THE FOOD SUPPLIER'S GUIDE TO SELLING ONLINE:

DISTRIBUTION

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Local Line

DISTRIBUTION

How to get products to your customers

Offering delivery services to your customers is advantageous to growing your business, but there's a balance between great service and healthy margins.

The ability to offer delivery to your customers is dependent on three different variables: the **minimum order value** compared to your **average order value**, the **frequency of orders** received and the **geographical location** of customers.

MINIMUM ORDER VALUE (MOV)

A Minimum Order Value (MOV) is the lowest dollar value that you will ship to your customers. Setting a MOV guarantees a minimum profit per order, while also ensuring that the cost of distributing your product is not too high per order. Calculate your MOV and compare this to your Average Order Value (AOV) to see if you're making profitable deliveries or not. To calculate your AOV, take the sum of all of your orders and divide that value by the number of orders.

Calculating your AOV:
Jenny's Bakery - $**53**
Andrew's Grocery - $**72**
Bob Smith - $**57**
Andy McPherson - $**81**
Your AOV is $**65.75** (**53** + **72** + **57** + **81** = $**263**/**4** orders = $**65.75**).

If the majority of your orders are above or at your MOV (**AOV > MOV**), offering delivery to your customers is economically sound.

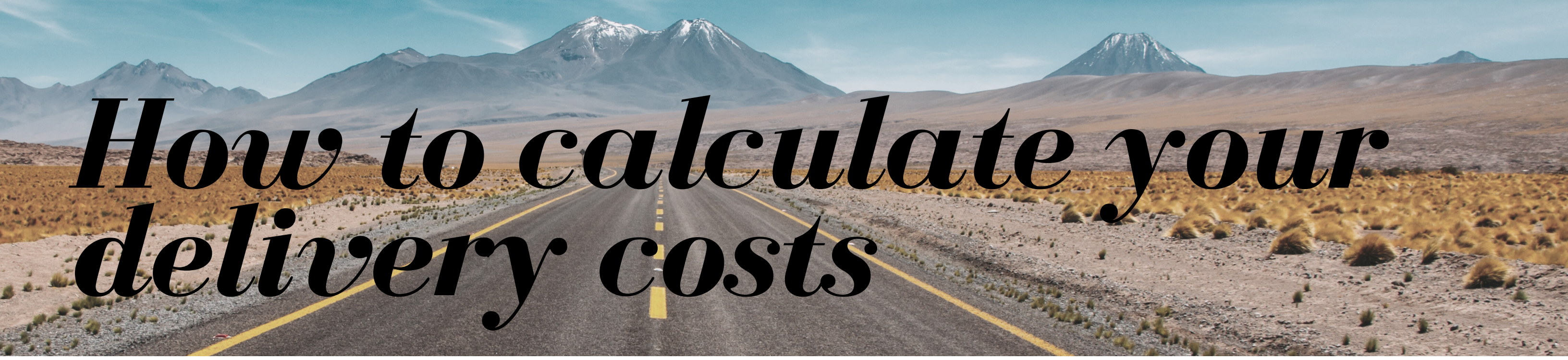
FREQUENCY OF ORDERS

The next parameter that must be considered is order frequency. Generally, the more frequent the order from customers, the smaller the order size. If you have customers orders multiple times per week, you're going to need a lot of customers in a concentrated area in order to make deliveries profitable. If customers are ordering once a month, chances are their orders will be much higher, and it will be much more economical for you to deliver to them.

GEOGRAPHICAL LOCATION OF CUSTOMERS

This parameter ties into frequency of orders. If the incoming frequency is manageable for the time frame, the distance between customers must also be reasonable. For example, if 22 orders a day is feasible for your business, where must those orders be delivered to? 22 orders in 6 different cities may not be possible, or profitable in day, however 22 orders in the same neighbourhood is highly profitable.

The key is to get a high density of customers in a concentrated area, and set delivery days to drop off products. For example you might service city A on Monday and city B on Tuesday. If all of these parameters are manageable - delivery works for your business. If this doesn't sound feasible to your customers, there are many other ways to get your products to your customers than direct delivery, such as adding pickup locations.



How to calculate your delivery costs

Delivery can be very expensive and hard to track. When considering to offer delivery in your business, it is important to calculate the costs of being on the road.

Here are the **6 steps** to calculate your hourly delivery costs:

STEP 1: Determine time on the road
The first step is to calculate how many hours the vehicle is on the road on a daily or weekly basis. For example, on any given delivery day, the truck is on the road for **6 hours** and deliveries are made on Mondays, Thursdays and Saturdays. **6 hours × 3 days** = **18 hours per week**.

STEP 2: Cost of driver
This is dependent on the cost of your specific driver, whether that is you personally or a third party. For this example, let's say the cost of the driver is **$30/hour**.

