24 Wholesale Terms Makers Need to Know

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1. Leadtime

The number of days it takes from the time an order is placed until the time it will ship; also called turnaround time.

It's important to note that you'll need to include any additional processing time and clarify any nuances to your production process.

A few items to consider:

> Does your product require a final art approval or sign off for the initial order? If so, state the lead-time begins after final approvals are received.
>
> Factor in receiving time on your end. Once you receive a wholesale order, are you checking daily and starting production same day? What is your process for receiving a new wholesale order to when you'll begin to produce?
>
> Does not typically include shipping time, this is strictly from order to ship window (see #16 below)
>
> State if in days or business days

2. Vendor Minimums / MOQ by STYLE

The lowest unit or 'minimum order quantity' (MOQ) a vendor (you) would accept to make an order worth it. This is stated at a style level and can differ for each item. For example, you could set a minimum order of 50 scarves, but only a 15 unit minimum for wall hangings.

Minimums may be set based on raw materials needed to produce (ie. if you need to buy a bulk amount of yarn to produce, you don't want to be stuck with leftover so you may determine the lowest quantity that can be produced with that bulk amount).

3. Order Minimum

The lowest purchase dollar amount a vendor (you) would accept in order to accept a wholesale order with a shop. This is stated at the total vendor level –

unlike the above minimums which were at the style level. It can also be just an initial minimum to make the starting investment worth it for the wholesaler; and following orders could have a lower minimum for reorders or no minimum at all.

You can set this value based on the minimum time hassle (real technical term here ha) of setting up and dealing with a wholesale account. If they're only going to buy 5 scarves from you, maybe you feel you'd be better off keeping those 5 units to sell direct on your website for the full retail price.

This will vary for your business and the accounts you work with, but I would count on at least an hour of your time per month to up keep and maintain a wholesale account. You'll need to be available to process orders and inventory requests, send new line sheets, pitch samples, answer questions on product details, etc.

4. Case Packs

Stated at the style level – case packs are the smallest amount to order in multiples of; usually determined by what is most efficient for you to ship. For example, an item may have a case pack of 6 because you can easily and cost effectively ship 6 units of item x. So you would state your wholesale accounts need to order in case packs of 6; so you'd accept any multiples of 6 – 12, 18, 60, etc.

This differs from order minimum (term #2) as it's the lowest multiple accepted for an order. So for the scarf example above, your order minimum would be 50; but your casepack could be 10. Meaning after they meet the vendor minimum, they'd have to order 60, 70, 80 units, etc.

5. MSRP / Manufacturer's Suggested Retail Price

The retail price vendors (you) recommend an item should be sold for in-stores. This does not mean its the price a retailer will choose for their stores or the price customers may be willing to pay.

6. MAP / Minimum Advertised Price

The price vendors or manufacturers state a retailer cannot advertise below – hence the name. This has really come up more as comparison shopping and the ease of comparing online has started to impact vendors. It's done both to protect their brand – consistently being price too low could lead to a poor customer perception; and to protect themselves – if retailer A prices aggressively low, the vendor doesn't want retailer B to come after them asking what kind of costs they're giving retailer A that they can possibly be priced that low. So it offers a little protection so if retailers do break MAP, you can set up what consequences may occur.

7. Net Payment Terms

Will vary by account, but these are accounting payment terms for when payment is due and if a corresponding discount is available, set by the retailer. These are more typical for larger accounts than local shops.

For example, "Net 30" means the retailer sets their payment due date 30 days after receipt of goods.

"1/10 Net 30" means they get a 1% discount if pay in 10 days, or payment is due 30 days after receipt of goods.

For small businesses, these terms can be difficult especially when starting out and cash is tight. So it's really important if going after a big account you understand the payment terms, since you will have to lay out money ahead of time for supplies, production (your time), shipping, etc. and it's not uncommon that payment terms may be Net 30 or Net 60.

*Another point to keep in mind (and get clarity on if your product is accepted at a new account – yay) is that large companies often have certain days of the week they cut a check. Yup… it's what you think. So if your Net 30 payment is due on a Wednesday….but they only cut checks on Tuesdays, then yeahhh – you're waiting almost another week until the check is cut and sent out. So often for Net 30 terms, it could take 40-45 days until ol' snail mail lands in your mailbox. Just one more reason understanding your cash flow is so so important.

