



Purchasing, pricing and merchandising your new niche line

by Gabe Trahan



Drug wholesalers can't be expected to be everything to everyone. When considering a new niche line, you need to determine if you can actually make a profit with the product. Your research should cover freight cost, size of the opening orders, minimum reorder quantities, space needed to properly merchandise, and face time required with customers to sell the product, which can all eat away at net profit.

Adding up all of these factors can diminish an expected 40 percent net profit margin to less than 15 percent. First, check the numbers. Confirm the cost of shipping. If you chose not to meet the minimum order for free freight, or if the vendor does not offer a free freight program, you must subtract the cost of freight from your profit.

Here are some examples. These are freight costs for an all-natural chocolate, cherries, and nuts line (very yummy). The product ships from Washington state. The example order is \$170 before shipping.

Here are several locations where the product is shipped.

- Milton, Vt.: The shipment is an additional \$17.07. That is 10 percent of the cost and reduces the profit margin from 40 percent to 34 percent.
- Long Beach, Wash: Freight is \$16.93, for a net profit margin of 34 percent.
- Vero Beach, Fla.: Freight is \$35.69 (21 percent), for a net profit margin of 27.4 percent.
- Miami, Okla.: Freight is \$22.96 (13.5 percent) leaving a net profit margin of 31.89 percent.

In the best case scenario, the 40 percent margin is now 34 percent. In the worst case, it is 27.4 percent. A buyer has to determine how much margin you need to make a worthy profit. Answering that question involves estimating how many turns the product will make in a year. If you are selling the inventory twice a year (two turns) at 27.4 percent, your operating expenses may not be worth the investment.

After you are satisfied with the profit margin, take a look at any additional savings that are available to you. These might include a 2 percent discount if paid within 10 days, free freight for a minimum order, and/or free goods when ordering in case packs. These are not permanent discounts and are not to be considered in formulating the retail prices. Next, decide if the retail price you have chosen to use can go up. If this item is hard to find and is not price sensitive, then there is an opportunity to increase your profit margin. In the consumer's eyes, there is not much difference between \$3.79 and \$3.99.

Building a successful opening order calls for data that directs you to the best sellers. For example, there are six every day flavors of Hershey Kisses® and an additional 26 "limited time only" flavors. The bottom line is that two of the 32 are best sellers: milk chocolate and milk chocolate with almonds. If your budget for Hershey Kisses were \$100, 65 percent would be spent on milk chocolate and 35 percent on almonds. Never buy across the board for a line without testing the best sellers first.

Introducing a new line requires merchandising strategies. Always ask for samples and look for counter or floor display opportunities. Know where the product will be merchandised before it arrives at your store. Replenishing a niche line can be a challenge, and understanding the minimum reorder amount is crucial in planning your inventory strategy. Large minimum reorder amounts could be a deal breaker.

Continued on page 55 ►

► *Continued from page 56*

Most of all, you need to like the product line. Use it and be prepared to recommend it. If no one in your store is ready to recommend the product, then do not carry it and find something else. Simply put, you need a champion for every specialty line you bring into your store. It doesn't have to be you, but it does have to be a trusted staff member. Finding a niche takes a good deal of effort; if it didn't, it would not be called a niche. It would be like the Hershey Milk Chocolate Kiss, found everywhere on sale.

*To discover possible niches, visit www.frontendmarketplace.com. Make sure to read my merchandising and pricing tips before you place your order. ■

Gabe Trahan is NCPA's senior director of store operations and marketing. Gabe uses more than 40 years of front-end merchandising experience to help NCPA members increase store traffic and improve profits. Visit www.ncpanet.org/feo to watch videos, read tips, and view galleries of photo examples by Gabe. Follow him on Twitter @NCPAGabe for additional tips.