

**Selling to the Specialty Channels:
“Segmented Retailer Channel”
The Value of Specialized Sales Professionals**

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INTRODUCTION

Today's retail marketplace is more fragmented than ever. The consumer has specific needs in terms of the items they're buying as well as how they want to buy them. Over the past 25 years, we've seen the emergence of several new channels including club, lifestyle exploiter, category-killer, extreme value, and the internet to name just a few. (Please refer to page 13 for a definition of each channel) These new channels have taken business away from traditional retail ones such as grocery, mass, and drug and have challenged the way manufacturers reach their consumers. Most significantly, because of the many various types of retailers and their individual formats, these new channels have prevented the retailer and the manufacturer from achieving the level of growth they both expect.

This white paper introduces several new terms to help define the retail landscape in the United States. The primary reason for these new terms is to help break down the evolution that

has occurred in the United States and now Canada, since the emergence of the self-serve retail format in the early 1900s. Retail can now be divided into three main segments. The largest segment is “traditional retail.” It is comprised of retailers that appeal to at least 33% of the U.S. population and are viewed as significant by consumers. Examples of traditional retailers include Wal-Mart, Kroger, Walgreen’s, and Target. Club stores and other formats that require membership or other form of significant limiting criteria are not part of the “traditional retail” format. The second segment is “e-tailing.” Retailers in this new channel rely on the web for 90% of their sales. Examples of e-tailers include Amazon, eBay, and Dell. The third and final segment is “SRC – Segmented Retail Channel.” Although it is the only non-web based channel

Today, the retailers that are in the Segmented Retail Channel represent significant volume. More importantly, SRC retailers are in a much better position to grow their markets long-term than retailers in the traditional retail channel.

reporting significant growth, this segment does not receive the attention it deserves. It is made up of numerous smaller channels, which are all designed

to serve a specific consumer group. Working with the SRC is by far the most difficult channel, because it’s not constrained by the operating principles developed and adhered to by **Fortune 100** retailers and manufacturers. Because it’s the most difficult channel to work with, it’s also the one with the greatest opportunity.

PROBLEM STATEMENT

Today, the retailers that are in the Segmented Retail Channel represent

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significant volume. More importantly, SRC retailers are in a much better position to grow their markets long-term than retailers in the traditional retail channel. Unfortunately, in many cases, the typical manufacturer does not have the expertise to help SRC retailers develop their market. However, there are a few exceptions. An example is in the category-killer segment where there are manufacturers who operate exclusively to support a specific category-killer retailer. These select manufacturers often operate as nothing more than an extension of the retailer in which they manufacture.

For retailers in the Segmented Retail Channel, the service they receive from the manufacturing community is often provided as an afterthought because of their focus on high-volume traditional retailers. The magnitude of this disparity between SRC and traditional retailers can be seen in how manufacturers allocate resources, both financial and people. A key element of our research for this paper includes a study to measure the opinions of people in the manufacturer / supplier / service communities towards both traditional and SRC retailers. The survey results showed Wal-Mart as by far the most important retailer, followed by Target and Costco. In addition, of significant importance was

the extremely low focus placed on retailers such as Whole Foods, Trader Joe’s, Aldi, and Save-A-Lot. (See Appendix page: A-2) The problem this creates is that the total sales volume generated by these four retailers is equal to the volume of many large grocery chains in the US. This lack of attention by the manufacturing community is the underlying issue exposed by this study. As if this is not insulting enough to the SRC segment, the

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survey also showed that an appallingly low rate of the supply-chain community even visited SRC stores. Specifically, the study showed that more than 80% of the respondents had not visited two of the more visible SRC retailers, Aldi and Save-A-Lot, in the past year.

It should be noted that the survey was only conducted to understand perceptions. Therefore, only a limited number of retailers could be used in the study. Despite this limitation, it is still sufficient in size and scope to infer that other retailers in the SRC are also not being serviced by manufacturers as well as they should be. The results of the survey do show how much the industry is focused on the highly visible, big players and how little attention is given to other retailers. This raises an important question. If additional attention was placed on the key players within the specialty retail channel, how much more could they grow? The complete survey and an accompanying analysis can be found in the Appendix section.

ISSUES

The retail industry is the largest segment of the US economy, representing nearly \$4 trillion in sales, not counting food service. It also employs more than 11% of the total workforce. The sheer size of the retail industry has allowed it to become the most efficient retail channel in the world. Conversely, the size of the industry has also created a wide number of legacy systems that prevent it from being as flexible as it should be. These legacy systems and the efficiency they create work against many of the retailers in the Segmented Retailer Channel.

1. LEGACY SALES PROCESS GEARED TO THE LARGE RETAILERS

One of the legacy processes that work against the SRC is how manufacturers represent themselves to retailers. CPG companies use their own sales teams to sell to major retailers, except in those

areas where it is more efficient to outsource the selling or supply-chain activity to a broker or a third-party entity. Using a broker represents a cost savings to the manufacturer. The savings they receive is based on the level of services the broker is asked to perform. For many manufacturers, a broker is the best option because of the added expertise they can provide.

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Countering these benefits, however, is the issue that the retailer has with the method by which the broker earns their money. To be successful and to offer sufficient levels of value added services, brokers must represent numerous manufacturers and achieving a critical level of efficiency. Some retailers begin to object to this model without realizing that they benefit the most from the scale of the broker's operation. The retailer objects because they think they are missing out on the dollars the broker is earning. This opinion is misdirected because an efficient and effective broker provides better quality products at value prices with the best service available for a specific retailer. These brokers develop custom solutions for each specific situation, especially in private label. The benefits derived by the retailer are so much greater than the small rates earned by brokers. Brokers can only be profitable if they have scale and if they run an efficient business.

