PART 10

WHOLESALE TO RETAIL (B2B2

Selling Through the Channel — Trade Terms, Chargebacks, and Shelf Economics

Trade terms and the working capital trap, early payment discount economics, factoring and ABL borrowing base, slotting fees and trade spend architecture, ASC 606 for trade allowances as contra-revenue, chargeback culture and deduction management, markdown allowance reserves, resale certificate compliance, channel conflict economics, transfer pricing for international wholesale, and the complete account-level profitability metrics framework.

SECTION 1
THE WHOLESALE TO RETAIL MODEL

Wholesale to Retail: Selling Through the Channel

The wholesale to retail model — in which a manufacturer or brand sells products to retailers or distributors who then sell to end consumers — is one of the oldest and most widely practiced business models in commerce. Despite the rise of DTC (Part 9), wholesale remains the dominant channel for most physical goods categories: food and beverage, consumer packaged goods, apparel, hardware, sporting goods, and countless other categories are sold primarily through retail partners rather than directly to consumers. Walmart, Target, Amazon (as a retailer), Costco, Home Depot, CVS, Kroger, and thousands of regional and specialty retailers are the intermediaries through whom the overwhelming majority of physical goods reach consumers.

The financial architecture of the wholesale model is shaped by the fundamental power dynamic between brands and retailers. Large retailers — particularly mass market chains and Amazon — have enormous leverage over their suppliers. They can demand low prices, generous payment terms, marketing contributions, return rights, and compliance with detailed operational requirements. The brand that fails to meet these demands risks losing shelf placement or losing the business entirely. The CFO of a wholesale-dependent business must understand this power dynamic and build the financial model around it.

This part covers the complete financial architecture of the wholesale model: trade terms (net 30/60/90), markdown allowances and promotional funding, slotting fees, chargeback culture and its financial impact, COGS structure for wholesale, factoring and asset-based lending (ABL) for working capital, inventory obsolescence and markdown reserve, channel conflict economics when DTC coexists with wholesale, and the complete metrics framework for the wholesale CFO.

1.1 The Wholesale P&L;: Lower Revenue, Lower Variable Cost

The most important structural difference between wholesale and DTC is the revenue line. A product that retails for $50 is typically sold to the retailer at wholesale price — approximately 50% of retail, or $25. This 50% reduction in revenue (the retail markup) is the price the brand pays for the retailer's distribution infrastructure, customer traffic, merchandising, and financial risk absorption. In return, the brand avoids the fulfillment, marketing, and customer service costs that characterize DTC. Whether wholesale or DTC produces better contribution economics depends on the specific cost structure of each brand.

P&L; Component	Wholesale Economics	DTC Economics	Why They Differ
Revenue per unit	$25 (50% of $50 retail)	$50 (full retail)	Retailer takes 50% margin on retail price
COGS	$8–$12 (32%–48% of wholesale)	$8–$12 (16%–24% of retail)	Same product cost; very different % of revenue
Gross Margin %	50%–68% of wholesale price	75%–85% of retail price (pre-fulfillment)	DTC appears higher due to retail vs. wholesale base
Fulfillment Cost	$0.50–$2.00/unit (pallet to DC)	$12–$18/unit (parcel to consumer)	Case-pack wholesale shipment vs. individual parcel
Marketing / Trade Spend	5%–15% of wholesale revenue (trade spend)	15%–40% of DTC revenue (digital ads)	Trade funds for co-op, promotions; DTC for digital
Net Contribution Margin	25%–40% of wholesale revenue	5%–15% of retail revenue (after all variable costs)	Wholesale lower gross revenue but lower variable costs

SECTION 2
TRADE TERMS, PAYMENT, AND THE WORKING CAPITAL TRAP

Trade Terms: Net 30, Net 60, and the Working Capital Trap

Trade terms — the payment terms under which retailers pay their wholesale suppliers — are one of the most consequential financial variables in the wholesale model. A brand that manufactures in Asia, pays its factory 30 days after production, and then waits 60 to 90 days for its retail partners to pay faces a significant working capital gap: it has financed the inventory, shipped it to retailers, and must wait months before seeing cash. At scale, this gap can require tens of millions of dollars in working capital financing.