STEP 3: Cost of gas
Cost of gas can be a tricky variable to determine. The best way to determine the cost of gas is to fill up the transportation vehicle fully with gas at the beginning of a delivery day, note the cost, and at the end of the day calculate the cost of the gas used for that day.For example, the cost to fill up the vehicle completely was **$100**. At the end of the day, **¾** of the tank had been used; therefore the cost of the fuel used was **$75** (**$100 x 75% = $75**).

Because the vehicle was on the road for **6 hours, t**he cost of gas per hour would be **$12.50** (**$75/6 hours = $12.50 per hour).**

NOTE: this is an approximation of the cost of gas and may vary based on location, traffic, or route changes.

STEP 4: Determine hourly insurance cost
What is your annual insurance cost? Take that number and divide by **12 month**s to determine monthly cost. To determine hourly cost, divide the cost of insurance monthly by the number of hours driven in a month.

For example, let's say the annual insurance cost is **$3,000**. The monthly insurance cost would be **$250** (**$3,000/12 months = $250**).

The number of hours driven in a month for this vehicle is **72 hours** (**3 days/wk x 4 wks = 12 days a month; 12 days x 6 hrs = 72 hrs/month**).

The hourly rate for insurance would be **$3.47** (**$250/month / 72 hours/month = $3.47**).

STEP 5: Calculating Depreciation
Determine the percent of depreciation per year for your vehicle. We recommend applying at least a **15%** depreciation on the value of a vehicle per year.

To determine annual depreciation value, multiply the value of your vehicle if you were to sell it today by the annual depreciation percentage. To determine monthly depreciation divide the annual depreciation by **12 months**. To determine hourly depreciation, divide the monthly depreciation by the number of hours driven each month.

For our example, the value of our vehicle today is **$50,000**.

With an annual depreciation of **%15**, the annual depreciation value would be **$7,500**. (**$50,000 x 15% = $7,500**).

The hourly depreciation would on the vehicle would be **$8.68**. (**$7,500/12 months = $625; $625/72 hrs = $8.68**).

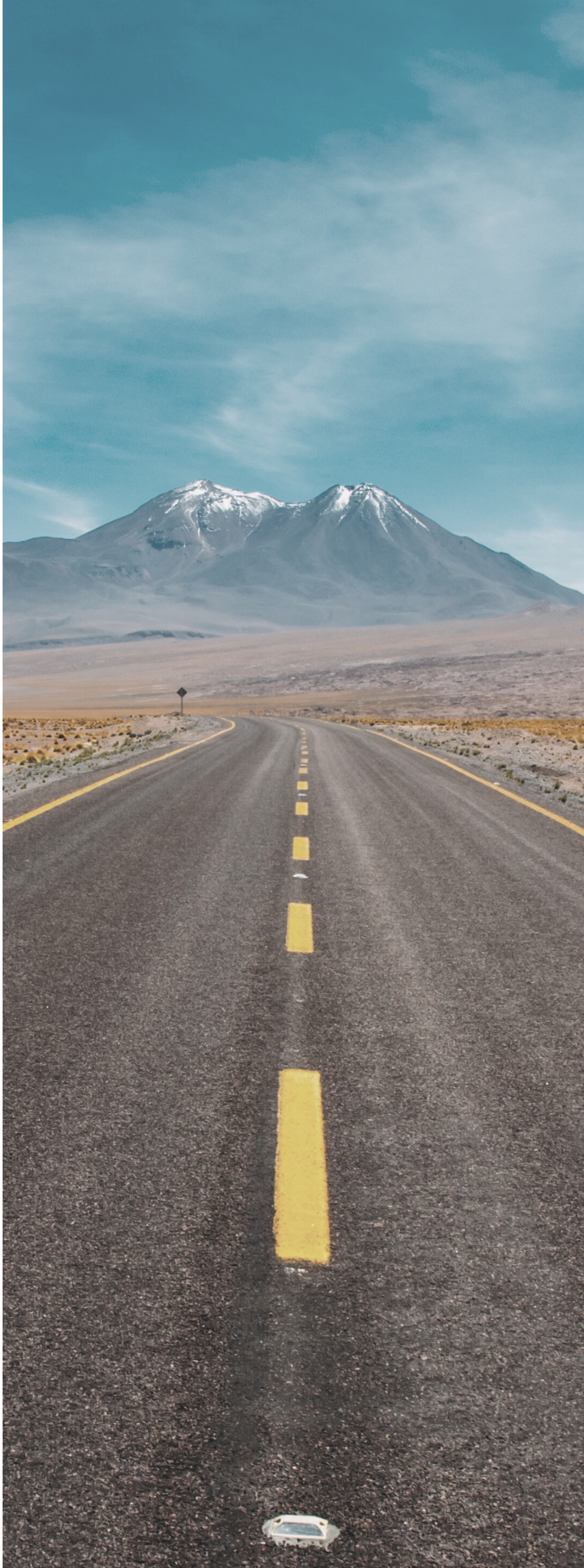
Note: Be sure to repeat this step on an annual basis as the depreciation number will get smaller as the vehicle becomes worth less.