8. WTD / MTD / STD / YTD

Week to Date / Month to Date / Season to Date / Year to Date

A way to speak to a time period for any metric, usually in regards to sales units / dollars or receipts. For example, year to date we've sold 120 units (this would mean sales from beginning of their fiscal year through April 29th – time of my writing this)

Might seem silly, but I can't tell you how many times a vendor didn't know what those meant – usually after MONTHS of us sending them reports which was always alarming. Plus, it made them look a little unprofessional. (mostly because they didn't ask – not just because they didn't know, although you'll look A LOT better if you're in the know)

I also need to point out that retailers operate on different calendars – we operate on a 4-5-4 calendar which means the start of the year doesn't actually line up with the start of the year on January 1st. Oh – and like a lot of corporations, they operate on their own fiscal calendars which means the year could start in February or April, or whenever the hell they feel like it. So just be aware of what their "year" timeframe is – you can ask, "When does your fiscal year begin?"

9. Backordered

When items placed on an order by a retailer are going to be late. Not a great place to be in, but hey, it happens. Backordered means you'll keep it on that same order and fulfill once available (assuming the retailer is still willing to bring it in). If they ordered three styles and only one is late, you'd ship the other two on time and the third would be "backordered".

Each retailer may have a differ process for this – some will have you fill the two in-stock, then cancel the third style and re-place later. This just helps them follow and flow their receipts. For example, if it's going to be months late, they might prefer to clean up their late on order and just place as new.

10. Drop Ship

A distribution method where customer orders are placed with a retailer, but the order is fulfilled and shipped directly from the supplier.

This is a big advantage to retailers as they don't have to take on any risk or financial inventory, but still capture sales as they come through their channel. There's many different companies that help facilitate the systems set up between suppliers and retailers so that would vary by account; but the process is similar.

The retailer promotes, markets and prices your product >>> A customer places an order through the retailer and the order is sent through the 3rd party provider to the supplier >>> The supplier fulfills the order in the agreed upon timeline. Terms are set with the retailer for how often orders are pulled (i.e.. checked), shipping turnaround, packaging requirements, and the 3rd party company has tools that enable labels and customer receipts to show as if they're sent directly from the retailer – not from the supplier.

11. Product Line / Line Sheet

A product line is just your products – what's available for wholesale. So a "line sheet" is a recap of your products so if interested, the buyer can place an order.

There's a lot of chatter about this on the internet (keep it simple, keep it to one sheet, put all ordering information on there, etc), so I thought *as a buyer*, I'd like to set the record straight.

We want enough information so when we're staring at your papers weeks after we met (and saw the product in person) we know what the *hell* we're buying.

We also don't want to have to follow up separately for *additional* information when we want to speak to its benefits or material. So if that means you're handing over 10 sheets of paper so I have everything I need, then please – leave me with 10 sheets of paper.

You also should feel free to be creative with how you're presenting your work. Think of how you can most clearly convey your brand through your products and be of value to the buyer.

Maybe your line sheet is one page – broken out by a few categories, like "Best Sellers", "$25 Scarves", "$50 Scarves", "Wall-Hangings". Then have subsequent pages that give further information on each.

You also shouldn't feel like you need to include every.single.item.you've.ever.once.created. AH. Pick out your top sellers, curate a specific collection of items you feel will sell best at that retailer, make it intentional. You can speak through other options as questions come up or provide your full line sheet at the back, but help them hone in on what from your list is *important to them*.

12. Keystone Mark Up

Just a fancy way to say a 50% mark up. So if your wholesale cost is $7, the item at a keystone mark up would be $14 retail price.

13. Margin

See profit or makin' money. When selling wholesale, you need to ensure you're making a profit by selling at wholesale prices, but also be conscious of what the retailer expects for their margin.

Often retailers will share what margin they expect and require in a business unit or category. You can ask for this information in advance of a meeting to ask what their typical margin requirements are for "x' category.

14. Buyback / Guaranteed Order

Retailers love to test and feel good about placing orders with a new vendor. If they're not 100% sure on your brand, price point, product, etc but want to try it out they may ask for a buyback or guaranteed sale. They want peace of mind that if they can't sell your product, you'll take it back.