In the Segmented Retail Channel, the issue of specialty broker versus traditional broker versus direct selling personnel is magnified by the uniqueness of each retailer. Because traditional brokers build their business model by representing multiple manufacturers to a cross-section of retailers, they are not able to optimize their services to the individual retailer within the SRC. Furthermore, manufacturers utilizing a direct sales staff do not have the applicable experience that specialty brokers possess when servicing the SRC. It is absolutely imperative that both the manufacturer and the retailer begin to realize the tremendous benefit that specialty brokers bring to their respective businesses.

To achieve this, manufacturers and retailers need to have access to people who have not just sales and marketing experience, but also operational and supply-chain expertise.

their quest to improve their bottom-line.

Based on Wal-Mart's success, the retail industry in general has created another issue in their quest to improve their bottom-line. Retailers have watched Wal-Mart eliminate brokers and, in their haste

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to copy their business model, many have attempted to implement similar processes, including eliminating brokers and sales agents. Again, on the surface, this is not an issue. However, because of the limited number of qualified salespeople within any manufacturer, the result is that most retailers in the SRC are forced to deal with salespeople who do not have the industry knowledge and skills to effectively help them maximize sales. Where this becomes a significant issue is in being able to fulfill the retailer's expectations. At the top of the list of priorities for any retailer is the need for their suppliers to have a knowledgeable and capable staff. With manufacturers recognizing that they have a limited pool of intellectual capital, it's only natural for them to deploy it against what they believe are their best opportunities. This can only mean that smaller retailers will be served by people not viewed as the best by their respective employer.

2. CONSUMER NEEDS UNIQUE TO THE SEGMENTED RETAILER CHANNEL

A key contributor to any retailer's growth is their ability to satisfy the needs of the consumer they serve. For the SRC retailer, this is far more important than in

the traditional retail channel. The consumers who shop in this sector have unique needs, not just in what they're shopping for but in how they expect to

buy it. In many cases, they have dietary, portion control, and lifestyle needs that are only optimally served when the retailer and manufacturer partner together to develop unique SKUs. These SKUs lack the mass volume needed for mainline retailers to stock and, therefore, are only able to find a market in the SRC. Additionally, the consumers in this channel have a lifestyle that dictates different shopping patterns and, ultimately, their market basket. It has been the SRC's ability to satisfy these needs that has enabled it to achieve its on-going pattern of yearly growth exceeding traditional retail. Of concern, however, is the lack of research and innovativeness by manufacturers to develop products exclusively to fill the needs of this channel. Without increased focus from manufacturers, there is no way the extreme value or discount channel will ever be able to realize its full potential.

For this reason, it is important for the manufacturer and retailer to have a working relationship that is built on knowing and exclusively focusing on the needs of this channel. To achieve this, manufacturers and retailers need to have access to people who have not just sales and marketing experience but also operational and supply-chain expertise. To be able to do all of this at a cost that is fiscally sound dictates the need to use segmented channel brokers that operate exclusively in the segmented retailer channel.

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3. SUPPLY CHAIN COMPLEXITIES

Optimizing the supply-chain is the goal of every retailer and manufacturer and, on the surface, the needs of the SRC do not appear to be any more complicated than traditional retail channels. Due to the complexities of the supply-chain, there are numerous legacy systems in place, all designed to optimize the system and minimize costs. The push to optimize supply-chain efficiencies is what causes these legacy processes to

SRC retailers use the private-label strategy very successfully and, in doing so have created a level of consumer loyalty that many non-SRC retailers can only achieve through extensive, long-running

breakdown in the SRC. Over the past 20 years, the retail industry has moved to larger and larger stores designed to better serve the customer and contain costs. At the same time, the SRC has developed highly sophisticated retail formats designed to optimally serve their consumers.

These formats encompass a wide-range of store sizes, depending upon the retailer's strategy. It's the varied retail strategies that cause the disruption in the traditional supply-chain model. As with the other issues the SRC is forced to overcome, the inability to work effectively with manufacturers has limited the optimization of the supply-chain in this channel. Supporting this premise are the results of the survey that show which retailers receive the most emphasis. As with the other parts of the study, SRC retailers are not viewed as highly as Wal-Mart, Target, etc. (See Appendix page A-1) The result: both retailers and manufacturers have incurred higher costs than necessary in the supply-chain causing higher retail price points and lost profits for SRC retailers. This, in turn, has hurt the ability of the SRC to reward its investors and fully leverage capital expenditures.

4. ROLE OF PRIVATE LABEL/CONTROL

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BRANDS

Private-label brands continue to become more important with the vast majority of retailers across nearly every channel. Today, retailers have developed complex private-label strategies that require major commitments from each group in the supply-chain to ensure their success. For the SRC, the role of private-label and control / exclusive brands is even more important. The reason is simple: for many retailers in the SRC segment, private-label or exclusive brands represent nearly 100% of their sales volume. This requires

In our review of the industry, this is one of the largest issues that both retailers and manufacturers choose to disavow.

manufacturers who want to sell to them to have the resources to commit to creating products under their brands. This requirement automatically has many major manufacturers relegating the attention they give to these retailers as minimal at best. For this reason, retailers in this channel have to be more proactive than traditional ones in sourcing their private-label or retail exclusive brands.

SRC retailers use the private-label strategy very successfully and, in doing so have created a level of consumer loyalty that many non-SRC retailers can only achieve through extensive, long-running marketing programs. Again, this is another reason why the Segmented Retail Channel has been so successful in maintaining year after year growth in excess of the retail sector.