STEP 6: Total hourly delivery costs
The final step to calculate hourly delivery costs is to sum every step. The hourly delivery cost for our example would be **$54.65**.

(**$30 for cost of driver + $12.50 for cost of gas + $3.47 for cost of insurance + $8.68 for cost of depreciation = $54.65/hour**)

NOTE:

If delivery isn't feasible for your business, consider using pick up locations or co-delivery for more cost-efficient distribution.



How to calculate your minimum order value

As a food supplier you know there are lots of things you can't control. One of those things is order volumes. You never know exactly how many units of product your customer is going to buy, and as a result, your earnings are at their mercy. How can you take agency of this situation to have more control over your business and your profits? Start by setting a Minimum Order Value.

A Minimum Order Value (MOV) is the lowest dollar value that you will ship to your customers. Setting a MOV guarantees a minimum profit per order, while also ensuring that the cost of distributing your product is not too high per order. How is this so? Because you can calculate the perfect MOV that is specific to the needs of your own business.

To help you calculate your own MOV, we've created a step-by-step guide, as well as a downloadable MOV calculator for you to use.

STEP 1: Calculate your cost on the road
MOVs are based on your expenses. Take into account the total cost of your driver's wage, gas, and maintenance frees. For this example, let's assume your delivery costs are **$80/hour**.

STEP 2: Calculate your break even point
Next, determine the value of product that you have to deliver per hour in order to break even. To calculate this, divide your hourly delivery cost by your margins. For this example, lets assume your margins are 25%. The calculation looks like this:

$80/hour / 25% margins = $320 in sales.

This means you have to deliver **$320** of product per hour to break even on your deliveries.

STEP 3: Set your target profit
Now that we know what it takes to break even on your deliveries, we have to set a profit target. Let's say you want to double your break even point and profit $80/hour of deliveries. This means you would have to deliver $640 of product per hour.

The revenue made from this sale would be **$160** (**$640 x 25% = $160**). After calculating for delivery costs (**$160 - $80/hour = $80**), your business would net **$80** in profit.

STEP 4: Determine how many deliveries you can make per hour
Knowing the number of deliveries you can make every hour is necessary to calculate your MOV. You'll need to assess the travel distance for every city, as well as customer proximity. In other words, how long does it take to drive to a city and how long does it take to deliver to each customer in that city?

For this example, let's say you can make 3 deliveries every hour.

STEP 5: Calculate your Minimum Order Value
Finally, to calculate your MOV, divide your hourly order volume by the number of deliveries you can make per hour: **$640 in total sales / 3 deliveries per hour = $213/order**. This means, to net **$80/hour**, the smallest order at which a customer could purchase your product is **$213**.

Let's take this last step further. If you're planning to be on the road for 8 **hours** a day, then your load capacity needs to be **$5,120** of product in order to net **$80/hour** (**$640 x 8 hours = $5,120**). As a result, your business would profit **$640/day ($80/hour profit x 8 hours delivering**. Of course, **$213** is the lowest you could sell your product to reach your goal, but you may want to round the price up to build in some extra margin.

How to create a delivery plan to maximize profit

Here are 5 steps to help your business plan a delivery schedule that helps to maximize profit:

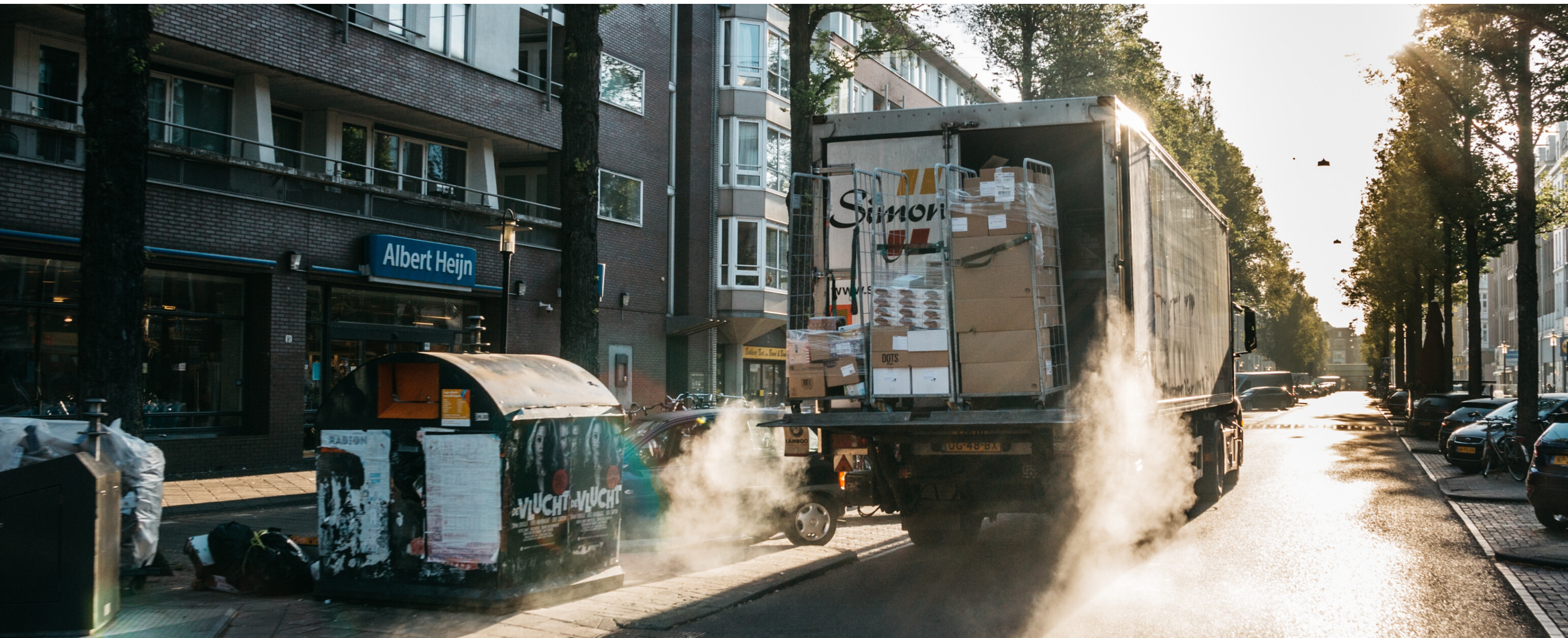
1. Re-assess your current logistics plan
The first step to maximizing profit is to dissect your current distribution plan. How often are you delivering product and what is the profit per delivery? If you create an overview of current operations, it is easy to point out which areas need improvement.

2. Determine your distribution capacity
It's time to take it from the top. What places can you reach? How frequently can you get there? How big do the orders have to be? Before considering what your customers need, consider what you can actually provide.

3. Consider the needs of your customers
Consider what types of customers you have. Should you offer delivery to all customers? Where are your customers and where are potential other customers? If you plan your delivery schedules around the needs of your customers and your distribution capacity, it will help you to profit from deliveries.

4. Implement pick up locations
Pick up locations are a great way to service multiple customers at once. Dropping products off at a central location like a store, gym, or warehouse makes your deliveries more economical. If you can't currently offer front door delivery, centralized pickup locations that are close to where your customer lives is your best option.

5. Co-deliver
Co-delivery is the coordination of vehicle distribution routes from different suppliers to bring products to their buyers. It allows you increase your shipping area, saves you money per delivery, fills your loading capacity, and helps to reduce emissions from your distribution route. To see how this worked well for three Ontario farmers, click here.



I'm considering a shipping partner – how do I get started?

If you are looking to offer direct delivery to your business, however do not have the resources or time to deliver yourself, partnering with a shipping partner is a good option. Here is all you need to know about getting started with a shipping partner:

ADVANTAGES OF A SHIPPING PARTNER

A shipping partner or third party logistics provider (3PL) is a service that receives, holds and transports a product from you to your customer.

Some advantages include:

Temperature-controlled warehousing and travel
Purchasing your own temperature-controlled vehicles can be very expensive, therefore dependent on your product type, this is a huge advantage.

Saves you time from delivering yourself
If you're too busy to do deliveries yourself, you can package and send your products off without losing time.

3PL's are distribution professionals!
Third party distributors have a lot of experience with the nuances of distribution. Depending on who you pick, if your distributor is specifically a food distributor, they will have extensive knowledge on health regulations and shipping dos and don'ts.

DISADVANTAGES OF A SHIPPING PARTNER

There are disadvantages too. These include:

Expensive set up and usage fees
There are many upfront costs associated with setting up services with a shipping partner. Be sure you understand how they charge, and calculate your approximate costs before agreeing to any shipment.

Customer responsibility
If the customer is not there to collect the delivery - the package will be returned to you. Within the food industry, this can be a huge problem. Due to the fragile nature and perishability of food, there is a possibility that when the product is returned to you, quality will have suffered.

Out of your hands
In regards to customer service and accountability, the delivery protocol is out of your hands. The interaction with customer at delivery is not in your control; therefore if a bad experience occurs with the shipping partner, it reflects poorly on your business.

HOW DO I KNOW IF IT'S RIGHT FOR ME?

After considering the pros and cons of a shipping partner, the next step is determining if it works for you. Ask yourself these questions:

What is your current distribution plan?
Assess your current distribution plan. What are your customers asking for? Have you considered starting with pickup locations? Determine whether offering delivery is the right step for your business financially at this time.

