging can protect the contents from mechanical shock, vibration, electrostatic discharge, compression and temperature.
- Barrier protection – packaging can also protect the contents from oxygen, water vapor, dust and debris. Many packaging options contain desiccants or oxygen absorbers designed to extend the shelf life. Keeping products clean, fresh sterile and safe for consumption is the primary function of packaging.
- Containment or agglomeration – Small
- Information transmission
- Marketing – packaging and labeling is a great way to encourage potential consumers to purchase the product. Graphic design and physical design are critical.
- Security
- Convenience
- Portion control

Quality packaging is also important because of the marketability and attractiveness to the consumer. As mentioned earlier, manufacturers have only seconds to convince a consumer to initially purchase their product. Attractive, sturdy, professional packaging and marketable branding are critical to making the right impression.

## LEGAL COMPLIANCE

In the United States, food product labels must contain the following basic information:

- The name under which the product is sold
- List of ingredients
- The net quantity of pre-packaged foods in each package, listed in both metric and American units (e.g. “Net Weight: 16oz (400g)”)
- Name, address and contact details (phone, fax, e-mail, web address) of the manufacturer, co-packer or importer (this should be a U.S. address)
- Place of origin (e.g. “Product of Kenya”)
- Expiration date for consumption, including the day, month and year
- Special conditions for keeping or usage

## BRANDING

Developing a brand for a specialty food product is perhaps the most important aspect of product development, as it becomes the public face of both the manufacturer and the product itself.

When developing a brand for specialty food products, it is important to note a few key questions, including:

- What is the most important thing you want to say about your product?

- Who are you communicating with?
- What is the corporate culture you are trying to convey?
- Are consumers familiar with the product type?
- What tone or attitude do you want to convey?
- Will consumers know how to use this product?
- What history or information do you want to share?
- What would the consumer like to see?

These are all critical questions, because the manufacturer wants to create a brand that is not only true to their own corporate identity, but also one that is marketable and appealing to the consumers they are trying to reach. Again, doing a competitive analysis is critical, if only to see what everyone else's brands look like and how this one can be different.

Developing a brand, from a label to a website to a social media page is intense, and should be handled with care from the beginning. It is important to remember that this "brand" is all most consumers will ever know about a manufacturer, and perhaps even the country of origin.

When developing a brand, it is important to work with a graphic designer who has experience in specialty food products, and preferably products in the same category as what the manufacturer is producing.

For the United States market, it is important to make note of some consumer perceptions about brands. A high-priced product should look nicer than a low-priced product. U.S. consumers have a very jaded and limited view of the world, and will associate certain branding patterns with certain regions. Manufacturers should never include anything on their label that does not either help sell the product or is required by law. Finally, always remember to do the market research first. Different demographics will require and expect different brand strategies. Higher end, mainstream customers will expect to see a product that looks very different from one targeting a lower-end consumer or the Diaspora. Understanding the target customer will save lots of time and money when developing a brand.

## **PRICING, PROMOTIONS & COMPETITIVENESS**

Nothing is more critical to the success of a specialty food product than the three "P's": pricing, packaging and promotions. The first two involve meeting the competitive requirements of getting the products on to the shelf (i.e. convincing a buyer that these products are marketable and competitive). The last "P", promotions, involves how you plan to get your products off the shelf (i.e. convincing consumers that they should buy your products instead of someone else's). Manufacturers must drive this process, as no broker, importer or distributor will ever put that much thought into a product they don't own outright. Manufacturers must also work closely with their importer, as discussed below, as the expenses for many of these initiatives described can and should be shared.

## **DEVELOPING A PRICING MODEL**

There are, generally speaking, four main options when developing a pricing model, and the choices used will depend heavily on the type of product, desired market position and the results of a competitive landscape. The main options are:

- **Cost-Plus Pricing:** this includes setting a price at the current product cost, including both cost of goods sold (COGS) and fixed costs, and volume of sales, plus a certain profit margin (typically not less than 25 percent).
- **Target Return Pricing:** involves setting a price to achieve a target Return-on-Investment (ROI).
- **Value-Based Pricing:** this involves pricing a product based on the value it creates for a customer. This is typically the most profitable form of pricing, though it rarely applies to food products.
- **Psychological Pricing:** this will include positioning, popular price points and fair, market value pricing.

Developing a pricing model will depend heavily on the competitive landscape prepared. Keeping into account the manufacturer's costs, profit margin (along with the profit margins of the importer, distributor and retailer), market position of a product will depend heavily on the competitive landscape. For example, if a manufacturer is producing jam, and it is determined that they must hit a target retail price of \$5.00 per unit. If the manufacturer's cost is over \$4.00 per unit, then there is no point in approaching the U.S. specialty food market, as this product will be well over-priced in that category (mainstream).

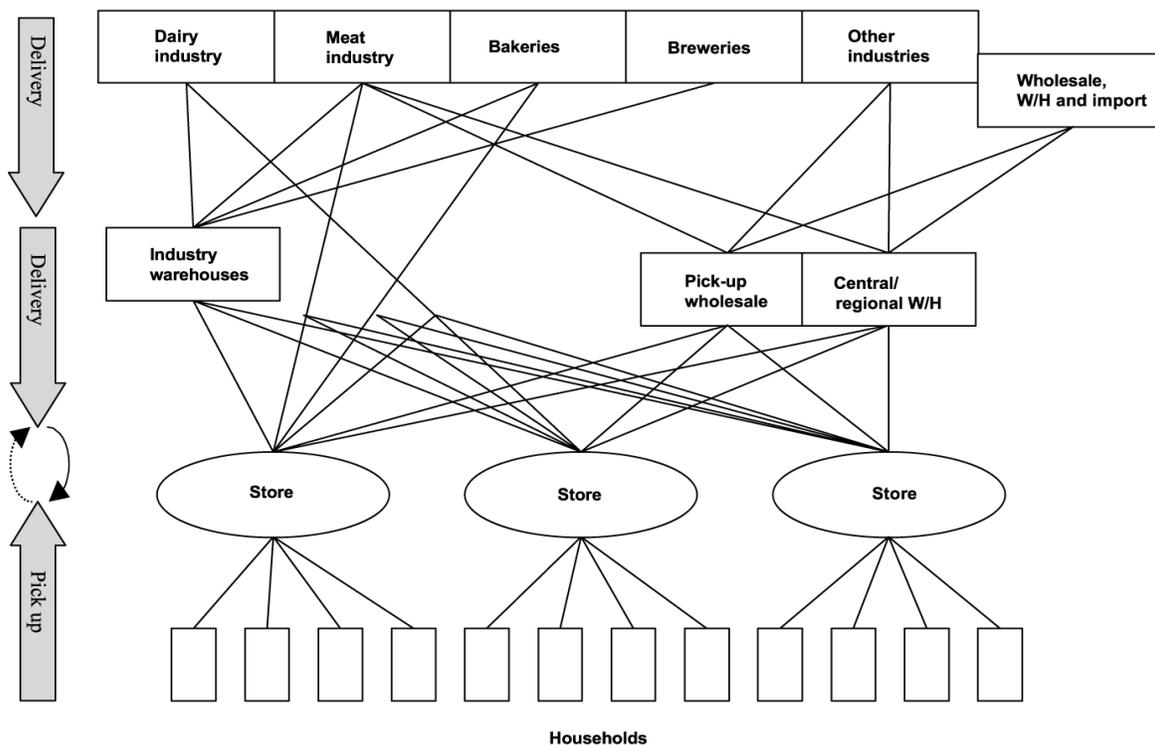
Calculating a pricing model can be achieved by following the chart below:

Price of Goods (facility):	_____	(EX WORKS)
Domestic Freight (to port):	_____	
Fixed Amount for Customs:	_____	
SUBTOTAL (FOB)		
Cost of Handling:	_____	
Cost of Principle Transport:	_____	
Cost of Principle Insurance:	_____	
SUBTOTAL (CIF)		
Cost of Off-loading:	_____	
SUBTOTAL (DEQ)		
Cost of Delivery:	_____	
SUBTOTAL (DDU)		
Customs Duties:	_____	
Import Duties:	_____	
Charges for Custom Fees:	_____	
SUBTOTAL (DDP)		
Buying price for Importer:	_____	
Importer Mark-up (20-50%):	_____	
Distributor Mark-up (20-40%):	_____	
Retailer Mark-up (30-50%):	_____	
TOTAL (Final Retail):		

A manufacturer should always build in a sustainable marketing budget, particularly for a new product line. It is recommended that the percentage for such marketing activities be approximately 10-20 percent.



**Table 4: Distribution Networks**



## PROMOTIONS THAT WORK

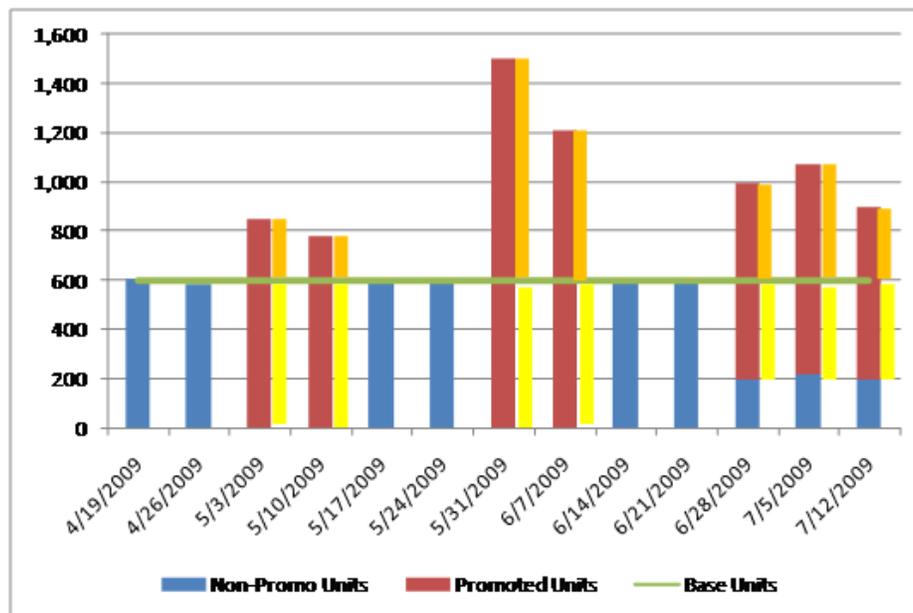
Every manufacturer has the challenge of not only getting new customers, but keeping them. New products are given a reasonably short amount of time to “work” before being discontinued (typically between six and eighteen months). That is not a lot of time to convince buyers that a product is worth keeping on the valuable shelf space it occupies. Consequently, promotions are a critical element to business modeling.

Product demonstrations (demos) are something that many, if not most, supermarkets in the United States will expect. These are generally available in four-hour blocks of time, and should be coordinated carefully with the importer and retailer. Demos cost approximately \$100 for each four-hour block, per store, so be careful in selecting locations, times, etc. Often times, demos can be shared with a complementary product (i.e. a peanut butter company sharing demo time with a bread company), thus cutting the cost in half. It is important to remember that consumers cannot taste the quality of a product until AFTER they have bought it. The job of any good manufacturer, and the challenge faced by everyone involved, is how do you get the consumer to buy a product? Quality, ease of use, taste...these are traits that make a consumer buy a product a second and third time. Hence, promotions like product demonstrations become even more critical.

Working with the import company, it is important to establish a solid promotional program. Most supermarkets will require quarterly, off-invoice promotions, with 15-20 percent being the typical minimum. Other types of effective promotions include:

- Samples: offering samples during a product demonstration, at sporting events, etc.
- Point of Sale: recipe cards, shelf-talkers, shipper displays or other forms of in-store advertising are available.
- Coupons: work with each distributor and retail chain, as coupon policies and costs vary greatly from account to account.
- Temporary Price Reduction (TPR): as mentioned above, these are usually offered for a one-two week period of time, and never less than 15 percent. TPR offers can also include various options, including “Buy One Get One”, “Buy Three Get Two”, etc.
- In-store advertising: most chain supermarkets have an in-store flyer that gets handed to each and every consumer. Coupons, stories and advertisements are usually found in each.
- Distributor Catalogs: more for business-to-business presentations, but can be effective, though costly, for presenting new items to regional account representatives.

**Table 5: Promotions**



## PRODUCT POSITIONING

The shelves of U.S. retail outlets are packed with every type of product imaginable. Rows upon rows of BBQ sauce, juices, cookies, teas, and jams, to name but a few, line every aisle of every store. Looking at the stores as a whole, one realizes that the store is designed in a very precise, logical manner that does not deviate much from store to store. Fresh fruits and vegetables are always on the outside perimeter, as are meats, dairy and fresh baked goods. The center aisles are organized in a similar fashion, with frozen foods on one side, followed by house wares, pet foods,

and then shelf-stable food products. This is because there is a long-studied, exact science to designing a supermarket.