2.1 Standard Trade Terms by Retailer Type

Retailer Type	Typical Payment Terms	Early Pay Discount	Working Capital Impact
Mass market (Walmart, Target)	Net 60–90 days	2/10 net 60 (2% if paid in 10 days)	Severe; $5M in invoices = $5M tied for 90 days

Retailer Type	Typical Payment Terms	Early Pay Discount	Working Capital Impact
Department stores	Net 60–120 days	8/10 net 60 or seasonal dating	Very severe; fashion brands face 120-day terms
Specialty retail (Sephora, REI)	Net 30–60 days	2/10 net 30	Moderate; manageable with factoring
Grocery / drug chains	Net 30–45 days	Rare; category-dependent	Moderate; high volume helps offset longer terms
Amazon (first-party / 1P)	Net 30–60 days	Rare; Amazon sets terms unilaterally	Moderate but Amazon has extensive chargeback deductions
Independent specialty	Net 30 or COD	Rare at this size	Low; but credit risk per account is higher

2.2 Early Payment Discounts: The Hidden Cost of Capital

Many retailers offer suppliers the option to receive payment early in exchange for a discount. The most common structure is 2/10 net 30 — the supplier receives payment in 10 days if they offer a 2% discount, or can wait 30 days for full payment. The CFO must evaluate this offer as a financing decision: is the cost of offering the 2% discount (the effective interest rate) more or less than the cost of financing the receivable through a bank or factor?

EARLY PAYMENT DISCOUNT — TRUE COST OF CAPITAL

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Annualized Cost of Early Payment Discount:
  Formula: (Discount % / (1 - Discount%)) x (365 / (Net Days - Discount Days))

Example: 2/10 net 30
  = (2% / 98%) x (365 / (30 - 10))
  = 2.04% x 18.25 = 37.2% annualized cost

Conclusion: 2/10 net 30 costs 37.2% annually — far more expensive than
  bank financing at 8%–12% or factoring at 1%–3% per 30 days.
  Accept only if the brand has zero access to cheaper financing.
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CFO INSIGHT

Early payment discounts to large retailers are almost always a bad deal for the supplier. A 2% discount in exchange for 20 days of early payment costs 37% annually — more than most credit cards. If the brand is cash-constrained and accepting these discounts, it is a symptom of inadequate working capital financing, not a cost-effective solution. The right answer is to establish a revolving credit facility, an ABL line, or a factoring arrangement that finances receivables at a fraction of the cost of early payment discounts. The CFO who eliminates early payment discounts by replacing them with institutional financing saves significant margin.

2.3 Factoring and Asset-Based Lending

Factoring is the sale of accounts receivable to a third-party financial institution (the factor) at a discount, in exchange for immediate cash. The factor collects the receivables from the retailer directly. Factoring eliminates the wait for payment and transfers the credit risk of the retailer (risk that the retailer won't pay) to the factor. For a brand with major retail customers, factoring can provide immediate access to 80% to 90% of the invoice value within 24 to 48 hours of shipment.

Asset-based lending (ABL) is a revolving credit facility secured by the brand's current assets — primarily receivables and inventory. Unlike factoring, the brand retains ownership of the receivables and collects them itself; it simply borrows against them. ABL facilities typically advance 80% to 90% of eligible receivables and 40% to 60% of eligible inventory (at cost). As receivables are collected and inventory is sold, the borrowing base decreases and the line must be repaid. As new invoices are issued, the borrowing base increases and the brand can draw again.

ABL BORROWING BASE CALCULATION

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Eligible Receivables:  Outstanding invoices <90 days old, not concentrated >20%
  Advance Rate:        80%–90% of eligible receivables
  Receivable Availability: $5M eligible x 85% = $4.25M

Eligible Inventory:    Finished goods at cost, not obsolete, not on consignment
  Advance Rate:        40%–60% of eligible inventory cost
  Inventory Availability: $3M eligible x 50% = $1.50M

Total Borrowing Base:  $4.25M + $1.50M = $5.75M
Outstanding ABL Draw:  $4.00M
Available Capacity:    $5.75M - $4.00M = $1.75M

ABL Cost:  SOFR + 150–350 bps (typically 6.5%–9.5% in current environment)
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SECTION 3
SLOTTING FEES, TRADE SPEND, AND PROMOTIONAL FUNDING

Slotting Fees and Trade Spend: The Hidden Cost of Shelf Space

Slotting fees — payments made by suppliers to retailers in exchange for shelf space — are one of the most controversial and least publicly discussed costs in consumer goods. They are not disclosed in most financial statements. They are not included in standard gross margin benchmarks. And they are one of the most significant costs a brand entering a major retail channel will face. For a new consumer goods brand securing placement in a major grocery chain, slotting fees of $5,000 to $25,000 per SKU per retailer are common. For a brand entering Walmart with 50 SKUs, the slotting investment can exceed $1 million before a single unit is sold.