Are you fulfilling more than 5-10 orders a day?
This is the starting point when you should start considering working with a partner. Dependent on your margins and profit, it might be beneficial for someone else to take the load off of you.

Is your business growing or about to spike?
Do you have demand from customers that are out of your local delivery range? If you're in San Francisco and get an order in San Diego, you're not going to start the truck to deliver it. If you find yourself with more and more demand from far away places, calling a local 3PL is probably a good idea.

HOW DO I FIND THE RIGHT ONE?

If working with a shipping partner is feasible for your business, the next step is to find the right one. When choosing the best shipping partner to work with, here are some questions you should be asking:

1. Do they have an enforced non-disclosure agreement (NDA)?

2. What are their hours of operation? Do they ship on weekends and holidays?

3. What is their capacity? Are they able to meet your delivery demands?

4. Are they located in high-demand areas for your business? Do they have to travel far to get to you or your customers?

5. Do they have good reviews from other food suppliers similar to your business?

6. Do they have experience shipping food products?

7. Can they provide necessary documentation regarding food and health safety standards?

8. Are they temperature-controlled if necessary?

9. How do they compensate for delays in delivery?

10. Can they handle unexpected spikes in delivery demand?

11. What is the communication strategy in regards to orders, shipping notices, receiving and adjusting notifications?

12. What costs are included in their quote? These are some costs that may be added:

***Transportation costs** - the cost of picking up the product from you.*

***Shipping costs** - the actual cost of shipping your product to the customer.*

***Return costs** - the cost if a product is returned from a customer to you.*

Account set up fees - *the price of creating an account.*

Minimum costs - *this the minimum cost of using the service. This is important to note when having a slow month.*

When deciding to work with a shipping partner, talk to them! Be sure to get answers to the important questions. You don't want a partner that doesn't work for your business and be left with unfulfilled orders, unhappy customers, and lost sales.

A common mistake made is jumping into business without proper research. Working with a shipping partner can help your business, however only if done correctly. Get ahead, do research, and find the right partner.

How profitable can pickup locations be?

It can be very daunting to produce, market and deliver products. Many food suppliers find that they do not have the resources to be able to expand their delivery area, meanwhile trying to maintain other aspects of their business. Often, it's very time consuming and difficult to coordinate a number of small deliveries within a week. If you're concerned that your orders are too small to be doing direct delivery, you might want to look into establishing pickup locations!

WHAT ARE PICKUP LOCATIONS?

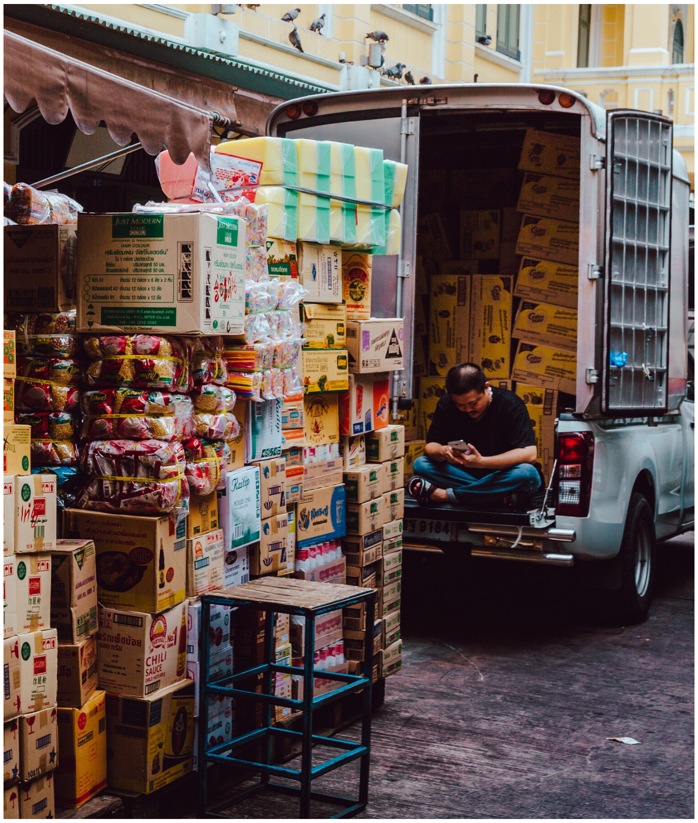
A pick up location is a predetermined area where a buyer is able to go to collect the items they have purchased from your business. A pick up location could include a store, warehouse, or restaurant. These locations can be inside or outside of your current delivery zones depending on your capacity. Introducing pick up locations also allow you to be able to sell your product in multiple locations and serve multiple customers in an economical way. It can broaden your distribution area by reducing the amount of deliveries per city/region.

HOW DO PICKUP LOCATIONS SAVE ME MONEY?

