Week 3: **Learn How to Develop Your Own Winning Go-To-Market Strategy**

PREP-WORK: READING

1. Overview

What is a "go-to-market" strategy"?

A go-to-market (GTM) strategy is your answer to the question:

How and **where** will your **product** get into your **customers'** hands?

It's vital that the plan of action you put in place (as in, your GTM strategy) be **repeatable** and **scalable**. The components of a GTM strategy are:

WHO
Customers → value proposition → messaging → marketing

WHERE
Where your product fits in → market at large → competitive landscape

WHAT
Product & pricing strategy

HOW
Channel strategy

We've discussed the WHO and WHERE in Modules 1 and 2. This section will cover the WHAT and HOW. A go-to-market strategy is really a blueprint for what is to come for your company, and the steps you will take from ideation to market launch.

Understanding sales channels and the challenges & opportunities of each

For some entrepreneurs, retail ends up being the default channel to choose. And for some, it may be the right choice. But there are a number of factors that should go into the channel strategy decision. And, to add further intricacies, it may make sense to begin with one channel with the plan to expand to others. (For example, one route we see with some frequency is to begin with e-commerce to build brand awareness and demand, and then to expand to retail). This module will detail key considerations as you think about each of the possible channels for your brand.

2. Overview of Sales Channels

RETAIL CHANNEL

Definition: selling goods to business establishments that are typically owned and run by a retailer and in which merchandise is sold primarily to final consumers

Types of retail stores:

1. Conventional - your average grocery store - ex. Krogers, Tops, Shop Rite
    - *Features: Lower price points*
2. Natural - higher end grocery stores - ex. Whole Foods, Sprouts, MOMs, Natural Grocers
    - *Features: More importance is placed on claims like non-GMO, organic, etc.; higher price points*
3. Big-Box - huge both in terms of physical space and, usually, variety - ex. Costco, BJs, Walmart
    - *Features: Large sales volume; lower price points*

Regionality - local, regional, national

One consideration with retail is regionality. It is often advisable to start in a small region, and to focus sales and marketing dollars there. Such an approach can serve as a key proof of concept to show investors and other retailers high velocity per store (with limited stores).

FOODSERVICE CHANNEL

Definition: selling goods to businesses or institutions that prepare meals outside of the home, such as restaurants, college & corporate cafeterias, and K-12 schools. "Commercial foodservice" refers to for-profit establishments (ex. restaurants, catering companies, vending machines) while "non-commercial (or non-comm) foodservice" refers to foodservice establishments that may exist within other institutions and be subsidized by those institutions (ex. school cafeterias & hospitals).

Types of foodservice accounts:

1. Contract dining
    a. Schools (lower & upper)
        - *Features: Extremely cost sensitive; low allergenicity of foods is often a requirement*
    b. Cultural Institutions & Stadiums

- *Features: high volume, varied options, some private dining & catering options, regional*

c. Business & Industry (B&I) - corporate cafes
  - *Features: High-volume, possibly price sensitive, bulk packaging of product may not be branded*

2. Restaurant chains - ex. McDonald's, TGI Fridays, Pret a Manger
    - *Features: High-volume, may be regional offering, but usually national*

E-COMMERCE

Definition: selling goods online in a direct-to-consumer model

1. Brand website
    - *Features: Need for logistics & fulfillment*
2. Amazon, Thrive Market, etc.
    - *Features: Lower margins; greater ease of order fulfillment*

3. Understanding the Different Sales Channel

Volume sales

Consider required volume sales for your company's success. Is your product an item that will be used frequently (ex. bread) or something that will be slow-moving (ex. mustard)?
Do you need to reach high volume sales in order to ensure profitability?

Retail: Volume sales are often relatively low in retail. A given store will only ever have X number of visitors a day, and your products will be competing with the many others on the shelf. Products that will be used frequently are often good candidates for retail, as you can expect higher turns per store (velocity) and therefore higher revenue.

Foodservice: If you're selling an item that is relatively slow-moving, it may be worth considering a foodservice route to achieve higher volume sales. (More on that in the next section.) Volume is generally higher in foodservice (sales of cases & pallets) versus single digit units sold per store per week in retail. If you sell into a single major foodservice account (ex. a nationwide chain) you may have secured thousands upon thousands of consumers (having really only won a single "customer"). If your product works on low margins and depends on high volume sales to reach profitability, then foodservice may be a logical channel for your company.

E-commerce: E-commerce has the potential to be a very high volume channel. You can ship to anyone in the country (or world, if you choose to make your products internationally available), rather than relying on a set of stores to reach a finite number of customers each day. There's not necessarily a clear-cut scenario (frequent consumption vs. infrequent consumption) for which the e-commerce channel will necessarily be the best choice. E-commerce can work well for both sorts of products, but higher volume exists in shelf stable, room temperature products that don't require expensive shipping.

Profit margins

Do your margins depend on high volume, or do you offer a more premium product that can keep your company afloat with lower sales?

