

TOP 150 NICHE BRANDS

Retailer savvy can lead to big payoff on shelf

By MICHAEL JOHNSEN

Success in niche begins with placement on a retailer's shelf. But because that means either taking a chance on companies without a strong pedigree of success at mass or ceding space for a potentially strong new niche product in place of a mainstream product that will enjoy significant consumer advertising support, identifying those niche opportunities can be difficult.

That's because many niche products are like the NFL New Orleans Saints' Marques Colston of the retail world—low draft picks that come out of nowhere to record the kind of rookie seasons typically expected from first-round selections.

Retailers successful in identifying niche opportunities utilize three metrics to substantiate that success—unit movement, gross margin and gross-margin-return-on-investment of both the individual SKU and the category. "The smart retailers [know] the proper balance between branded and private label and a multiple SKU approach to niche categories," commented Curt Behrens, president of P2B.

Of the four largest pharmacy operators—CVS, Rite Aid, Walgreens and Wal-Mart—niche manufacturers consistently named Walgreens the chain that best identifies and takes advantage of niche opportunities. In many cases, that's a direct result of the trust Walgreens commits to its talent scouts—regional managers that have the authority to test-market local products. When those local products start producing, the category managers in Chicago quickly pick them up from their sales reports and begin expanding distribution chainwide.

But all of the retailers, with the possible exception of Wal-Mart, were identified as becoming increasingly savvy at exploiting niche market opportunities. Wal-Mart was not mentioned because, according to many smaller suppliers, making it onto Wal-Mart's shelves represents the transformation of a niche product to mainstream. "Between 25 percent and 35 percent, depending on the category, of American health care products are purchased at Wal-Mart," Behrens said. "You have to look at the impact of health care on lower-income [brackets]," he added. "Trending forward, the low-cost purveyor of health products is even more important. Wal-Mart is the endorsement of niche products because of its appeal to middle America."

"CVS has recognized the niche opportunity for a number of years," commented one industry executive pointing to the chain's annual get-together with new suppliers. CVS dedicates a few days each year to meeting with potential new suppliers at the chain's headquarters. This year, the chain hosted its "Open Buy Days" May 15 and 16. "CVS Open Buy Days are a chance for our category management teams to meet face-

to-face with new suppliers," the chain stated in its invitation to the event. "Only those suppliers who currently do not do business will be approved to participate."

The decision to place niche products on the shelf sometimes flouts traditional risk-reward evaluations. It's certainly a significant risk taking on product launches from smaller companies—companies that, many times, are not large enough to survive a failed product at retail. That's especially true of national chains—chains that command significant supply-chain commitments to get one or two facings on the shelf in each of their 5,000-plus outlets and supporting distribution centers.

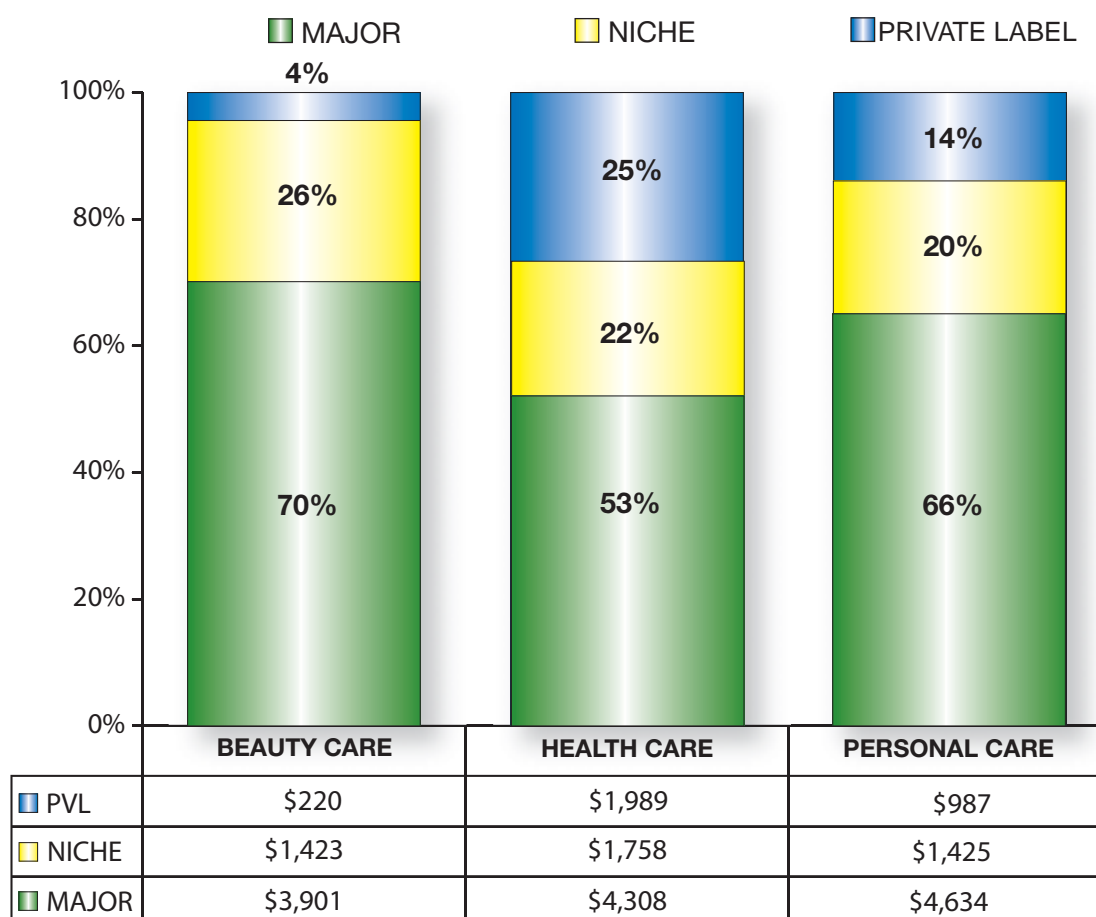
To protect themselves from a potential flop, national retailers often negotiate distribution agreements that include guaranteed returns or pay a distributor for inventory only after its scanned through the checkstand. Retailers often negotiate slotting fees or co-op fees to get a new product on shelf, which could preclude some niche products from ever making it to shelf. "[Niche] companies can't always afford to participate in the slotting fees or co-op fees that are

required, so they're not even seeing the light of day," noted Ron Otto, president of National Sales Solutions.

Getting on shelf is only half the battle, however. Once that space allotment is secure, niche manufacturers cannot afford to wait to build a significant consumer base with only impulse purchasing and word-of-mouth helping to drive sales. "The manufacturers still have to market the product, the same way you would market a mainstream brand, but only you focus your marketing more on your target consumer," Otto said.

Because niche products often come from smaller manufacturers with limited capital, these marketing programs usually do not include prime-time advertising on major television networks complemented by a strong radio and print campaign and supported by frequent FSI placements. Niche products need to take advantage of niche marketing—which typically means targeting specific media outlets with clearly defined demographics, such as cable and satellite television or themed print publications.

Manufacturer Sales Performance



Annual sales in millions.
Source: Information Resources Inc.