Let's use the sample business model from the MOV section. Just to refresh, these are our numbers:

The cost on the road is **$80/hour**
The breakeven point is **$320/hour in sales**
The target net profit is **$80/hour**
The truck is able to make 3 deliveries per hour
The minimum order value (MOV) is $213.

Therefore, based on the model, your business would make **24 deliveries in a day** (3 deliveries/hour x 8 hours = 24 deliveries) with an MOQ of **$5,120 ($213 minimum order x 24 deliveries)** and a net profit of **$640/day**. If at one pick up location, you were able to deliver 6 customer orders, then your total daily deliveries would be 18, not 24. A reduction of 6 deliveries means two hours less on the road, but still the same amount of sales. Because sales don't suffer, you simply subtract 2 hours worth of cost on the road **($80/hour x 2 hours = $160 saved)**. In this case, your profit just jumped from $640/day to **$800/day ($640 profit + $160 savings)**.



HOW DO I FIND A PICKUP LOCATION?

Pickup locations can save you money, however it's important that you find the perfect location for your business. This can be a difficult process, so we have created a five step process for helping you find the perfect pickup location:

1. Look at where the majority of your orders need to go

The first step when determining where to have a pickup location is determining where your customers are. By taking into account where the orders need to go, you will pick a location that is feasible for your customers. If you currently do not offer a delivery service and are unaware of where your customers are coming from, ask. Reach out to current customers and ask them if they would benefit from a pickup location and where that location should be.

2. Decide what kind of pickup location would work for your business

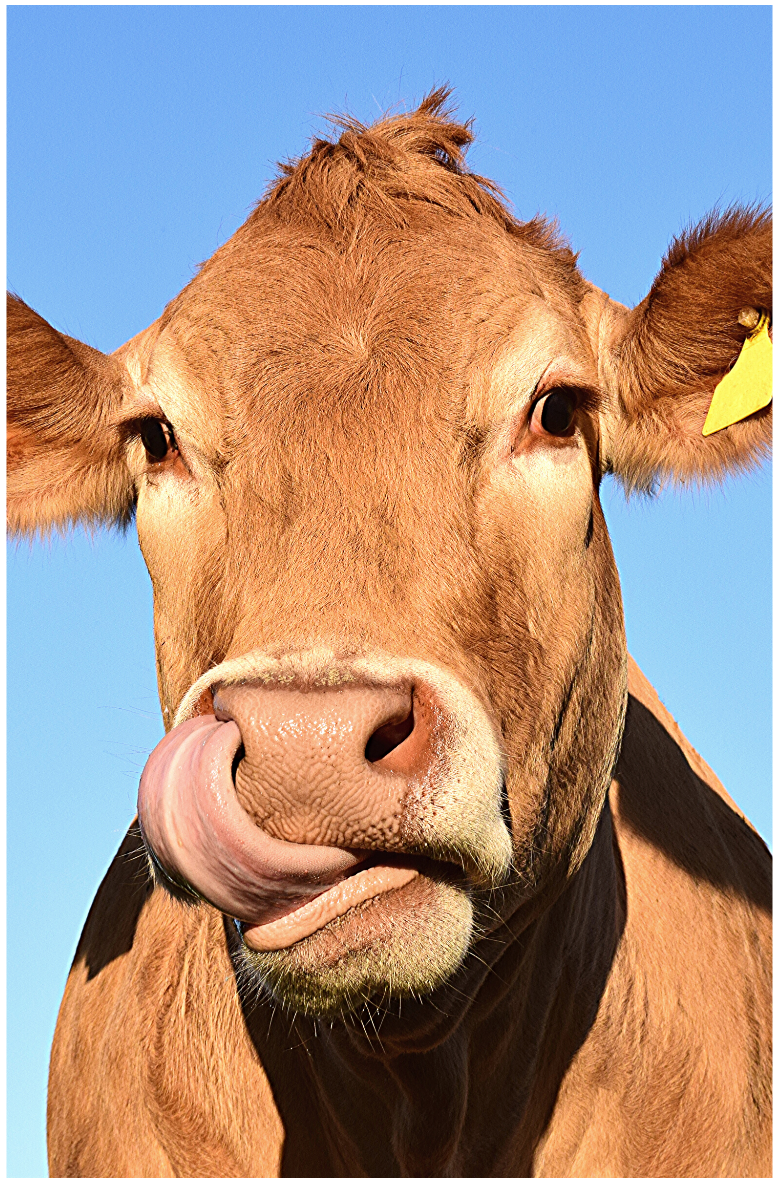
Think about what type of product you sell and where that would fit best. Would it make sense to sell your product in a retail store, restaurant or warehouse? Do they have the capacity to store your product? What type of customers do you have and where would they prefer to visit? For example, for a restaurant or retailer picking up large orders, it would make sense for them to pick up their orders at a warehouse, however a customer ordering one or two products would not pick up an order from a warehouse and would probably want to pick up at a local school or church.