The retailers in the SRC serve a critical segment of the retail industry. With the economy fluctuating rapidly, there is no reason

to believe this channel will not continue to achieve growth exceeding that of the retail industry as a whole. In fact, the single biggest issue impeding the growth of the category may very well be the inability of the manufacturing community to deliver to the retailers the mix of products best suited to fill the needs of the extreme value discount consumer.

5. PROBLEM OF LIMITED SOURCING CONTACTS

A key obstacle to one retailer in this segment may very well be a benefit to another.

When a retailer does not have access to a wide range of manufacturers, they are limited in their ability to

source product quickly to support the private-label or exclusive brand needs. In these situations, it is not unusual for a retailer to tap into an existing relationship with a manufacturer in which they may already be working. Seeing this need, the manufacturer will naturally say they can provide for what the retailer is looking. The manufacturer is then forced to work within their existing supply-chain to fill the needs of the retailer. In the end, the manufacturer is rarely able to deliver at the lowest cost possible or optimally provide what the retailer needs. At this point, the retailer either must accept second best or pass completely on the opportunity because of their lack of time to find the right supplier.

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It becomes impossible to disregard the conclusions. In fact, it would not be fiscally prudent to disregard the findings and avoid actively working to find a solution. The financial rewards are too significant to the

manufacturers

choose to disavow. Both retailers and manufacturers claim this issue doesn't exist. However, in reviewing categories long-term, there is a large amount of data to the contrary. Many categories and private-label brands have been victimized by the lack of a solid relationship created between the manufacturer and the retailer from the start. In the investigative research for this study, we found this to be one of the most significant long-term opportunities not being capitalized. It is our belief that the only reason it is not being taken advantage of is the lack of intellectual capital being devoted to the channel as proven by the results of the study.

SUMMARY OF KEY ISSUES

The issues just outlined do not represent the sum of the concerns impacting the Segmented Retail Channel. Rather, they are only a few of the key challenges facing the channel. The SRC is diverse and, as such, the issues faced by the retailers and manufacturers are also varied. A key obstacle to one retailer in this segment may very well be a benefit to another. An example of this is global sourcing. For some retailers, the ability to global source allows them to capitalize on their position in the marketplace and how their consumers see them. For other retailers, global sourcing dictates a level of control and lead-times that more than offsets any savings in production.

It would be easy to discount the summations made by this study as just another hypothesis to support one individual's opinion. However, because of the research and, in particular, the results of the industry survey, it becomes impossible to disregard the conclusions. In fact, it would not be fiscally prudent to disregard the findings and avoid actively working to find a solution. The financial rewards are too significant to the manufacturing community and SRC retailers to ignore. Implementing solutions to these problems does require more effort and it begins by first realizing the size of the disparity, and then finding the sources of intellectual capital that can optimize the opportunities.

SOLUTION

In the previous sections, we outlined several key issues which are impeding the growth of most retailers in the Segmented Retail Channel. The solution to these problems requires taking elements of various “best-practices” and combining them together into what we will refer to as “best-practice hybrid” solutions. The advantage is that these solutions have already been put into practice with several manufacturers and select retailers. Results have been realized in significant returns on investment for both the manufacturer and retailer.

At the core is the need to use the services of a sales team that relies 100% on the success of the retailers in the SRC sector. This dedicated sales team must have the intellectual capacity that is only found among the top accounts that a **Fortune 500** company would sell to. Because of the unique product needs of the SRC, the sales team must also have a high degree of experience in product development and managing a product’s P & L statement.

The ability to have dedicated resources that are focused 100% on the SRC sector is

After initially reading the reasons listed above, many companies will state they are able to meet these criteria. In reality, however, there are few in the industry today that have this dedicated level of expertise. Most people and companies in the supply-chain have not paid any serious attention to this sector outside of club and category-killer retailers. If the manufacturing community and those that serve the retail industry were dedicated to the needs of the SRC, it would be reflected in the survey.

SPECIALTY CHANNEL DEDICATED SALES RESOURCES

Every manufacturer will say they provide all retail channels with the same level of attention. Unfortunately, this is far from reality. The ability to have dedicated

resources that are focused 100% on the SRC sector is imperative. Because of the number of restructurings, asset sales, etc. that the typical manufacturer has gone through, they do not have the critical mass necessary to sustain a focused level of attention. Thus, the only viable solution is to use the services of an outside marketing team that is solely focused on the SRC. The key is to use a sales and marketing team that is not only dedicated to the channel, but also has the proven track-record in the channel. This sales and marketing team must also have the operational expertise to understand consumer research, manufacturing processing, raw material procurement, packaging design, and financial acumen. Each and every one of these areas is critical to the specialty channel sector.

The solution to these problems requires taking elements of various “best-practices” and combining them together into what we will refer to as “best-practice hybrid” solutions.

Historically, there have been many new sales and marketing agencies opening each year that claim to have expertise in the SRC sector. In reality, these agencies are nothing more than weak attempts by salespeople who have lost their position in another company to find quick work. The track record of these agencies speaks for themselves, as they rarely last more than two to three years. The main reason for their failure is their inability to fund and sustain the level of research and support necessary to service the unique needs of the Segmented Retail Channel.

Because of the perception of the SRC sector among manufacturers, it is difficult for a retailer to obtain any expertise from manufacturers that will give them a competitive

INTELLECTUAL CAPACITY

In the past, the retail industry has not been one that has embraced the need for intellectual capacity. Today, however, we are finding that retailers need to become more knowledgeable to be able to create and maintain an ongoing presence in the

marketplace. It is the only item that an organization can deem as a sustainable competitive advantage. Retailers in all channels must have partners throughout their supply-chain that possess a high degree of intellectual capacity with the ability to craft solutions that can create an advantage in the marketplace.