3.1 The Trade Spend Architecture

Slotting fees are the most visible component of a broader category of costs known as trade spend — the total amount a brand spends to obtain and maintain retail distribution and to support retail sell-through. Trade spend encompasses slotting fees, cooperative advertising (co-op), promotional allowances, price reductions during promotional periods, and in-store display and merchandising costs. In mature consumer goods companies, trade spend can represent 15% to 30% of gross revenue — a staggering amount that is often buried in the income statement and misunderstood by investors.

Trade Spend Component	Structure	Typical Range	Accounting Treatment
Slotting Fees	One-time or annual payment per SKU per retailer	$5K–$25K per SKU	Capitalize if incremental; expense if not
Co-op Advertising	% of net purchases; retailer uses for advertising	2%–5% of net sales to retailer	Contra-revenue (ASC 606 variable consideration)

Trade Spend Component	Structure	Typical Range	Accounting Treatment
Promotional Allowances	% discount during promotional periods (TPR)	5%–15% of invoice during promo weeks	Contra-revenue in the promotional period
Off-Invoice Allowances	Flat % reduction from invoice price	3%–10% of gross invoice	Contra-revenue; reduces net revenue recognized
Scan-Based Promotions	Per-unit reduction when item scans at lower price	Variable; tracked by POS data	Contra-revenue; variable consideration
Display / In-Store Marketing	Payment for end-cap, display, feature placement	$500–$5,000 per display period	Marketing expense (S&M;) if distinct benefit received
MCB / Bill-back Allowances	Retroactive credit for meeting volume thresholds	1%–4% of annual purchases	Contra-revenue; estimate and accrue throughout year

3.2 Revenue Recognition for Trade Spend Under ASC 606

Trade spend is one of the most complex areas of revenue recognition for wholesale consumer goods companies. Under ASC 606, payments made to customers (retailers are the brand's customers in a wholesale model) are treated as contra-revenue — reductions to the transaction price — unless the payment is made in exchange for a distinct good or service provided by the retailer to the brand. This means that most trade spend — co-op advertising, promotional allowances, off-invoice allowances, and volume rebates — reduces gross revenue rather than appearing as a marketing or selling expense.

The practical consequence is that the gross revenue reported by a consumer goods brand in its income statement is the gross invoice amount before trade deductions, while the net revenue recognized is the gross amount minus the estimated trade spend. The variable consideration framework of ASC 606 requires that the brand estimate the total trade spend for each retailer relationship at the beginning of the period and update that estimate as promotions are finalized and volume thresholds become clearer. Trade spend accruals that are not updated frequently enough generate large year-end adjustments and audit risk.

ACCOUNTING ALERT

Trade spend is one of the most frequently misstated items in consumer goods financial statements. Common errors include: recording trade spend as a marketing expense rather than contra-revenue; failing to accrue promotional allowances in the period the promotion runs (instead recording them when the credit memo is received); and failing to estimate bill-back allowances before the threshold triggers. Auditors in consumer goods companies test trade spend accruals extensively. The CFO must establish a systematic trade spend accrual process — by retailer, by promotion, by week — that is current at every period-end close.

SECTION 4

CHARGEBACK CULTURE AND DEDUCTION MANAGEMENT

Chargebacks: The Retailer's Financial Weapon

Retail chargebacks — deductions taken by retailers from supplier invoices for alleged violations of routing guides, labeling requirements, EDI compliance rules, or delivery performance standards — are one of the most financially painful and least discussed aspects of wholesale commerce. Large retailers have developed extraordinarily detailed vendor compliance programs that specify exactly how shipments must be routed, how cartons must be labeled, how EDI transactions must be structured, and when and where deliveries must arrive. Any deviation from these requirements — even minor ones — triggers a chargeback: a unilateral deduction from the next payment.

For suppliers who are new to a major retailer or who have scaling operations that occasionally miss compliance targets, chargebacks can represent 2% to 8% of gross revenue. At $20M in Walmart revenue, a 4% chargeback rate generates $800,000 in annual deductions — a meaningful hit to an already thin wholesale margin. The CFO must establish a chargeback management process that is as rigorous as the accounts receivable management process.

