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MASTERCLASS 02

Distributor Economics

How the middle tier really makes money, and why that decides if your brand ever rides in the bag.

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Founders fall in love with the idea of a distributor the way you fall in love with a co-signer. You think: once they sign me, I'm in. The truck does the work, the brand spreads, I sit back and watch depletions roll in. I have watched that fantasy die in slow motion more times than I can count. A distributor signing you is not a partnership. It is an option they have purchased, usually for free, to *maybe* sell your brand if and when it earns a place in a rep's bag against the four hundred other SKUs fighting for the same eight stops.

To get carried, really carried, not just warehoused, you have to understand how a distributor actually makes money. And the answer is almost never the answer founders expect. A distributor does not get paid for loving your brand. A distributor gets paid in gross profit dollars per case, multiplied by how fast those cases turn, divided by how much of their finite attention your brand consumes. Get inside that equation and you stop pitching your story and start pitching their math.

A distributor doesn't carry brands they believe in. They carry brands that pay the rent on the shelf in their warehouse and the seat in their truck.

The only number that matters: GP dollars per case, per turn

Walk into a distributor's head and you'll find a single brutal calculation running on every SKU they touch. Not "do I like this brand." Not "is the founder nice." It's: *how many gross profit dollars does this case make me, and how many times a year does it turn?* A brand that throws off $40 of GP per case but only turns four times a year is worth $160 a year per point of warehouse slot. A humbler brand at $22 of GP per case that turns twelve times is worth $264, and it's easier to sell. Guess which one the rep leads with.

WORKED EXAMPLE · GP-PER-TURN

Two brands fighting for the same slot in the bag

METRIC	BRAND A "PREMIUM"
GP dollars per case	$40.00
Turns per year	4×
Annual GP per slot	**$160**
METRIC	BRAND B "WORKHORSE"
GP dollars per case	$22.00
Turns per year	12×
Annual GP per slot	**$264**

Same shelf, same truck, same rep. Brand B makes the distributor 65% more money and is half the hassle to sell. The premium price tag fooled nobody but the founder.

This is why "we're priced premium" is not the flex founders think it is. A high FOB feels like it should make you a distributor's favorite. But if the velocity isn't there to back it up, your premium price just means you turn slowly, which means your annual GP per slot is weak, which means you're the brand the rep *stops* leading with the moment something faster comes along.

Where your money actually goes

The distributor's margin is not pure profit, and understanding their cost stack tells you exactly which levers you can pull to make yourself easier to carry. Out of their spread comes the warehouse, the trucks, the fuel, the rep's salary and commission, breakage and shrink, billing and collections, and the depletion allowances they're constantly funding to keep retailers happy. When you ask a distributor to "push harder, " you are asking them to spend more of that stack on you. The brands that get pushed are the ones that make spending it an obvious win.

WAREHOUSE		THE TRUCK		THE REP		YOUR COST TO THEM
Slot	+	**Route**	+	**Time**	=	**GP needed**
space + handling		*fuel + delivery*		*salary + commission*		*to break even on you*

SAM SAYS

"Stop asking your distributor to believe in you. Start showing them the case math. The rep who can see exactly how your brand makes their Tuesday more profitable is the rep who sells it without you in the room."

Depletion allowances, dead net, and the deal behind the deal

The price you invoice the distributor is rarely the price that matters. What matters is *dead net*, what you actually keep after every allowance, sample, depletion incentive, and program you fund to make the brand move. Founders look at their FOB and feel rich, then discover at year-end that depletion allowances, spiffs to reps, and a chain feature they "had" to fund ate a third of it. You are not really pricing to the distributor. You are pricing to the dead-net number that lands in your account after the trade takes everything it's going to take.

> **SCENARIO · "WHY IS MY P&L BLEEDING WHEN DEPLETIONS ARE UP?"**
>
> *A founder calls me thrilled, depletions up 40% over last quarter. Then he asks why he has less cash than ever. We walk the dead net. His $10.22 FOB carried a $1.50-per-case depletion allowance, a rep spiff program he forgot he agreed to, a chain feature he funded to land the placement, and free goods on the reset. Real dead net: about $6.80. He'd been celebrating the depletions and funding them out of his own margin the whole time. Velocity without dead-net discipline is just an expensive way to go out of business with great-looking reports.*

What to do Monday

1. Calculate your true GP-per-case for your distributor on your lead SKU. Then estimate your turns. Multiply. That's what you're actually worth to them per slot.
2. Build your dead-net number: FOB minus every allowance, spiff, sample, and program. That, not your FOB, is your real price.
3. Ask your distributor where your brand ranks in GP-per-point in its category in their book. If they won't tell you, that's an answer too.
4. Identify the two reps moving the most of your brand. Make their math easier, better margin, simpler story, fewer SKUs to remember, before you ask anyone to "push harder."