As we have shared earlier, because of the perception of the SRC sector among manufacturers, it is difficult for a retailer to obtain any expertise from manufacturers that will give them a competitive advantage. Again, this is a fundamental reason why it is imperative for both retailers and manufacturers to use a sales and marketing agency that has the level of dedicated intellectual capacity needed to win in the marketplace. Any solution must begin by addressing this need. Failure to start with this phase will only continue the outcomes seen from the industry survey that support many of the findings of this study.

PRODUCT DEVELOPMENT / FINANCIAL EXPERTISE

Manufacturers have all moved to a concept of “team selling,” where resources are deployed in teams dedicated to specific accounts. For nearly 20 years, manufacturers have been perfecting this strategy and one of the claims many tout is their ability to develop customer level P&L statements.

This issue dictates the sales team working with SRC retailers to be not only experts in product development, but also in sourcing of raw materials, packaging design, and all of the financial

Few channels have a stronger need for this than the SRC sector for both the financial acumen and the product development expertise that comes from it.

During this same 20-year period, manufacturers have streamlined their manufacturing processes to

eliminate as many excess costs as possible. This move to become more efficient has resulted in a narrowing of the SKUs they produce, which places many manufacturers at odds with the SRC and their need for proprietary SKUs. Despite the high volume requirement of many of these SKUs, manufacturers are still reluctant to enter into any type of agreement to produce them. This issue dictates the sales team working with SRC retailers to be not only experts in product development, but also in sourcing of raw materials, packaging design, and all of the financial intricacies of manufacturing and retailing. With the ongoing pressure to reduce staff there isn't a manufacturer today that has a sales team with the knowledge to deal with product development and the financial issues at this deep of a level. The solution to this is in using a sales and marketing agency that has the channel experience and the dedicated resources to grow this channel.

Because of the critical importance of private-label and exclusive brands to retailers in the specialty channel, it's crucial that the sales and marketing agency is aligned with the role and needs of the private-label brands. Traditional manufacturers view private-label brands as a way to appease the retailer and/or as a way of keeping control of the supply-chain. Both of these views are extremely harmful to retailers in the SRC.

Brokers and agencies who work exclusively in the Segmented Retail Channel are going to have the processes in place to facilitate the effective development of private-label and exclusive brands, and are able to dedicate 100% of their attention to assuring their success. Remember, their business is entirely dependent on the success of this channel.

COLLABORATIVE EXPERTISE

In a traditional sales broker relationship, the manufacturer is the marketing machine directing the sales execution by the broker sales company. The manufacturer is the one that establishes price targets, creates the marketing message, and retains control over every element of the supply-chain. In the SRC segment, the role of the dedicated broker is to serve as the collaboration expert working with the retailer to define the specific needs of the consumer and to develop the product with a selected manufacturer. In the minds of SRC thought leaders, the role of the channel-dedicated broker is to “pioneer new opportunities” for both the retailer and the manufacturer. They work with the manufacturer to guide them in managing the SRC supply-chain. It’s the role of the dedicated SRC broker and the expertise of both the SRC sector and the manufacturer that allows the consumer to become a satisfied loyal shopper.

Brokers or salespeople who believe they can operate in both the traditional retail channel and the SRC sector are never able to maximize their performance because of the inherent differences between the two segments. It could be argued that knowledgeable people can operate in both at the same time, but there have been numerous occasions where significant failures have occurred.

IMPLEMENTATION

FOR SEGMENTED RETAIL CHANNEL RETAILERS

Satisfying the needs of the consumer by sourcing product at the most efficient price remains the underlying need of the merchandising department and, in particular, the category managers. To achieve both of these simultaneously requires a high degree of objectivity in being able to view the marketplace and determine the optimal solution. This necessitates having access to the expertise needed to ensure success. Therefore, aligning oneself with SRC dedicated brokers is essential.

Accessing their expertise will help provide the added level of knowledge needed to optimally source existing products, as well as help pioneer new avenues to sustain long-term growth.

There is not a defined business process or test to determine what brokers fit this need.

However, just as in other areas, the selection process is best done by interviewing brokers to find out their knowledge level. Additionally, it is essential to fully understand their business model. This can help you fully determine where their allegiance is in terms of how they receive their compensation. Examining their business model will quickly show where their business comes from and what their track record of success is.

FOR MANUFACTURERS

Although the easy route is to assign an existing salesperson or broker to service a SRC retailer, it is far more important in the long run to enter into a relationship with a broker dedicated to the SRC sector. By aligning with a dedicated broker or agency, conflicts can be avoided with mainline brokers because they will be assigned to specific account(s). This will also minimize any risk of trade flow between channels. In the same regard, assigning the account to an in-house sales or marketing person will not provide the level of expertise or focus expected by the retailer.

AREAS OF INQUIRY WHEN

In the SRC segment, the role of the dedicated broker is to serve as the collaboration expert working with the retailer to define the specific needs of the consumer and to develop the product with a selected manufacturer.

To achieve both of these simultaneously requires a high degree of objectivity in being able to view the marketplace and determine

INTERVIEWING A SRC DEDICATED BROKER

Below are 10 areas of inquiry that should be discussed with any sales agency / broker.

- 1. Provide an example of where you demonstrated your ability to develop a new product at the request of a retailer.**

Top performing agencies will not only be able to provide you with a SKU, but also the complete plan of how they scoped out the opportunity and, ultimately, brought it to market. If an agency cannot provide you with a complete plan, do not accept their word.