This can be *to your advantage* – surprised I said that, right? But often we're just a little nervous to go out on a limb and be left on the hook if we're wrong when selecting product. Giving them the option is a little like a "no questions return policy" and gives them the confidence to try your product and really see how it will perform.

To protect yourself, work with them on setting the terms:

Amount of product they can purchase or better yet, amount that you will guarantee.

You don't want them buying 500 units of something and going through all that work only to be stuck with buying back 400 units if they don't sell. That is not a smart move for your business and not worth trying to secure the account. However you could set up that you'll 'buyback' or 'guarantee' up to 100 units. So if they want to buy 500 – great, but you'll only accept 100 back if it doesn't work.

Performance metrics – ask them to outline what qualifies as your product "working"?

If they're selling 25 units a week and bought 500 to begin, that's a pretty good sell through – so what if they come back and say no thanks, we'd like to return them? Ask for them to state their metrics and what you'll be reviewed on. Often a weekly sell-thru is part of the determination so encourage them to place a healthy amount so you have a good presentation, but not so much that the investment is too great and your product will need to perform really strongly in order to be perceived as "selling well".

Ask for comparable sell-thru's or average weekly sales the retailer experiences on similar items or for the category. This provides a true benchmark for your product to be compared against.

Set shipping and/or re-stocking fees

It's perfectly acceptable to ask they pay shipping and/or a re-stocking fee (typically 15%) on the returned product since you'll need to re-handle and there could be damaged packaging. Be sure to set these in advance of the agreement and most retailers should be accepting of those terms.

Final note – If it's a really big account with the chance of totally changing the course of your business, weigh the risks with the opportunity and try to lessen the reasons they might resist while still protecting yourself. Often getting that first foot in the door through a "test" or "buyback" guarantee may be all you need to get the ball rolling with them; so don't put up too many roadblocks that seem like a big deal, but maybe you can really easily absorb even if it doesn't work out.

This is one reason I coach vendors to not push too hard to over-place their product at a new retailer. It's better to start in fewer stores, such as testing in 10 stores (out of a large retail chain), so your product is a small investment they can tweak and then hopefully you blow sales out of the water and have to chase for more. That's a much better position than really pushing to start in 50 doors and being unable to fulfill orders or you mis-judge the assortment that would work best for their audience. And then they're stuck with an inventory investment that's not working and you may be written off altogether and have to exit that account.

It also helps to have some ideas going into the meeting of what you might "accept" in terms of a buyback deal, so you can have a good conversation in person should they request that kind of arrangement.

15. Shipping Window

Just means the timeframe between start ship and cancel dates when vendors are expected to ship. Two weeks is a really common ship window; so an order placed on 5/1 would have a cancel date of 5/15. This means as a vendor you can ship anytime within that window, or timeframe – you could ship right away on 5/1 or take the full two weeks and ship out 5/15.

This ties back in leadtimes (#1) above as the start ship date would be based on the given leadtime. For example, if an order is placed on January 1st and your leadtime is 45 business days; March 7th would be a reasonable start ship date with March 21st the cancel date.

16. Samples

When visiting a new retailer, you'd usually bring samples of your product with you. Bring a good size assortment so they can touch, feel and fall in love with your product; but don't feel you need to bring everrrry color and pattern option. Keep your presentation focused and hit your best selling items – you can showcase the rest with your line sheets.

Especially for large accounts, be prepared to answer if you can leave the sample behind for their review and if you want it returned. For large retail accounts, I'd just expect to leave a sample behind – that's good sign – and while you can definitely ask for them to send it back after they review with their team/management; I'd advise not asking for payment or charging a fee. If you want to play with the big accounts, you gotta act like one and charging for a few samples gives off a "small vendor" feel which doesn't instill a lot of confidence that you can handle working with a large account.

If you're concerned about losing money, consider that: 1) you'll easily make it back with the order size they'd place so don't worry, 2) you can factor a few samples cost into your total cost of goods so you're not losing out.

As a buyer I can say that 100% of the time when I liked something, we asked to keep a sample. Often we'd want to review as a team or show my boss if it was a new vendor we wanted to test. Plus, the samples usually sit around the offices for awhile which helps keep you in conversation, helps others see and discuss and can start additional discussions around your brand.