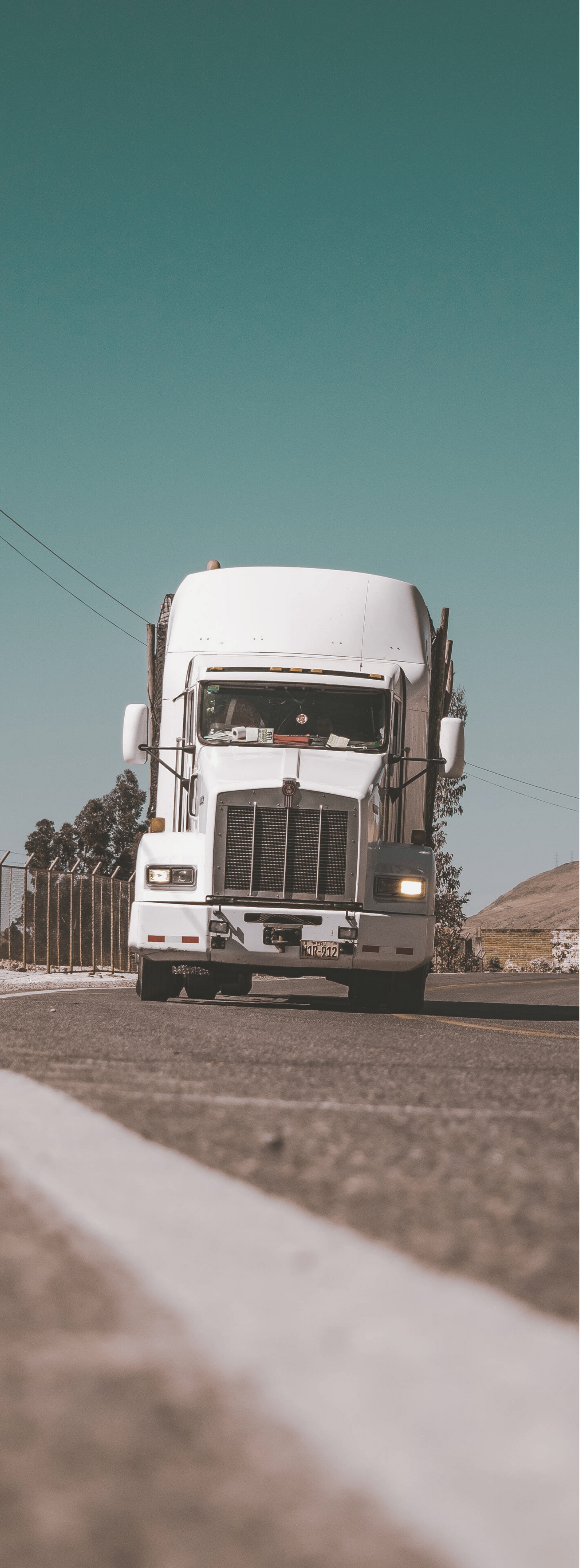
3. Scan the region for possible fits

Do some research and look at what retail stores, restaurants, warehouses and other facilities are available to you in your distribution area. What do they currently sell at these places? Would having your product available for pickup at their locations be beneficial to them?

4. Connect and make a plan

Reach out to possible pickup locations and make an arrangement with them. Consider what the cost of the location will be per pick up. Will the location be dealing with the customers who are picking up or will you be at the pickup location dealing directly with customers? Where will you be stationed? How many pickups will you be having each week? What hours during the day are acceptable for customers to pick up? Create a clear plan with the pickup location to avoid future confusion with customers and your pickup partner.





What is co-delivery and how can it help me?

Everyday, local food suppliers across North America are struggling to get their products to their buyers. On average, the vehicle load for distributing food products is approximately 50% when arriving at the delivery point. This means that the majority of transportation is moving half full. This inefficient loading of transport vehicles leads to increased cost, increased emissions and less capacity to be able to ship in a larger area to grow customer base. This is where co-delivery comes in.

WHAT IS CO-DELIVERY?

Co-delivery is the coordination of vehicle distribution routes from different suppliers to bring products to their buyers. Essentially, it is connecting two suppliers that need to distribute their products to the same location, however do not have the capacity to do it alone.

BENEFITS OF CO-DELIVERY?

1. IT SAVES YOU MONEY

Leveraging co-delivery will save your business money, as it reduces the possibility of transportation with a partly loaded vehicle. When working together with one or multiple different suppliers, you all share in the distribution cost, meaning you'll have better margins and more profit.

2. IT INCREASES YOUR SHIPPING AREA

Distributing in partnership with other suppliers will give your business the ability to ship to new cities that may have previously been unreachable. As a result, it can give you the ability to broaden your customer base - as the product is now available in a larger shipping area and you have access to the client directory of the other suppliers you are partnering with.