- 2. What retailers do you work with and what are the overall trends by retailer?**

Top performing agencies will have a detailed analysis that shows what they've been able to achieve in the categories they support.

- 3. Provide an example where you helped a manufacturer realign their supply-chain model to more efficiently supply a Segmented Retail Channel retailer.**

Realigning a supply-chain model is more than merely implementing a continuous supply process. It consists of helping a retailer and manufacturer bring their operations together sufficiently to make cost improvements beneficial to both parties.

- 4. Provide an example of how you were able to help a retailer and a manufacturer fill an unmet consumer need.**

In order to be able to deliver on this need, an agency must have either the understanding necessary to deal with consumer research information or the ability to dissect syndicated data from other channels to expose a consumer need.

- 5. How do you monitor the competitive environment in the Segmented Retail Channel?**

It is critical to see how far back their competitive records go. If they only show current ones, there's no reason to believe they've been tracking competitive information for any length of time.

- 6. When a retailer and manufacturer are at odds over product cost, what are the processes you bring to the discussion to help solve the issue?**

Do not just accept a verbal response. Ask the agency to provide you with information that shows their proven ability to deal with these types of situations.

- 7. How do you determine compensation for the people in your organization?**

Although it is certainly not required for an agency to show you detailed salary information, they should at least be able to share with you information that allows you to see how their compensation plan will support the achievement of your business goals.

- 8. Provide an example of how you helped a manufacturer overcome supply-chain issues to fill the needs of a retailer.**

Viewing their documentation will confirm their proven ability to deal with these issues.

- 9. Provide an example of how you work with the retailer and the**

manufacturer to ensure product quality standards are met at all times.

Top performing agencies will show you the processes they have in place that will prove their ability to monitor quality.

10. Provide an example of how you were able to work with a manufacturer to help them re-work an SKU designed for traditional retailers to fit the needs of a Segmented Retail Channel retailer.

If an agency does not have experience, they will not be able to provide you with detailed documentation.

SUMMARY

The Segmented Retail Channel sector represents significant growth opportunities for retailers and manufacturers alike. Studies have noted that the only retail channels expected to grow at a rate faster than the GDP will be those in the Segmented Retail Channel sector. Manufacturers who fail to leverage the growth opportunities of this sector will find themselves becoming more controlled by the dominant retailers in the traditional retail channels. These same manufacturers will find themselves being hindered in not being able to market to specific demographic groups that are served primarily by the SRC sector. Although retailers in this channel will continue to experience growth in their category, their own growth will not be maximized unless they leverage the full power of the

The Segmented Retail Channel sector represents significant growth opportunities for retailers and

resources available through dedicated sales marketing agencies.

SEGMENTED RETAIL CHANNEL OVERVIEW

The **Segmented Retail Channel** is comprised of a wide cross-section of retailers who are focused on a specific consumer / demographic segment or product usage occasion. At the other end of the spectrum are “traditional retailers” who focus their attention on reaching the majority of consumers. Within the Segmented Retail Channel are a number of smaller retailer channels, each of which offers significant consumer satisfaction. Below are definitions of several of the segmented retail channels that work closely with the CPG industry, which is the primary focus of this white paper.

Lifestyle Exploiters: Lifestyle Exploiters are retailers focused on active, engaged, and educated consumers looking to fill their needs with unique products. A few retailers in this segment include Whole Foods, Fresh & Easy, Trader Joe’s, PCC Natural Markets, and Central Markets.

Club / Membership: Club/Membership retailers are retailers that require membership, primarily through annual dues. A few retailers in this segment include Costco, Sam’s and BJ’s.

Category Killer: Category Killers are retailers that focus on a specific segment usually with either a depth of product selection or a low-pricing strategy not found in traditional retailers. A few of these retailers include Toys R Us, Sherwin Williams, Staples, and Office

Max. Category killers do not have a perpetual life based on their ability to dominate a category. For example, the music category at one time was dominated by Tower Records, only to be replaced today by iTunes.

Limited Assortment Grocery:

Limited Assortment Grocery retailers are high-volume retailers that tailor their merchandising to limited assortment, high-volume SKUs. A few of these retailers include ALDI, Save-A-Lot, and ALPS.

Convenience / Dollar

Discounters:

Convenience/Dollar Discounters are primarily general merchandise retailers that are known for low dollar point pricing who are expanding into food and perishables. A few of these retailers include Dollar General, Family Dollar, and Dollar Tree.

Closeout: Closeout retailers specialize in closeout prices and excess inventory product. A few of these retailers include Big Lots and Grocery Outlet.