All major supermarket chains in the United States, and elsewhere, use a software technology called “plan-o-gram”. Plan-o-grams are created to maximize available shelf space and to group categories of products together to maximize consumer exposure. Manufacturers should be aware of this, and should also take note of where they imagine their products being placed, again, depending on their target demographic and competitiveness. A Senegalese producer of organic jam, as an example, has several options. Their products could go into the mainstream “jam” section, or the “organic” section, or the “African” section, but this selection depends on many things. Mainstream categories like jam, olive oil, pasta sauce, etc are extremely competitive, and consequently, very expensive. For a retailer to make room in that section, they must take something out. For these reasons, “slotting”, cash payments to justify the placement of a new item, is often quite high. Olive oil is one of the most expensive, with slotting fees often ranging above \$10,000 per store. Understanding the rationale behind store design is one way that manufacturers can best understand their own product placement and positioning.

When preparing to introduce a new product to the U.S. specialty food industry, it is important to answer two simple questions: where does this product belong and who is going to buy it? When a buyer is looking at the product, these are the two exact questions they will be asking, and it is advised to all manufactures to have an elaborate answer. Getting on to the shelf is one thing - getting off the shelf is something else.



## THE IMPORTANCE OF MARKET STUDY

Do your homework! That is the most straight-forward way of stressing the importance of conducting a proper market study and competitive landscape. Once a manufacturer understands the market, they will be in a much better position to determine whether or not their business model will work in the U.S. specialty food market. Some key points include:

- Analyze what other products are already in the market...how much they retail for, what the packaging looks like, what sizes they come in and how often they promote.
- Prepare a concise SWOT (Strengths, Weaknesses, Opportunities & Threats) analysis for each competitive product, gathering information from buyers and consumers alike.
- Determine specifically what market segment to approach (i.e. high-end supermarkets in the Northeast), based on consumer demand for the manufacturers product category. As mentioned, the U.S. market is multi-faceted, and manufacturers need to know exactly where they fit in.

## MARKETING

### INDUSTRY TRADE SHOWS

Participating in specialty food trade shows is a great way to network with your customers, meet other industry players and gain public exposure for the company and the brands. However, it should be noted that industry trade shows do not replace the traditional method of business expansion. It is rare that a specialty food manufacturer will actually sell products at a trade show, or even solidify a deal. Typically, contacts can be made that will require extensive follow-up and presentations.

Some of the most noteworthy trade shows in the U.S. market are:

- NASFT Winter Fancy Food Show (San Francisco, CA) – January
- NASFT Summer Fancy Food Show (Washington, DC) – June
- Natural Products Expo East (Baltimore, MD) – September
- Natural Products Expo West (Anaheim, CA) – March

Dates and locations are subject to change, so please check with the individual hosts to confirm. Most industry trade shows are public relations and networking opportunities, and are not specifically geared towards making sales or introducing a new product. If a manufacturer does decide to attend an industry trade show, make sure they have something to show. If the packaging, pricing and promotional schedule is not within compliance, there is no point in going. If a manufacturer does not have product currently warehoused in the United States, there is no point in going. Interested buyers will not wait months and months for delivery.

## DISTRIBUTOR TRADE SHOWS

Distributor shows often offer a manufacturer who is new to the U.S. market more tangible results for less investment, so it is advised to pursue this avenue first before looking at the larger, industry shows. Of course, the manufacturer must already be set-up with the distributor hosting the show, and those products must already be physically in their warehouses for sale. Unlike industry shows, which are often attended by non-buyers, distributor shows are only attended by the distributor's customers (retail buyers) and their corresponding account representatives. Thus, distributor trade shows offer a more streamlined approach to reaching customers than industry shows.

Most leading specialty food distributors also host their own trade shows, and these are most often attended only by the distributor's customers. These shows usually cost much less than the industry trade shows, and given the extremely targeted audience, often make more sense for the manufacturer to focus on. Distributor shows are often broken down by seasons (typically summer and "holiday"), and also by region. Key U.S. distributors, like Kehe Foods, host both a summer and a "holiday" show, but also offer regional "table top" shows, where a handful of manufacturers are allowed to present their items to the region's buyers and senior account managers. Distributor shows typically cost around \$1,000 to \$4,000 for participation, with regional "table top" shows typically costing around \$300 to \$500 per show.

## TRADE PUBLICATIONS

The U.S. specialty food industry has a variety of industry publications that serve multiple purposes. First, these publications are a great way to learn what is happening in the industry, including new product launches, trends and corporate news. Most publications are available in both a print format and on-line, and many of them offer a free news-feed via e-mail. There is a wealth of information that can be learned from subscribing to these periodicals, and any manufacturer interested in the U.S. specialty food market should take part in this process.

These trade publications are also a great place to advertise, as almost every buyer in the country reads them. Advertising rates fluctuate, depending on the publication, time of year and size of the advertisement, but this can be quite an expensive process. Manufacturers should not entertain the idea of investing in print or web-based advertising until their customer base is well-established.



Manufacturers should take advantage of the many free services that are available. For example, most publications allow press releases to be included for free. These announcements should include a new distributor or retailer who has listed the products, new product launches, new

products, etc. Manufacturers can also take advantage of the “category” issues that are published. Each month, each trade publication features a different category, including “cooking sauces”, “condiments”, “natural juices”, “African cuisine”, etc. Manufacturers are often permitted to list their products, for free, in these various editions. Again, manufacturers must consult with each publication regarding schedules and opportunities.



**CONTACT: Specialty Food News ([www.specialtyfood.com](http://www.specialtyfood.com))**



**CONTACT: Gourmet News ([www.gourmetnews.com](http://www.gourmetnews.com))**

## **SOCIAL MEDIA**

In today’s modern market, one cannot underestimate the power of social media. As with all marketing initiatives, it is the goal of the manufacturer to create consumer awareness about their products, and social media offers one of the best, most cost-effective ways of doing this. Various websites, including Facebook, MySpace, LinkedIn and others offer a free way to interact with a manufacturer’s target audience.

Maintaining a quality, informative website, as mentioned above, is also critical. More than ever, consumers want to know where their food comes from and who is making it. Traceability programs are a great way to allow consumers to get a better understanding of exactly who and what is touching their food products, and allows manufacturers to advertise their high quality practices on the internet in a way that would be impossible on a small, product label.

## **UNDERSTANDING LOGISTICS**

### **SELECTING AN IMPORTER**

Finding a proper importer is one of the most challenging and critical elements to the entire process of exporting specialty food products into the United States. It is, or rather, it should be, a partnership between the manufacturer and the import company.

As large as the U.S. specialty food market is, it is highly recommended that a manufacturer use only one importer, unless the product offerings target very different demographics. The reason for this is that most importers maintain relationships with the same distributors and retail accounts, so having more than one organization representing the same brands is strongly discouraged.

The NASFT maintains a current directory of import companies, and should be consulted. It is also beneficial to look at the importers used by competitive products.