4.1 Common Chargeback Types and Rates

Chargeback Type	Common Rate	Root Cause	Prevention Strategy
Routing guide violations	3%–5% of invoice	Wrong carrier; wrong service level selected	Automated routing compliance check before shipment

Chargeback Type	Common Rate	Root Cause	Prevention Strategy
Labeling / GS1 violations	2%–3% of invoice	Incorrect barcode; missing label; wrong placement	Label audit program; 3PL compliance training
EDI compliance failures	1%–3% of invoice	Late or incorrect EDI transaction	EDI monitoring; automated acknowledgment tracking
Short / over shipment	Per-unit deduction	Incorrect carton count; packing errors	Double-count outbound verification; 3PL accountability
Late delivery	2%–5% of invoice	Carrier delays; missed appointment	Carrier performance tracking; advance scheduling
Ticket / price ticket errors	1%–2% of invoice	Wrong ticketing on apparel/footwear items	Pre-shipment ticket audit; retailer spec review
Defective merchandise	Cost of returned goods	Product quality failure in field	QC program; pre-shipment inspection protocol

4.2 Chargeback Reserve and Deduction Management

Chargebacks are not recognized as revenue reductions when the deduction is taken — they must be estimated and reserved for in advance based on historical chargeback rates by retailer and by chargeback type. The chargeback reserve is a contra-receivable (a reduction to the accounts receivable balance) and a contra-revenue item. The reserve should be updated monthly using trailing chargeback data and forward-looking knowledge of upcoming shipments and promotions that may generate chargebacks.

Disputed chargebacks — those that the brand believes are invalid or incorrectly assessed — must be tracked separately and pursued through the retailer's dispute resolution process. Major retailers have formal dispute portals and specific timeframes within which disputes must be filed (often 30 to 90 days from the deduction date). Missed dispute windows result in forfeited recovery of the deduction. The CFO should appoint a dedicated deduction management resource — either internal or through a specialized deduction management service — whose job is to track, dispute, and recover invalid chargebacks.

CHARGEBACK RESERVE CALCULATION

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Monthly Chargeback Reserve = Gross Invoices Shipped x Historical Chargeback Rate

Reserve by Retailer:
  Walmart: $2M shipped x 4.2% = $84,000 reserve
  Target:  $1.5M shipped x 2.8% = $42,000 reserve
  Amazon:  $800K shipped x 3.5% = $28,000 reserve
  Total Monthly Reserve: $154,000

Deduction Management ROI:
  Disputed deductions recovered: 40%–60% of total disputed
  At $154K/month reserves, 25% invalid -> $38.5K/mo recovery opportunity
  Annual recovery opportunity: $462,000 from dispute management program
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SECTION 5

MARKDOWN ALLOWANCES AND RETAILER INVENTORY RISK

Markdown Allowances: Sharing the Risk of Unsold Inventory

Markdown allowances are payments or credits provided by brands to retailers to help offset the cost of marking down slow-moving or end-of-season merchandise. They represent one of the most significant and most structurally unfair elements of the wholesale relationship: the retailer buys the brand's product, fails to sell it at full price, and then expects the brand to absorb part of the loss through a markdown allowance. Yet brands almost universally accept this practice because the alternative — losing the account — is worse than paying the markdown.

5.1 Markdown Allowance Economics

Markdown allowances are variable consideration under ASC 606: the brand does not know at the time of shipment whether the retailer will need a markdown allowance or how large it will be. The brand must estimate the expected markdown allowance for each retailer and each product category based on historical markdown rates, current sell-through data (how quickly inventory is moving at the retailer), and forward-looking assessment of demand trends. This estimate reduces the transaction price and therefore

the revenue recognized on the related shipments.

MARKDOWN ALLOWANCE RESERVE

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Markdown Reserve = Inventory at Retail (at retailer) x Expected Markdown %
                 x Brand's Share of Markdown (negotiated %)

Example: $5M inventory at retail, 20% expected markdown, 40% brand share
  Markdown Reserve = $5M x 20% x 40% = $400,000

Accounting Treatment:
  DR: Net Revenue (contra-revenue)    $400,000
  CR: Markdown Allowance Liability     $400,000

When credit memo issued by retailer:
  DR: Markdown Allowance Liability
  CR: Accounts Receivable
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CFO INSIGHT

The most important signal in markdown allowance management is the weekly sell-through rate — the percentage of the retailer's on-hand inventory that sells each week. A sell-through rate below 15% in a typical week signals that inventory is not moving fast enough and a markdown is likely. Build a sell-through monitoring dashboard using point-of-sale data (available from major retailers through EDI or portal) and update the markdown reserve in real time as sell-through rates fall below threshold. Proactive markdown reserve adjustment prevents large end-of-season catch-up adjustments.