APPENDIX

INDUSTRY SURVEY OF THE SEGMENTED RETAILER CHANNEL

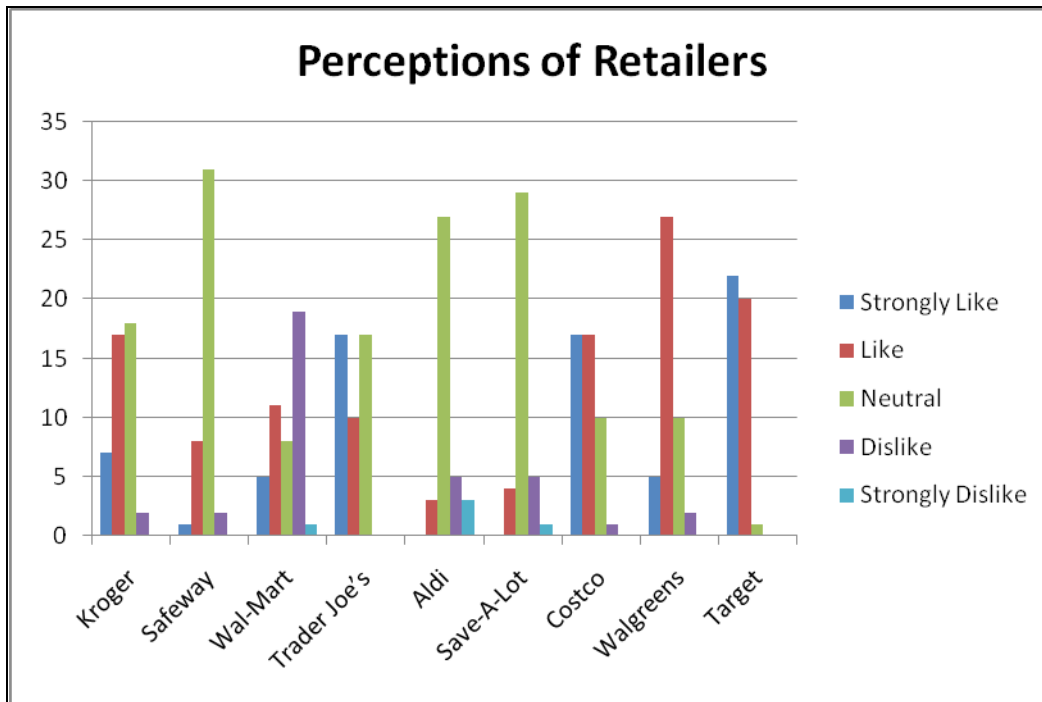
A key premise for this white paper was the belief that manufacturers and others in the CPG industry were not paying enough attention to retailers operating in segments outside of the traditional retail channel. To validate or disprove this belief, a survey was taken of people in the CPG and retail industry. A cross-section of people who were attending an industry conference in the

spring of 2008 were asked to complete a 3 minute questionnaire.

Findings of the survey clearly show a strong bias towards the largest or the highest profile retailers and little focus being paid to SRC retailers. Considering that the people completing the survey were manufacturers and others who serve the retail channel makes the findings even more concerning.

On the following pages are the detailed findings and summary of each question.

QUESTION: WHAT ARE YOUR PERCEPTIONS OF THE FOLLOWING RETAILERS?



Not

surprising are the “strongly like” scores for Costco, Target and Trader Joe’s. However, the high “neutral” scores for Aldi and Save-A-Lot are surprising for chains that operate in wide areas of the US. The high “neutral” score for Safeway is probably indicative of their limited geographical presence.

A - 1

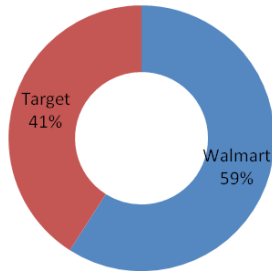
QUESTION: WHAT ARE THE FIVE MOST IMPORTANT RETAILERS TO YOUR COMPANY?

Store Name	Number of Votes	Percentage of Votes
Wal-Mart	34	26 %
Target	28	22 %
Walgreens	16	12 %
Kroger	15	12 %
Costco	15	12 %
Safeway	12	9 %
Whole Foods	5	4 %
Save-A-Lot	4	3 %
Trader Joe's	1	1 %
Aldi	0	0 %

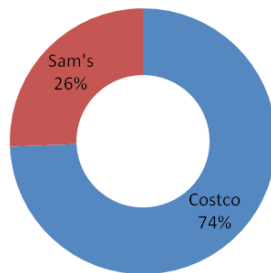
Any doubt that the Segmented Retailer Channel does not receive the attention it is deserving of is put to rest with the responses from this question. No one said Aldi is one of their five most important retailers, Trader Joe's received one vote, and Save-A-Lot received only four votes.

QUESTION: IF YOU HAD A LIMITED NUMBER OF RESOURCES YOU COULD USE, WOULD YOU BE MORE LIKELY TO USE THEM TO BUILD THE BUSINESS AT:

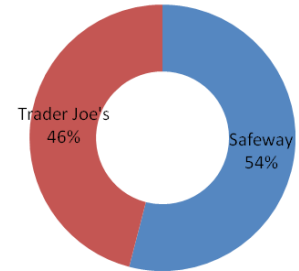
Wal-Mart vs. Target



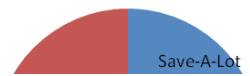
Costco vs. Sam's



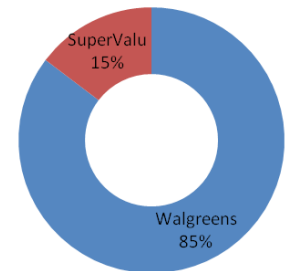
Trader Joe's vs. Safeway



Save-A-Lot vs. Whole Foods



Walgreens vs. SuperValu



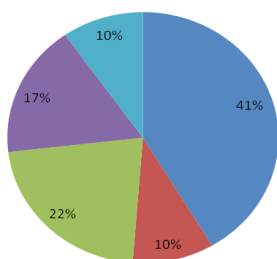
Due to the number of retailers to measure it is impossible to ascertain results that can be used for all retailers but what is of interest is again the low scores the retailers in the SRC sector. Again this demonstrates the low respect these retailers receive from those people who are also responsible for dealing with traditional retailers.