Selecting a reputable, connected importer is critical, as registering a new vendor with a distributor or retail chain is often difficult or impossible. When interviewing an importer, it is important to understand if they service the target demographics the manufacturer wants to reach. Speaking with target retailers and asking who they recommend is also advisable.

Remember, this importer will be the manufacturer’s only voice in the United States, so the mutual relationship is critical. Manufacturers should think of the importer as an extension of their own company, and should work with the importer to achieve the mutual goals set by both.

Too many manufacturers think that, once they have an importer in place, their job is done. Nothing could be further from the truth. Importers will expect involvement, whether in the form of promotions, slotting or trade show support, etc, and the manufacturer should receive monthly updates regarding sales, movement, targeted presentations and support needed.

A poor relationship with an import company will do nothing except hurt the manufacturer's brand. It is highly recommended to do a good amount of research and development when pursuing an importer relationship.

## **THE AFRICAN GROWTH and OPPORTUNITY ACT (AGOA)**

AGOA was approved by the U.S. Congress in May of 2000 (Title I, Trade & Development Act of 2000, PL 106-200), in an effort to provide trade preferences for quota and duty-free entry into the United States for certain goods, including most specialty food products. This legislation authorized the President of the United States to determine which Sub-Saharan African countries would be eligible for AGOA on an annual basis. As of August 2011, there are thirty-seven AGOA eligible countries, including: Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Chad; Comoros; Republic of Congo; Djibouti; Ethiopia; Gabon; The Gambia; Ghana; Guinea-Bissau; Kenya; Lesotho; Liberia; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Nigeria; Rwanda; Sao Tome & Principe; Senegal; Seychelles; Sierra Leone; South Africa; Swaziland; Tanzania; Togo; Uganda and Zambia.

## **MODES OF TRANSPORTATION**

Manufacturers looking to export their specialty food products into the United States have a variety of options to choose from, including sea freight, air freight and parcel post.

### **SEA FREIGHT**

For African specialty food manufacturers looking to penetrate the U.S. market, sea freight will be the most common mode of transportation used, as it is far less expensive than either other options. When shipping by sea containerization is most often the shipping method of choice.

### **CONTAINERIZATION**

Containerization implies that the shipment is placed in a freight container that meets ISO standards. At present, there are two ISO-certified marine container options: 20-foot (holds 26 cubic meters up to 24,000kg) and 40-foot (holds 52 cubic meters up to 30,480kg). Shipping in containers offers several advantages to shipping open stock, including better security of product, reducing loading and unloading times, less damage, etc.

For shipping containers, depending on the needs of the market, containers can be loaded as either Full-Container Load (FCL) or Less-Than-Container Load (LCL). FCL implies that one manufacturer owns the entire contents of one specific container, while LCL implies that the container needs to be consolidated with other manufacturers. Depending on the route and the shipping company, consolidation of LCL can be timely, so it is important for a manufacturer to understand the exact processes to be used.

Because of rapid load and unload times in the United States, manufacturers should take note to palletize all FCL and LCL shipments, as U.S. Customs issues heavy fines for significant delays in the unloading process. If using wooden pallets, they must be fumigated to U.S. standards.

Manufacturers must work closely with their shipping company, as U.S. customers will base their ordering system on the TI/HI of a particular product. “TI” refers to how many cases of product are in each palletized layer, and “HI” refers to how many layers on a pallet. Distributors, in particular, will require this information, as mentioned above.

## INCOTERMS & DEFINITIONS

There are seven INCOTERMS that all manufacturers should be familiar with, as follows:

- **CFR:** Cost & Freight, refers to the named port of destination. The seller must pay the costs & freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the vessel. CFR can apply to only maritime shipments, and insurance of the goods is not included. CFR is the term which replaced “CNF”.
- **CIF:** Cost, Insurance & Freight, refers to the named port of destination. CIF terms are identical to CFR, with the one exception that the seller must additionally procure & pay for the insurance of the cargo. CIF can apply only to maritime transport shipments.
- **CIP:** Carriage & Insurance Paid, refers to the named place of destination. This is the containerized transport/multimodal equivalent of CIF. The seller pays for carriage and insurance to the named destination point, but risk passes to the buyer once the goods are handed over to the first carrier.
- **FAS:** Free Alongside Ship, refers to the named port of shipment. The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. FAS is suitable only for maritime transport but not for multimodal sea transport in containers.
- **FCA:** Free Carrier, refers to the named place of delivery.
- **FOB:** Free on Board, refers to the named port of shipment. The seller must load the goods on board the vessel nominated by the buyer. Cost and risk are divided when the goods are actually on board the vessel. The seller must clear the goods for export. The term is applicable for maritime and inland waterway transport only but not for multimodal sea transport containers. The buyer must instruct the seller the details of the vessel and the port where the goods are to be loaded, and there is no reference to, or provision for, the use of a carrier or forwarder.
- **EXW:** Ex-Works, refers to the named place of delivery.



**CONTACT: International Chamber of Commerce ([www.iccwbo.org/incoterms](http://www.iccwbo.org/incoterms))**

## **SUSTAINABLE SUPPLY CHAINS IN AFRICA**

Sub-Saharan Africa must develop sustainable, competitive supply chains and product development initiatives if it is to successfully enter the U.S. specialty food market. With very few exceptions, SSA competes on a global basis for valuable space on U.S. supermarket shelves. Whether the product is jam, cooking sauces, coffee, oil or any of the other fabulous specialty food products being produced in Africa, these products must compete on a global scale. The fact that they are from Africa and have a sustainable business model in an underdeveloped area is often not enough to highlight the uniqueness of a particular product line.

Sub-Saharan Africa has long struggled to be competitive in the commodities trade, as again, they compete on a global scale. A buyer looking for fresh mangoes for a U.S. supermarket will likely not venture too far into Africa, where the costs are significantly higher and the quality, often, significantly lower than those in Mexico, Brazil, California or Thailand (to name but a few). Specialty food products allow farmers and manufacturers to not only extend their shelf lives and improve storage capacity, but also to tell their story. Specialty food is all about telling a story and selling an image, and this plays in well with the needs of African manufacturers to “tell the story” of their products, culture and region.

- Uniqueness: consumers look for products that are unlike what they’ve seen before.
- Pricing: consumers are attracted to low prices, but are also willing to pay a premium for sustainable, fair trade, organic and/or socially responsible products.
- Quality: as discussed above, “quality” is generally a secondary reaction to a product, as the consumer cannot taste it inside the packaging.