3. IT FILLS CAPACITY (ESPECIALLY BACKHAULING)

Backhauling is the carrying of goods on return trips. For example, delivering a product from your farm to Toronto and then collecting products from suppliers located in Toronto and bringing them to the region where your farm is located in. This prevents empty vehicles from returning to their original location and aiding other suppliers that require transportation. Backhauling allows you to profit on the return trip.

4. IT WILL REDUCE EMISSIONS FROM YOUR ROUTE

By participating in co-delivery, you are reducing the transportation of half loaded vehicles from traveling back and forth to the same location. If there is only one vehicle driving the route, the amount of emissions will be cut in half. In a study that looked at transportation collaboration between two large corporations, Nestle and United Biscuits; co-delivery reduced fuel consumption by 85,000 litres and CO2 emissions by 223 tons (Mittal et al. 2018).

WHAT PARAMETERS NEED TO BE CONSIDERED?

Co-delivery is an exciting concept that has been used in the shipping industry through different platforms such as, UShip, however needs to be modified in order to fit the needs of food. The essential parameters to be considered within food distribution can be split into three different categories:

TIME FRAME FOR OPTIMAL FRESHNESS

This parameter considers the optimal time frame in order for the product to be as fresh as possible when arriving to the buyer. Shelf life of food, unlike other types of shipped goods, is limited. The date of harvest/production and travel time must be considered when creating a distribution plan. The time frame is dependent on the type of food product, as frozen or canned goods have a larger gap than fresh produce.

TEMPERATURE AND QUALITY

Food products all have different optimal temperatures to ensure that the product remains fresh and safe for the buyer to consume. Generally, food products ship at three different temperature ranges: Frozen (-21 to -18°C), chilled (0-15°C) and ambient or room temperature (Akkerman 2010). Poor temperature control can lead to chemical reactions that change the appearance or texture of a product (Akkerman 2010). Also, food safety regulations require temperatures during transport to be well established and well documented.

SHIPPING COMPATIBILITY

Not all food can be shipped together. There are food safety regulations in place that ensure that food products are protected from contamination and the spread of harmful microorganisms (Alberta Agriculture and Rural Development 2015); therefore this parameter considers which products should be matched together to ensure the safest method for distribution.

ROUTING

You need to have thought through routing for each delivery day prior to getting on the road. You don't have to arrive at a potato farm and begin loading 50lb bags of potatoes only to realize they're on top of a flat or strawberries. Be sure to include product type in your route planning!

HOW CAN I IMPLEMENT CO-DELIVERY?

Here are the steps to take in order to successfully implement co-delivery into your business:

1. DETERMINE YOUR TRANSPORTATION CAPACITY

This step involves determining your ability for distribution. Are you able to deliver your products or are you looking for an outside source to deliver for you? This determines if you are the transporter or a transport user within a co-delivery scheme. Transportation capacity could also mean that you are only able to go to one major city during the week instead of two. Determining these parameters will allow you to know what you need from a co-delivery plan before connecting with other businesses, and will help you plan for either being a party that's looking to save money by shipping **with** someone else, or make money by shipping **for** someone else.

2. CREATE A DISTRIBUTION LOGISTICS PLAN

This plan considers the physical distribution structure for your product and considers variables such as food safety regulation, space and weight, vehicle type, what type of food products to ship with, whether you do pick ups or deliveries, etc. The plan should consider every aspect that goes into the distribution**.**

3. CREATE A SCHEDULE

Where and when will you be delivering your product? Create a monthly/weekly (dependent on your delivery frequency) schedule for a 6-12 month period that maps where and when you will be transporting goods. This schedule is bound to change, however it is important to have an idea on when/where you need distribution. This will also make it easier to coordinate with other suppliers.

4. FIND AND RESEARCH POSSIBLE CO-DELIVERY PARTNERS

When searching for a co-delivery partner, make sure to consider all your variables you mentioned in your distribution logistics plan, such as food safety and what type of food products to ship with. It also important to consider what their delivery schedule is and if you are able to match up based on yours. Possible suppliers can be found online by following social media pages of like-minded food producers, through online groups (most commonly found on Facebook), at local markets and through personal connections. How you find a co-delivery relationship can be very unique to you. Finding partnerships can be a difficult step and this is where Local Line hopes to jump in by creating connections between possible candidates.

5. CREATE AN AGREEMENT AND GET GOING!

The most important step for implementing a co-delivery plan to your distribution logistics is to put an agreement in place. This is the starting point to making co-delivery possible. When you've found the perfect partner(s), remember to go back and review your logistics plans, transportation capacities and schedules to create a unique plan that works for your businesses. Iron out the details and possible situations that may arise. Make sure you know how to deal with potential quality issues and payment terms.

Local Line

Streamline your farm's sales process.

Local Line helps food suppliers doing direct marketing sell their products online, access new markets, and keep organized.

Learn more at localline.ca