A - 3

QUESTION: WHEN WAS THE LAST TIME YOU WERE IN EACH OF THE FOLLOWING STORES:

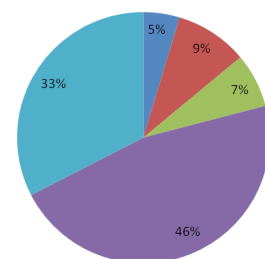
Kroger

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



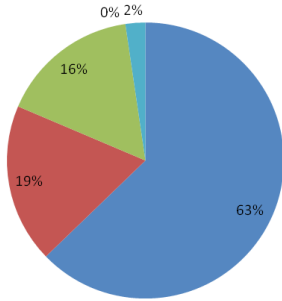
Safeway

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



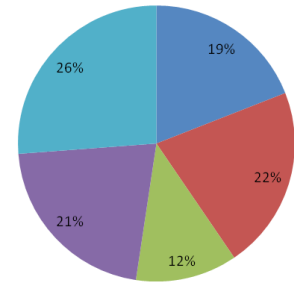
Wal-Mart

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



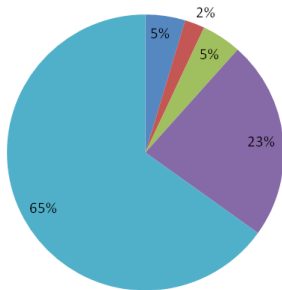
Trader Joe's

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



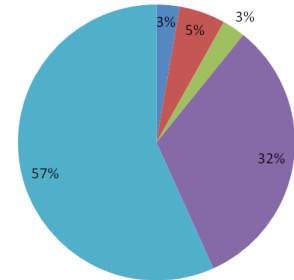
Aldi

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



Save-A-Lot

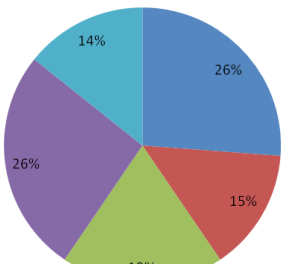
- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



A - 4

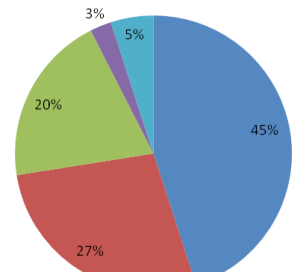
Costco

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



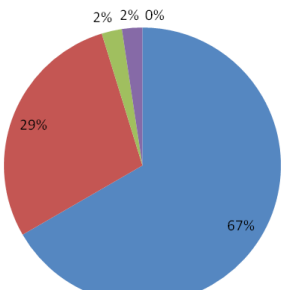
Walgreens

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



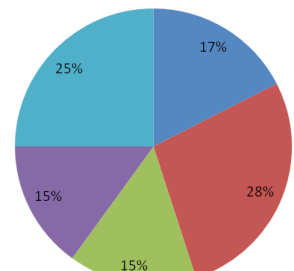
Target

- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



Whole Foods

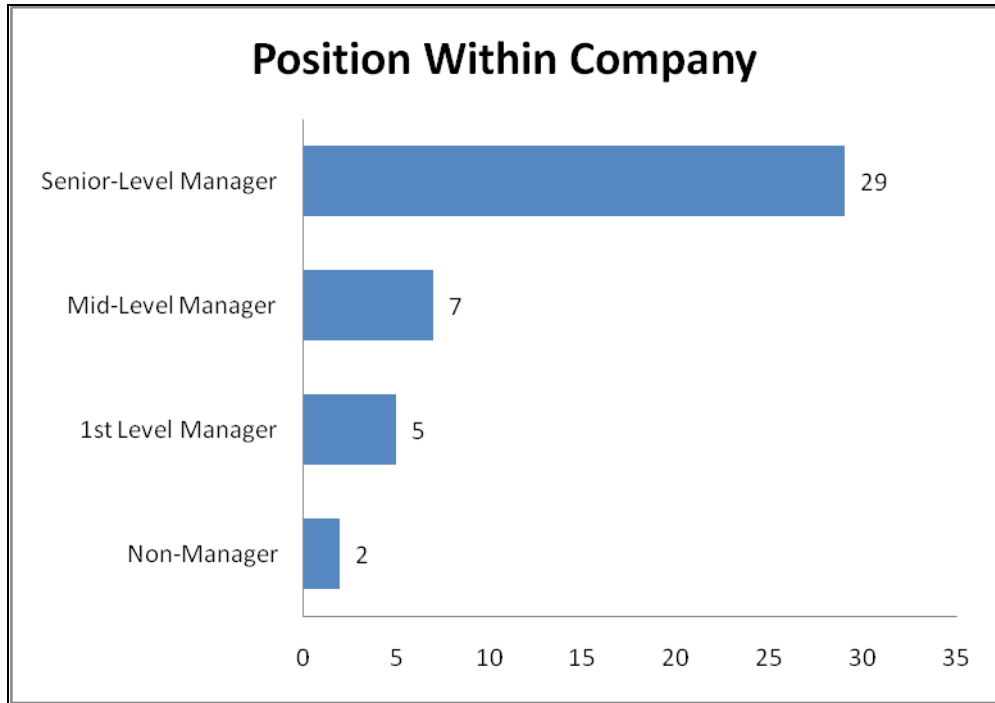
- < 2 weeks
- 2 weeks – 2 months
- 2 months – 1 year
- > 1 year
- Never



Naturally, Wal-Mart and Target are visited most frequently. They were offset with nearly 90%+ of the people responding by stating that they had not visited a Save-A-Lot or Aldi in more than a year.