The issue of sustainable supply chains in Africa is one that manufacturers should be particularly aware. Again, focusing on the target demographic is critical. Not only is implementing a sustainable supply chain a good business practice and a corporate social responsibility, but it can also add significantly to the marketability of a product. Given the limited understanding of Africa, many U.S.-based buyers will almost expect that there is a social, sustainable business model in place. Recently, a buyer looking at an Ethiopian specialty food product remarked “I didn’t know they had food in Ethiopia”, referencing his limited knowledge of Ethiopia to the famine from decades ago. This is but one example of the challenges faced by African specialty food manufacturers. U.S. buyers often want to know that there is a social responsibility program in place, because their knowledge of Africa is often limited to what makes the evening news...war, poverty, corruption and violence.

Step by step, U.S. buyers and consumers are becoming more and more aware of the quality, uniqueness and culinary importance of African supply chains.

Again, this report is intended to address the “demand” side, with the subsequent report diving into much more detail regarding the challenges faced in Africa on the “supply” side.

## CONCLUSIONS

The U.S. specialty food market represents a tremendous opportunity for manufacturers. Its sheer size, volume and acceptance of internationally-produced products make it one of the most appealing target markets in the industry. However, this volume comes at a price. The United States is also the most competitive specialty food market in the world. The rules are set, and are not flexible to interpretation. However, the advantage is that the processes of getting into the U.S. specialty food market, from both a legal and an industry standpoint, are straight forward.

By adhering to the guidelines outlined in this publication, manufacturers can more easily assess their readiness to enter into the U.S. specialty food market, and can follow step-by-step the requirements to do so.

Manufacturers who are successful at penetrating the U.S. specialty food market can consider themselves amongst the elite; amongst the proud companies who have come before them, and who have successfully conquered one of the most competitive and unforgiving markets in the world. By doing a bit of homework, understanding the players and meeting the standards, any manufacturer can find itself selling into the U.S. specialty food market.

The need for manufacturers to understand the market, the demographic and the competitive landscape cannot be over emphasized. Armed with knowledge and understanding the U.S. specialty food market, manufacturers can enjoy the lucrative U.S. specialty food market and further enhance the consumers' appreciation of the cuisines, culture and products from their native homeland.

## GLOSSARY OF TERMS

### **Activity-Based Costing**

An accounting system that allocates costs of all activities to each item (rather than spreading costs uniformly across all items, which is what simpler methods like traditional cost accounting do), so that you know exactly how much it costs to sell an item once you include all supply chain costs such as transportation, labor, and overhead.

### **Accrual Fund**

Either an allowance or a funding method used to allocate trade funds to accounts. When it is applied as an allowance, the manufacturer agrees to pay the retailer a set amount for every case that they buy during the year (this can include all base volume and all promoted volume). In return, the retailer agrees to run a set number of promotions for the manufacturer throughout the year. The difference between an accrual fund and a case allowance is that, with the accrual fund, one deal is done for the entire year's worth of promotions, and with the case allowance, different terms are negotiated for each event.

When the accrual fund method is used for trade fund allocation, it is used to decide how many trade funds will be allocated to a specific account. There are usually two variants of the accrual fund when it is used in this way: a live accrual fund and an historic accrual fund. With a live accrual fund, the number of cases that the retailer buys from the manufacturer in *this* year is used to decide how much of the trade funds will be spent with each particular account. With the historic method, the number of cases bought *last* year dictates how much of the trade funds will be allocated to each account. When the live version is used, it is important (but not always essential) that the accrual fund amount for each specific account is greater than the sum of the costs for all the promotions that are planned with each specific account.

Accrual funds take a similar form to the case allowance, where a set amount per unit (case, pound, liter, ounce, fluid ounce, count) is agreed with the retailer for every unit that they buy. This amount accrues in a fund that is then to be used to pay for promotions with that account. When the accrual fund method is being used as the allowance mechanism (as described in the first paragraph), the retailers will receive all of the money. When the accrual fund method is being used as an allocation mechanism, retailers view the accrual funds as funds that must be set aside and used to fund only promotions.

### **Ad**

Promotion of a good through advertisement in various media channels, including print, radio, and television.

### **Ad Allowance**

A dollar amount that the retailer receives for every case that the retailer purchases from the manufacturer (paid after the ad has run).

### **Allowance**

The amount of discount that the retailer receives from the manufacturer. The manufacturer dictates how and when the allowance is received. There are two types of allowance: performance allowance and non-performance allowance.

### **Allowance Percentage**

The percentage that the retail cost is reduced due to the manufacturer's allowances.

**Assortment**

The mix or ‘assortment’ of items that a retailer stocks. They periodically review their assortment to figure out which items should be discontinued, and which new items should be added.

**Average Base Cost**

The average base cost of a product within a package for all markets in a location group class.

**Average Base Price**

The average base price of a product within a package for all markets in a location group class.

**Average Extended Cost**

Average Cost x Potential Average Quantity x Imputed Percentage.

**Average Extended Price**

Average Base Price x Potential Average Quantity x Imputed Percentage.

**Average TPR Percentage**

The average of the TPR’s in the stores that are in the POS data.

**Backhaul**

A term used in logistics when a truck picks up another load for a return trip after unloading its original haul.

**Backhaul Allowance**

The manufacturer provides the retailer with a backhaul allowance based on every case of product that the retailer collects from the manufacturer’s warehouse using contracted trucks.

**Base Price**

The regular non-promoted shelf price.

**Base Support**

Base support is the total baseline volume exposed to a promotion. The base support percent value is equal to the base support volume for a promotion driver divided by the total baseline volume. Base support percent values can be used for categories which take advantage of the PPG model.

**Basis Point**

A basis point is the smallest measure used to quote financial return. One basis point equals a one-hundredth of a percent. For example, the difference between a net profit margin of 2.25 percent and 2.50 percent is 25 basis points.

**Bayesian Inference**

A highly sophisticated approach to statistical modeling that is useful in sparse data environments. Bayesian Inference is based on theories by Reverend Thomas Bayes, who lived over 200 years ago.

**Bayesian Shrinkage**

A Bayesian methodology whereby information is borrowed across products and stores in order to intelligently “shrink” model estimates and moderate extreme values.

**BOGO/BOGOF**

“Buy One Get One” Free. A promotion tactic often used to give consumers an incentive to buy and stock up on a product.

**Brand**

The name (usually trademarked) that a manufacturer assigns to a group of items. The brand name is not always the same as the manufacturer name, since a manufacturer can own several brands

**Brand Manager**

The Brand Manager charts the strategy and tactics surrounding the Brand plan. The marketing research department supports the Brand Managers.

**Business Rules**

Constraints on the optimization that allow rules to describe strategies or policies that are important in guiding the outcome of the optimization to suit the customer’s needs.

**Buying Allowance**

An allowance that the retailer receives for every case of product that they buy. This is usually used when the manufacturer has a lot of excess inventory that they need to move quickly and is stated as a dollar value per case.