Retail: Margins are relatively low here. Be prepared for various middlemen taking cuts along the way (more on that in the section below). Still, retail margins may be higher than foodservice margins.

Foodservice: Foodservice, because it is so volume-dependent and because many of the end operators are themselves working on tight margins, tends to be very low margin.

E-commerce: Margins here tend to be high, since many of the activities that eat into margins in retail & foodservice (i.e. retailers & distributors) are taken out of the equation with e-commerce.

Distribution Models

Retail: The distribution model for retail is relatively long. Product will move from manufacturer to distributor (ex. UNFI, KeHE) to retailer to customer. That's two extra touch points between production and end-consumer laying hands on your product, and each touch point has a significant associated cost. (Expect that a distributor will mark your product up 25%. The retailer will then mark it up 45%. Suddenly your profit margins may not be quite so hefty.)

Foodservice: The foodservice distribution model is very intricate and involves many players, including:

- Food brokers (aka manufacturers' reps): your outsourced sales team
- Wholesale distributors: manage the sales, storage, and delivery of our products (US Foods, Sysco)
- "Self-distributing" retailers: large retail chains (ex. Walmart, Krogers) that are also distributors [i.e. they have their own distribution centers ("DCs") and logistics]; relevant for those selling into foodservice within retail (ex. Grocery store sushi bars)
- "Self-distributing" foodservice: large restaurant chains that handle their own foodservice distribution (ex. McDonald's and Golden State Foods)
- Redistributors: as the name implies, these are distributors that buy your product to redistribute to smaller distributors (ex. DOT Foods)

E-commerce: 7u

A Breakdown Grid of Channel Features

	Retail	Foodservice	E-Commerce
Margins	Low	Low	High
Volumes	Low	High	High
Distribution	Local & National	National	Direct to Consumer
Food Safety Regulation	Low	High	Low
Challenges	Sampling/Marketing	Selling Accounts	Fulfillment

4. Deciding which Channel to Pursue

The determining factors for your brand - which channel(s) should you pursue?

It is common practice to focus on one or two channels at first, and then to build into more. You'll likely have finite resources (i.e. time and money) to focus on any one channel, but as you scale and build a foundation with one or two channels, it becomes possible (by virtue of capital, connections, and brand awareness) to branch into more channels. Here are some considerations for choosing a channel:

Funding

Consider the costs of starting up and growing in each channel. Foodservice has significant costs associated with national launch volume, top-level production standards, and dedicated sales brokers. It also has a long sales cycle, so you will have to be prepared for low revenue in the first year (and often in the second year) until your product has been sold into distributors who will get it to end-operators. Can you afford such delayed revenue? E-commerce, on the other hand, can be much more profitable from the get-go. If you have limited capital to work with in the beginning, be very mindful of the implications of choosing a channel with a long sales cycle.

Knowing your target consumer

A common theme throughout this course is the importance of factoring in your target consumer to key decisions. As discussed in Module 2, the personal profile of your consumer can be built out to help you attend to your strategy. For Go-to-Market strategies, you can decipher the "Where?" questions of your consumer: Where does she shop? Does she prefer online shopping or is she a dedicated grocery store-patron? You strategy should be informed by questions like these.

Marketing

In any channel, you'll need to consider marketing as you grow. Keep in mind that retail typically necessitates a bigger marketing budget, given that it requires more sampling, education, and discounting dollars. E-commerce, on the other hand, often allows for more efficient and nimble use of marketing spend - ads can be run, traffic to your website measured, conversions calculated, and ads tweaked. Digital marketing creates a nice ecosystem that can be readily observed and rapidly adjusted.

Marketing in retail also tends to be more complicated and multifaceted. Stores may insist on making their own collateral. Some may allow coupons and discounts, some may not, and some may need to be worked with extensively to settle on a mutually agreeable plan. With e-commerce, you are the captain of the ship when it comes to collateral and marketing generally. Foodservice is its own beast, as companies must balance marketing to (1) distributors (2) operators and (3) end-consumers.

Logistics

The decision to do e-commerce comes with some logistical questions. How will you fulfill orders? Do you have the resources to devote to such work? What is the cost of shipping direct-to-consumer (D2C)? Will you sell on Amazon? How will the percentage of sales that Amazon takes affect your margins?

Pricing

The benefit of e-commerce is that you can sell direct to consumer at your ideal MSRP, without having to pay a sales broker or distributor or pay for other mark-ups. By doing so, you sell at a higher gross margin and can assess fulfillment costs and marketing costs as a direct ROI.

Additional Resources:

- Recognizing Retail Foodservice as a Separate Channel | Winsight Grocery Business
- Moving Offline: How Brands that Succeed on Amazon are Moving Onto Whole Foods Shelves | Food Tech Connect
- The new model for consumer goods | McKinsey
- Why Farmigo is shutting down online Farmers Market | Food Tech Connect