The below are more common with large retail accounts, but still want to be aware of as you scale and and grow.

17. DC / Distribution Center

Major retailers have locations where goods are initially sent to, then specific quantities are sent along to stores. This helps cut down on freight costs as vendors are only responsible for shipping to a handful of locations (spread across their territory or the country) and then they consolidate shipments from all suppliers and re-pack and send individual trucks to each store location. If working with large retailers it will be imperative to understand their individual shipping/labelling requirements which is all part of vendor compliance.

For the beginning stages of talking with a large retail account, it'd be important just to understand how many DC's they have and where they're located.

18. Open to Buy

A buyer’s checkbook. This tool tracks their inventory, future receipts, forecasts sales and markdowns, and provides a roadmap of the “open” receipts they have to spend (or not, if you’re totally overbought oops). So the term Open to Buy literally is what they have available to spend or “open to buy”.

Can also be referred to as a Stock Projection, because the ‘currency’ so to speak in retail is based on your stock position in relation to your future forecasted sales.

What this means to you: If a buyer states they have little or no ‘open to buy’, they’re saying they have very little flexibility in receipts and your sales pitch may change knowing that’s their concern.

19. POS / Point of Sale

The term is a little broad in its application, but basically it’s when/where the sale occurs, such as the register, counter. It can also relate directly to the POS software a retailer uses to conduct a transaction.

You may also hear it when they speak to markdowns; such as POS markdown, meaning the markdown occurred at the ‘point of sale’ – like a discount given at the register. This differs from a Perm MD aka permanent markdown which is a way retailers re-value their inventory for accounting purposes when deciding they need to price lower.

20. Private Label / Private Brand / White Label

Mean the same, this is the store’s name brand. Many retailers have a team that works on sourcing product directly from manufacturers and they develop separate brands to market that product. You’re likely already familiar with seeing these brands in stores you shop in (Target, Nordstrom, etc)

21. PO / Purchase Order

The notification a retailer submits to a vendor specifying the items they have agreed to purchase. Style numbers, quantities, specific notes, ship dates, etc. Once submitted, vendors can generate an invoice based on the payment terms.

22. Vendor Terms: Markdown Allowance + Advertising CoOp

Most large retail accounts require a partnership that helps support their business financially; or basically a “cost of doing business” with them.

Markdown Allowances are often negotiated as a percent of receipts (at cost) or they may ask at the end of the month or season to help true up their planned margin. This means if your brand is planned to perform at a 55% margin, but you’re coming in at a 52% due to markdowns or having to clearance out certain colors, styles, etc. They may come to you and ask for markdown allowance or margin support. Typically collected on a monthly or seasonal basis.

Advertising CoOp is again usually negotiated as a percent of receipts (at cost) or per specific ad placement in various catalogs, mailings, etc. Typically collected on a monthly basis.

This is a bit of a gray area as technically (ie. legally) it cannot be an amount you just add into the cost of goods, so that you charge them more, just to them send it to them later. But since we’re spilling some secrets here, my advice would be to build some cushion into your cost of goods to help support your “cost of doing business”.

22a. Cost with Terms vs. Net Cost

Related to above, for some vendors they may decide they want the sharpest price available; especially if carrying for a special promotion or a specific seasonal buy. In that case, they may want your net cost – this would be your regular wholesale price without taking “the cost of doing business” into consideration. Like I said above, its a bit of a gray area legally speaking, but most buyers are well aware of what we’re asking.

23. Chargebacks

The process by which markdown allowances or coop are taken. When they’re requesting $1k for markdown or advertising support, vendors do not send retailers checks for that amount. Rather the retailer initiates a chargeback, which deducts that amount from a *future* purchase order.

So if their next order from you is for $5,000 at cost; they would deduct $1,000 from the invoice and you would receive the net balance of $4,000.

24. Vendor Compliance

Mainly for shipping requirements, each retailer will have their own guidelines and expectations for vendors. You should receive an information packet/links once an agreement is made to place an order or even before then if you want to ensure you're the right partner for them. As I said, the majority of issues we'd run into would be related to shipping, so pay close attention to that section and ensure you speak with their compliance department should you have any questions.