**Calculation Context**

A configuration setting that forecasts your promotion in a specific “context” in order to account for historical levels of promotion on non-promoted products.

**Cannibalization**

The negative effect on sales of a product when a consumer buys one product instead of another (often due to pricing, promotion, or new desirable attributes).

**Case Allowance**

The most common form of performance allowance is called a case allowance where the retailer receives a fixed dollar amount off of the price of a case of the product.

**Case Volume Lift Percentage**

The percentage of cases that will be sold as a result of a promotion.

**Category**

A collection of related products that are substitutes or complements. Retailers and distribution companies use categories to group and manage products.

**Category Manager**

A person responsible for all merchandising activities for a category of products, including price, promotion, placement, and assortment.

**Category Plan**

All promotions for one category that intersect in time with a specified date range. They are the basis for category predictions and forecasts, and allow accurate what-if analyses of different promotion plans.

**Chain**

A branded collection of stores with one owner.

**Client**

The user-interface application installed at the customer site.

**Club Card**

A program that consumers sign up for to enjoy discount or reward programs in return for tracking of consumer behavior patterns. Also called Frequent Shopper or Loyalty Card program.

**Coefficient**

A number representing the relationship between a dependent variable (for example, sales volume or share) and an independent variable (for example, base price or discount).

**COGS (Cost of Goods Sold)**

COGS (cost of goods sold or cost of sales) includes the direct costs that are attributable to the production of the items sold by a company. This amount includes the materials cost used in creating the item along with the direct labor costs used to produce the item. It excludes indirect expenses such as distribution costs and sales force costs.

**Competitive Prices**

Prices that are perceived to be a good value compared to what the competition is charging.

**Competitor Prices**

Prices that the competition (other stores that consumers could choose to shop instead) is charging for the same items.

**Competitor Price Rule**

An example of a business rule, this feature allows users to enforce rules that ensure that prices are competitive. For example, you could impose a rule that says prices on cereals are within 5 percent of competitor prices.

**Complementary Products**

Items that consumers usually buy together.

**Constraint**

A rule that forces the optimization to generate results that fall within a certain range.

**Consumer**

A person that buys items at a store.

**Consumer Demand Model**

A system of equations that predicts how much consumers will buy depending on factors such as price, seasonality, and promotions.

**Consumer Loyalty**

The affinity that consumers have for a product or retailer that makes them more likely to purchase a specific product, or shop at a specific store.

**Consumer Unit**

An abstracted “sales unit” which may aggregate multiple unique UPCs into what a consumer is likely to consider a single item. Often, a consumer unit will encompass differently-branded versions of the same product.

**Contribution Margin**

The dollars remaining after variable costs are subtracted from adjusted gross margin. A more accurate measure of profit than gross margin.

**Contribution Margin Percentage**

Contribution margin divided by revenue.

**Cost Per Incremental Case**

A measure of how expensive each case of incremental volume is.

**Cost Per Incremental Unit**

A measure of how expensive each unit of incremental volume is.

**Cost of Capital**

The costs associated with carrying merchandising inventory.

**Cost Per Incremental Unit**

Original price minus promoted price plus any trade funds.

**Cross-Elasticity**

The relationship between the purchase of one product and the purchase of another. If the products are completely independent, the cross-elasticity is zero. If products are complementary, the cross-elasticity is positive. If products are substitutable, the cross-elasticity is negative.

**Cumulative Quantity Discount (CQD)**

The CQD is an allowance that varies with volume.

**Deal**

Promotional pricing for a good; sometimes referred to as an offer.

**Deal Period**

The deal period can be specified as a certain period of time and will usually include the order date (the date that an order must be placed with the manufacturer to qualify for the manufacturer’s discounted price), the ship date (the date that orders must be shipped in order to have enough product available in the store for the start of the promotion), and the delivery date (the date that the product must be delivered to the store to have enough product available in the store for the start of the promotion).

**Deal Term**

The cash element of an offer (a subset of the offer). Deal terms usually consist of five parts: the deal/performance period, the flat fee, the allowance, the forward buy, and the payment mechanism.

**Demand**

The amount of a product that will be purchased at a particular price.

**Demand Curve**

Demand over a range of prices over a period of time.

**Demand Group**

A collection of highly substitutable products. The price and promotion of one item in the group directly affects demand for the other items.

**Discount**

The amount of money that the consumer receives off of the base price of an item, which is sometimes referred to as a TPR.

**Display**

In-store promotions that can take the form of a stand-alone display at different locations throughout the store, an end-of-aisle display, or a mid-aisle display. Displays are defined as off-shelf promotions and require a secondary placement of the item (in addition to the primary placement of the item on the shelf).

**Display Media**

Types of display media such as in-store displays. These are subtypes of a tactic.

**Drop Ship Method**

When middlemen avoid carrying costs of inventory by sending single unit orders for products to manufacturers (or major stocking distributors), who drop ship the merchandise directly to the customers of the middlemen.

**DSD**

DSD or direct store delivery is a method of delivering products directly to the retail store, bypassing the retailer's warehouse.

**EDLP**

EDLP (Every Day Low Price) is a performance detail type which should be used when a price change lasts more than eight weeks or significantly longer than your typical temporary price change. Forecasted volume changes from EDLP promotions are based on changes to the base price coefficient rather than the TPR coefficient.

**Elasticity**

The responsiveness of the quantity purchased of an item to changes to the item's price. If the quantity purchased changes proportionately more than the price, the demand is elastic. If the quantity purchased changes proportionately less than the price, the demand is inelastic.

**End Cap**

A display at the end of an aisle.

**Equivalent Retail Price**

Price per equivalent unit, calculated by taking shelf price divided by the standardized unit of measure.

**Equivalent Unit**

A standardized unit of volume using equivalization.

**Equivalent Volume**

The relative number of equivalent units sold. Depending on which size product is defined as the “standard” by the modeling process, the number of equivalent units sold could be higher OR lower than the actual number of units sold.

**Equivalization**

The assignment of a standardized unit of measure to a product based on the product’s description and the spread of sizes/counts that apply to that description. This allows direct comparison across a wide range of sizes.

**Event**

Promotion activity that has a theme around it (such as the Fourth of July), although events can also revolve around a specific manufacturer. Events usually consist of a group of various different promotions consisting of Ads, displays, and TPRs in some combination. Retailers will also create custom-made (and named) events specific to their stores.

**Financial Modeling**

A process that enables retailers and manufacturers to understand the cost drivers of their business, including fixed and variable supply chain costs.

**Fixed Cost**

A cost that does not vary depending on production or sales volume.

