

Consider Starting Small

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Many new entrepreneurs dream of one thing: seeing their products on the shelves of "big box" mass retailers like Wal-Mart, where it'll reap millions of dollars in sales. While this is certainly a worthy goal, it's important to understand that a) this should rarely be a starting point and b) the reality can be a lot different than the fantasy. I'll explain why and offer some alternative routes that will help grow your product or company in a way that's more organic, more controllable and possibly even more successful in the long run.

The Big-Box Fantasy

When I began launching my products into the marketplace I dreamed of massive sales through national retailers, thinking this was the ticket to success and that it had to happen right away. What I learned, however, is that it can actually be an enormous risk, particularly during the early stages of a business when inventory, capital and human resources are relatively limited.

Fact No. 1: You'll need a large inventory. Many mass retailers require that you ship them inventory in advance in guaranteed quantities. This does *not* translate into guaranteed sales. In other words, you're basically selling on consignment. For a startup business, this can mean risking thousands or even hundreds of thousands of dollars to manufacture products that potentially won't sell. In addition, some retailers will require that you alter your packaging to fit their exact specifications, which can mean changing the size, design and other elements of your product package. This can leave you with unsold inventory designed specifically for one retailer, rendering it difficult to sell elsewhere.

Fact No. 2: There may be hidden fees. Many mass retailers, like discount stores, drug stores and supermarkets, charge a fee to place your product on their shelves. In addition to the production and packaging fee, you may also be charged return shipping fees for a product that doesn't sell. In some cases, these ship-back fees even include added costs for the laborers who pack the boxes. And if that's not enough, you'll also be faced with the challenge of warehousing the unsold product.

Fact No. 3: The margins are typically lower. For these retailers to charge such low prices, the product manufacturer typically makes up the difference. For example, you may be able to sell your product for \$10 retail at a smaller specialty store, that's paid you \$5 wholesale. A mass retailer, however, must compete on price, so they'll want to charge less--say, \$7--paying you more like \$3.50. If it costs you \$3 per unit to produce your item, you've just cut your gross profit margin from \$2 to 50 cents. You should be able to recapture some margin by driving your own production costs down with the increased volume. But with all your other overhead and business expenses, you need to examine these margins carefully before agreeing to a contract.

An Organic Approach

This isn't to say that getting your product into a mass retailer is a bad thing, but it is meant to serve as a reality check. Mass retailers may not be the best place to start unless you wish to take on substantial risk and potentially overwhelm your resources--both of which could contribute to the early demise of your business.

Instead, I recommend a sales approach that builds and grows more naturally, creating demand as you go. While they may seem small or simple, these methods are a terrific way to help build your sales, increase demand, create word-of-mouth and give yourself the chance to tweak your product or packaging, if necessary, before you produce hundreds of thousands of units. Plus, it fits with the philosophy that most mass retailers like to sell "proven" products more than "new" products. Here are some grassroots ideas:

eBay--eBay allows you to sell your product for relatively low overhead to a mass audience who may be searching for your item. Set-up is relatively simple and inexpensive, and there are countless tools to help you streamline the process, create your own store, and track your sales, shipping and payment activities. It can be an excellent way to expose your product to potential buyers on its own, or as complement to other sales channels.

Flea markets--Again, this is a low-risk, inexpensive way to begin exposing your product to buyers. It requires renting a table and producing some inventory to start. The face-to-face contact with buyers can also be a great opportunity to get feedback about your product, price and packaging. Think of it as a working focus group, and you'll accomplish two tasks with the effort of one. And if you think it's too rinky-dink, know that many multimillion-dollar companies began by selling at local flea markets, including The Quacker Factory, which now sells millions of dollars of women's apparel through QVC.

Trade fairs and local festivals--Most communities sponsor art shows, trade fairs and festivals at which local businesses can display their products or services. These can provide a terrific channel to introduce your product and get your market's feedback.

School and community fundraisers--Schools, sports teams and other community groups are always holding fundraisers to generate income. Instead of the same candy bars and wrapping paper, give these groups something new and interesting to sell by approaching them with your product. If it's relevant and appropriate for the target market, schools and sports teams will be delighted to offer their audience something different to purchase. If your item sells well, you could always leverage this success by approaching larger catalogs that sell through schools and other groups on a regional or national level.

Other creative channels--Don't be limited by what you see in front of you. Think about how you can get creative with your sales as they relate specifically to your product. For example, is your product intended for mothers of infants? Approach new moms groups and ask if you can distribute a flyer or demonstrate your product. Is it sports-related? Perhaps local gyms might be willing to display and sell it for a cut of your profits.

The key is creating awareness and exposure for your product, gradually building sales for long-term, manageable growth. This slower process will also create a foundation so when the mass retailers see the traction you have gained at the local level, you'll be better equipped to handle your first major purchase order. Happy sales.

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