A - 5

QUESTION: IN MY COMPANY, I WOULD BE VIEWED AS:

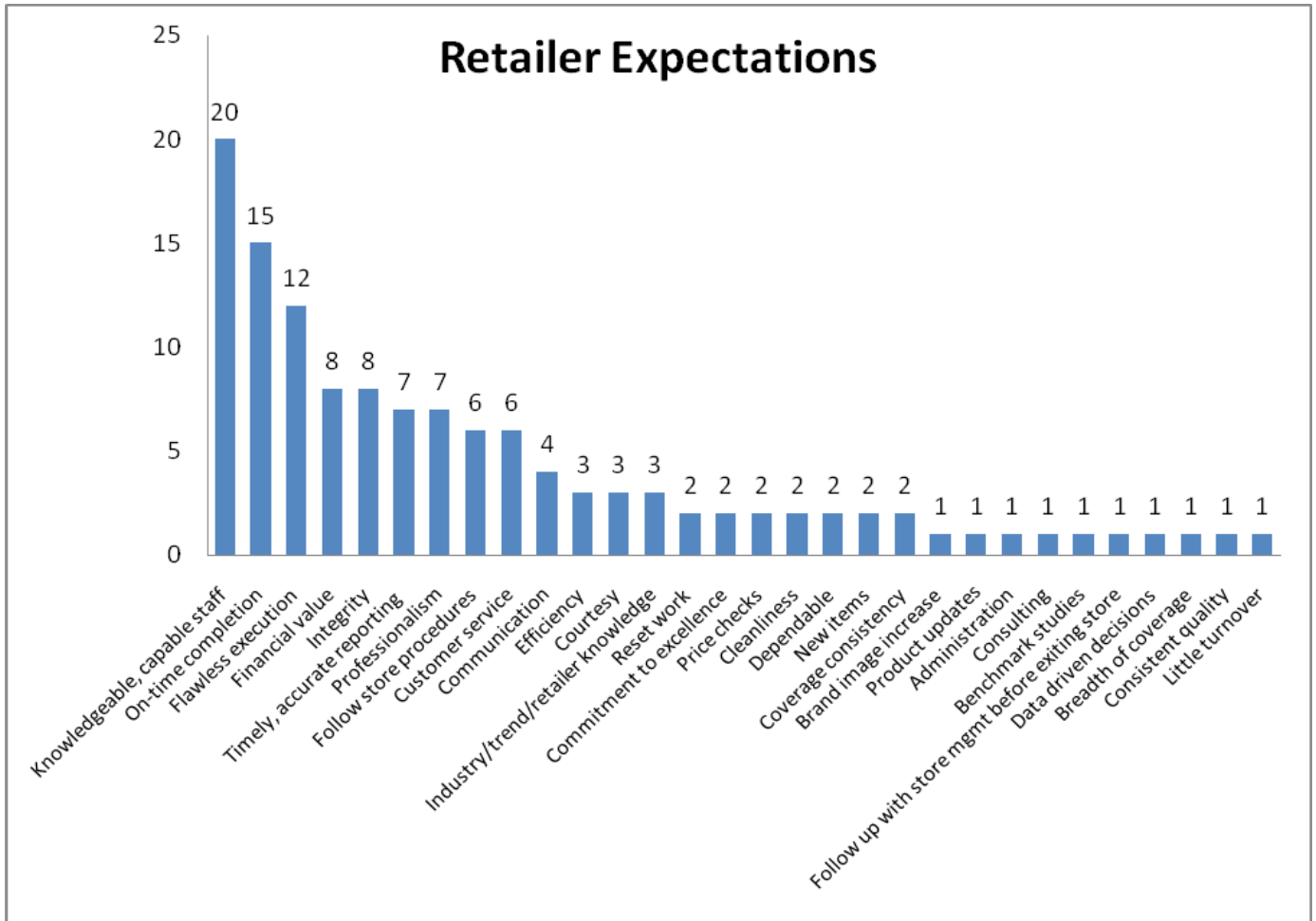


The fact majority of surveys

completed by “senior-level or mid-level managers” puts to rest any perception that the survey was weighted by entry level people who do not have a thorough understanding of the role their company plays in the retail industry.

that the the were

QUESTION: IF YOU PROVIDE SERVICES TO RETAILERS, WHAT ARE 5 THINGS RETAILERS EXPECT FROM YOU?



As would be expected, the overwhelming response is in providing flawless execution with a knowledgeable and capable staff that gets the job done on-time. The interesting conclusion about this question is how the retail trade can expect this when resources are focused against a limited number of retailers.

A - 7



**Sales
Hunter**

Mark Hunter “The Sales Hunter”

Mark Hunter, "The Sales Hunter," helps individuals and companies identify better prospects, close more sales, and profitably build more long-term customer relationships. He is known globally for his insights on sales and, in particular, the CPG industry. Mark is a frequent speaker for industry conferences and corporations, and has been quoted in a wide number of media sources.

Mark spent more than 18 years working in the Sales and Marketing divisions of Pillsbury Corporation, General Foods Corp. (Kraft), and ConAgra Corporation. Since 1998, he has provided consulting services to many companies and associations. Each year, Mark also releases a study of the retail industry and how it affects the CPG segment entitled, "Emerging Trends in the Retail Industry." It has been quoted in numerous publications and a wide number of companies. It's this level of insight into the industry that makes Mark so highly regarded as an expert. Companies routinely utilize him to help them understand how to deploy financial and intellectual resources.

The development of this white paper is a continuation of Mark's commitment to sharing with the industry his knowledge and, in particular, his views in areas he sees as having tremendous opportunities for growth. To find out more about Mark Hunter, visit his website at www.TheSalesHunter.com. He also welcomes your questions or comments. He can be reached by calling 402-445-2110 or emailing him at Mark@TheSalesHunter.com.

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