**Fixed Trade Funds**

Flat Fees (A lump sum of cash that the manufacturer pays to the retailer to secure a display or ad. It can be viewed as the fee for renting the display space or ad space even though it is not a direct payment.)

**Flat Fee**

A lump sum of cash that the manufacturer pays to the retailer to secure a display or an ad. It can be viewed as the fee for renting the display space or for the ad space even though it is not a direct payment for either one.

**Forward Buy**

The purchase of an amount of product that exceeds immediate needs to take advantage of favorable pricing offered for promotions. In Trade Planning & Optimization, a number of weeks can be entered for which a retailer can forward buy. A forward buy allowance is only valid for promotions that also contain a case allowance.

**Freight Allowance**

The manufacturer provides the retailer with an allowance based on every case of product that the retailer collects from the manufacturer’s warehouse using their own trucks.

**Gross Margin**

Net sales minus product cost.

**Gross Margin Percentage**

Gross margin divided by net sales, expressed as a percentage.

**Gross Margin Rule**

Constraint requiring optimization results to be within a gross margin range.

**Historical Store Participation**

Historical store participation is used to estimate the percentage of stores that will execute a type of promotional activity. Store participation values are generated from syndicated data.

**Imputed Package Price**

Average Extended Price / Average Extended Price Total x Package Price, where Average Extended Price Total is the sum of average extended prices of all products in all product groups.

**Incremental Cases**

The number of cases that the retailer will sell from the promotion.

**Incremental Manufacturing Profit**

Additional Manufacturing Profit generated from the promotion.

**Incremental Manufacturing Revenue**

Additional Manufacturing Revenue generated from the promotion.

**Incremental Units**

The number of units that the retailer will sell from the promotion.

**Incremental Value**

Forecasts the promotion's incremental profit change and cost per promoted product value by stripping out everyday business results. It is often considered the true indicator of a promotion's worth.

**KPI (Key Performance Indicators)**

A set of measurements to assess success against predefined core objectives.

**Labor Rate**

An hourly labor cost including wages and benefits.

**Last Digits**

The digits in a price after the decimal point.

**Lift**

$(\text{Promotion Volume} - \text{Baseline Volume}) / (\text{Baseline Volume}) \times 100$  percent

**Line Pricing**

Assigning a group of similar products the same price, usually across flavors

**Logistical Unit**

The logistical unit indicates how a product is shipped to the retailer, i.e., pallet, case, display, etc. When adding an allowance to a promotion, users can select a specific logistical unit for a product, or allow the system to automatically choose the default. Calculations for metrics like gross margin use logistical unit details such as case pack size.

**Magic Price**

A price at which demand increases dramatically.

**Markdown**

The amount by which a price is reduced to boost sales.

**Measurement Point**

The Measurement Point is where a movement allowance is measured for calculating the allowances owed.

**Merchandising**

The promotion of products, including coordinating production and marketing, and developing advertising, display, and sales strategies.

**Manufacturer Contribution Margin**

Manufacturer Gross Profit minus Trade Spending.

**Manufacturer Cost Change**

Manufacturer-driven change in the purchase price of a product.

**Manufacturer Pre-Trade Cost (case)**

The weighted Manufacturer Product Cost prior to factoring in Trade Spending for one case of volume.

**Manufacturing Pre-Trade Cost (item)**

The weighted Manufacturing Product Cost prior to factoring in Trade Spending for one unit volume.

**Manufacturer Post-Trade Cost (case)**

The weighted Manufacturer Product Cost factoring in Trade Spending for one case of volume.

**Manufacturer Post-Trade Cost (item)**

The weighted Manufacturer Product Cost factoring in Trade Spending for one unit volume.

**Manufacturer Trade Cost Percentage Change (item)**

The percentage difference in Manufacturer Cost due to Trade Spending.

**Manufacturer Trade Funds ROI (Return On Investment)**

The change in Manufacturer Gross Profit due to the promotion divided by the Trade Spending. The Manufacturer Trade ROI is different from the Retailer Trade ROI, since allowances are subtracted in the manufacturer's Gross Profit calculations, and allowances are added in the retailer Gross Profit calculations.

**Model Category**

The category that is modeled.

**Model Status**

The Model Status field indicates whether a product or category has been modeled and which model (demand group or promoted product group) was used.

**Multi-buys**

Multi-buys are another form of TPR that take the form of X for the price of Y (for example, 3 for the price of 2 = a TPR of 33 percent). Usually BOGO's, Multiples, and Multi-buys will have a limit attached to them, such as 2 for \$4 with a maximum limit of 8 (the consumer can buy 8 for \$16, but they have to pay full price for the ninth item).

**Multiples**

Price statements in which multiple products are offered at a particular price, for example 2 for \$1.00.

**Net Profit**

Gross sales minus cost of goods sold, cost of operations, taxes, interest, and depreciation.

**Net Profit Percentage**

Net profit divided by revenue.

**Non-Performance Allowance**

Additional funding from the manufacturer to the retailer that is not tied to promotions, such as freight allowance, backhaul allowance, spoilage allowance, and buying allowances.

**Offer**

The proposal that a manufacturer makes to a retailer about the products that should be promoted, the manner in which these products should be promoted (for example, Ad, Display, or TPR), the time in which the products should be promoted, and the amount of money that the retailer will receive from the manufacturer (in a lump sum of cash, or as a saving off of the cost of the product, which are referred to as the allowances).

**Off-Invoice**

With an off-invoice, the amount of money that the retailer has earned from the manufacturer as a result of running a promotion is already taken off of the invoice amount.

**Optimization**

The process of finding the best formula for achieving a given merchandising objective.

**Optimization Scope**

The aspects of the promotion that the optimization was allowed to change (the TPR, the products on ad/display, or both).

**Other Media**

Tactics such as unadvertised tactics and loyalty card tactics.

**Overhead**

All operational costs other than supply-chain costs.

**Overhead Allocation**

The amount of overhead costs attributed to a particular product.

**Package**

A group of products sold for a single price term that is different than if the products were purchased separately.

**Panel Data**

Tracking of individual consumer behavior over time to assess individual consumption patterns, impact of promotions, and switching behavior.

**Pantry Loading**

The act of stocking up on a product because it is on sale or promotion. Also known as Time Cannibalization or Stockpiling.

**Percent Funding**

An allowance basis which calculates the allowance amount as a percentage of the promotion's TPR amount.

**Performance Allowance**

A discount that a retailer qualifies for after performing a promotion. There are two main types of performance allowances: Case Allowance (based on the amount of product that is shipped from the manufacturer to the retailer - shipment -based); and Scan Allowance (based on the amount of product bought by the consumer from the retailer - consumption-based).

**Performance Detail**

A type of merchandising strategy (ad/feature, display, TPR or EDLP). Price/cost overrides are also created as performance details.

**Performance Period**

The period of time that the promotion will run. It is the time when the promotion is performing.

**Performance Type**

Category managers sometimes have pre-defined performance types that they use on a repeated basis.

**POS Data**

Point of Sale information that is collected by scanners upon check-out. POS Data shows the date, volume, and purchase price for all items sold.

**Potential Average Quantity**

The average of the minimum and maximum quantity values for a package.

**Pre-Price**

Products that have a price stamped on the packaging by the manufacturer.

**Price Check**

Confirmation of the selling price or retail price for a product.

**Price Elasticity of Demand**

The rate at which demand changes for a change in price. Change in demand divided by change in price.

**Price Gap**

The price difference between two similar products.



**Price Image**

The consumer perception of a retailer's prices and value.

**Price Zone**

Group of stores that always have the same prices across products.

**Printed Media**

Types of printed media such as flyers, inserts, and catalogs. These are subtypes of a tactic.

**Product Costs**

The wholesale or vendor/manufacturer cost, that a retailer pays a manufacturer.

**Product Cube**

The volume of space occupied by a product, expressed in cubic feet.

**Product Elasticity**

Price elasticity of demand for a particular product.

**Product Pairs**

A set of two products that have a promotional constraint established between them.

**Product Share**

The ratio (in terms of percentage) of the revenue of an individual product (SKU) to the total revenue in one store.

**Product Storage Type**

The location in the store that houses a product.

**Profit**

Revenue less variable costs, fixed costs, and ABC costs.

**Promotion**

A temporary product price adjustment and/or consumer benefit tied directly to the purchase of a product.

**Replenishment Frequency**

The number of times that store or distribution center inventory is replaced in a given time period.

**Retail Price**

The selling price or shelf price a consumer pays for a product.

**Return on Trade Funds**

The incremental value of the promotion (value of the promotion less everyday business) divided by trade dollars.

**Revenue (Sales)**

A net sales amount that is calculated as Price x Volume x Discount. By taking discount into account, total sales for the category can be forecasted, including an average level of promotion.

**ROI**

Return on investment (after-tax operating income/ net (depreciated) book value of assets).

**Sales Volume**

The number of units of products sold in consumer or business-to-business transactions.

**Same-Store Sales**

Same-store comparisons measure the growth in sales, excluding the impact of newly opened stores.

**Scan Allowance**

The retailer only receives the allowance on products that are sold to the consumer during the deal period as indicated by scan data rather than receiving the allowance on everything they buy from the manufacturer (case allowance). This removes the retailer's ability to stock up on excess inventory at the allowance price (effectively not allowing the retailer to do any forward-buy. The retailer receives the allowance payment from the manufacturer after the promotion is over.

**Scanner Data**

POS data collected by a barcode scanner.

**Seasonality**

An underlying trend in consumer behavior based on the time of the year.

**Shelf Depth**

The amount of space between the front of a shelf and the back of a shelf.

**Shelf Height**

The vertical clearance of a shelf.

**Shelf Width**

The horizontal clearance of a shelf.

**Single Product Rules**

Optimization constraints applied to one product or SKU.

**SKU**

Stock Keeping Unit. It is a number that a retailer assigns to a product.

**Slotting Fees**

The fees a retailer charges a manufacturer to insert or "slot" a new product onto shelves.

**Spoilage Allowance**

A spoilage allowance is usually used to compensate the retailer for spoilage of goods but is stated in terms of a dollar value per case of product that the retailer buys from the manufacturer (based on an average spoilage rate calculation that the manufacturer performs).

**Store Groups**

A set of individual stores that should be treated as one unit to achieve a business goal.

**Store Traffic**

The number of shoppers per unit of time.

**Store Zones**

A group of stores that share a set of prices.

**Strategy**

A set of pricing and promotion initiatives or activities that complement each other to achieve a particular business goal.

**Substitute Products**

Products that consumers perceive as having the same or similar utility. A substitute product is one that a consumer would purchase in lieu of another product without giving up a significant amount of perceived value.

**Total Case Volume**

The total number of cases being sold.

**Total Manufacturer Cost**

The sum of the manufacturer costs for all products in the promotion.

**Total Manufacturer Profit**

The total manufacturer profit for the promotion.

**Total Manufacturer Profit**

The total manufacturer profit as a percentage of Total Manufacturing Revenue.

**Total Manufacturer Revenue**

Retail Cost minus the sum of all allowances towards the Cost of Goods.

**Total Retail Gross Margin**

The profit after factoring in Total Allowance.

**Total Retail Gross Margin Percentage**

The profit percentage after factoring in Total Allowance.

**Total Retail Revenue**

The amount of sales in terms of dollars or local currency collected from consumer or business-to-business transactions.

**Total Trade Funds**

Funds offered by a manufacturer to a retailer for the promotion of a set of products, also referred to as Trade Spend.

**Total Unit Volume**

Units sold during the entire promotion timeframe.

**Temporary Price Reduction**

A reduction in the consumer price of a product for a temporary period of time.

**Trade Funds**

Funds offered by a manufacturer to a retailer for the promotion of a set of products, also referred to as Trade Spend. These funds are usually allocated to pay for promotional activities on the part of the retailer, including Ads, Displays, and Temporary Price Reductions (TPR).

**Trend**

An underlying relationship within a group of data points.

**Two Product Rules**

A constraint or rule relating two products together.

**Unit of Measure (UOM)**

The type of size measurement.

**Unit Volume Lift Percentage**

The percentage of units that will be sold as a result of the promotion.

**UPC**

Universal Product Code. A number and bar code that uniquely identify an individual consumer product issued by the manufacturer, issued by a GS-1 certifying agency.

**Variable Cost**

An expense that is associated with producing, stocking, or purchasing a SKU.

**Variable Trade Funds**

The sum of the performance allowances (such as Shipment and Consumption allowances) and Forward Buy Allowance.

**Vendor/Manufacturer**

The company that makes the goods that the retailer buys. The vendor/manufacturer considers three main merchandising activities when deciding how to plan their promotion calendars and construct their offers: Displays, Ads, Temporary Price Reductions (TPR).

**Volume**

The number of units sold for a particular SKU.

**Volume Rule**

A constraint on the volume range for a given product or group of products within an optimization.

**Warehouse Allowance**

A slightly different version of the scan allowance. The retailer receives the allowance on all products that are shipped to the store from the retailer's warehouse during the event. This has the potential to encourage the retailer to stock more of the product in the store.

**What-Ifs**

Varying key assumptions to determine how the end results of an analysis differ.

**Zone Prices**

Common prices implemented across multiple stores in an account.





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