SECTION 6

TAX ISSUES FOR WHOLESALE BUSINESSES

Tax Architecture: Wholesale-Specific Issues

Wholesale businesses selling physical goods face many of the same sales tax and income tax issues as DTC businesses, but with important structural differences created by the intermediary nature of the channel. The brand sells to the retailer, not to the consumer. The retailer is the one who collects sales tax from the consumer. This creates a resale certificate framework — and a set of use tax compliance obligations — that are central to wholesale tax management.

6.1 Resale Certificates and Use Tax

When a brand sells products to a retailer, the sale is generally exempt from sales tax because the retailer is purchasing the goods for resale — they will charge sales tax to the end consumer when the product is sold at retail. To document this exemption, the retailer provides the brand with a resale certificate (or exemption certificate) confirming that the goods are being purchased for resale. The brand is required to collect and maintain these certificates for each exempt sale. If the brand does not have a valid resale certificate on file and the sale is later found to be taxable (for example, because the retailer kept the goods for its own use), the brand is liable for the uncollected sales tax plus interest and penalties.

Use tax — the companion to sales tax — applies when a business purchases goods or services from out-of-state vendors without paying sales tax and then uses those goods in a state that imposes tax. For wholesale brands, common use tax exposures include: purchasing office supplies, equipment, or marketing materials from out-of-state vendors without paying sales tax; using inventory for trade shows, samples, or employee gifts (items withdrawn from resale inventory and used internally become taxable); and purchasing services from out-of-state vendors that include a tangible goods component.

6.2 Transfer Pricing for International Wholesale Operations

Many wholesale consumer goods brands manufacture in Asia and sell to US retail partners through a complex intercompany structure. The manufacturing entity (often in a low-tax jurisdiction) sells to the US distribution entity at a transfer price; the US entity sells to US retailers at the market wholesale price. The difference between the transfer price and the wholesale price is the US entity's gross margin — and it is subject to US income tax. The transfer price must be set at arm's length under IRS Section 482 and OECD guidelines.

The comparable uncontrolled price (CUP) method — comparing the intercompany price to the price at which the same product is sold to unrelated parties in comparable circumstances — is the preferred method when comparable transactions exist. For branded consumer goods, where the product is unique and unrelated party comparables are rare, the cost-plus method (manufacturing cost plus an arm's length markup) or the resale price method (US retail price minus the US entity's standard gross margin) are commonly used. The CFO should commission a transfer pricing study when intercompany product sales first exceed $5M annually.

SECTION 7
ACCOUNTING ISSUES FOR WHOLESALE BUSINESSES

Accounting Architecture: Wholesale Complexity

Wholesale accounting is dominated by two categories of complexity: revenue recognition (the interaction of gross revenue, trade spend, chargebacks, and markdown allowances to arrive at net revenue) and working capital accounting (the management of receivables, inventory, and payables in a model where the timing of cash flows is structurally misaligned with the timing of economic activity).

7.1 Net Revenue Waterfall

The wholesale net revenue waterfall — the series of deductions from gross revenue to arrive at the net revenue recognized in the income statement — is one of the most complex revenue accounting constructs in physical goods. Each component is a form of variable consideration under ASC 606, must be estimated at the time of shipment, and must be updated as actual deductions become known. The CFO must maintain a detailed waterfall that reconciles gross revenue to net revenue for each retail account.

WHOLESALE NET REVENUE WATERFALL

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Gross Shipments (list price x units shipped):    $10,000,000
Less: Standard Discounts (negotiated terms):       ($500,000)  5.0%
Less: Co-op Advertising Allowances:                ($300,000)  3.0%
Less: Promotional Off-Invoice Allowances:          ($400,000)  4.0%
Less: Bill-back / MCB Allowances:                  ($150,000)  1.5%
Less: Markdown Allowance Reserve:                  ($200,000)  2.0%
Less: Chargeback Reserve:                          ($350,000)  3.5%
Less: Slotting Fee Amortization:                    ($80,000)  0.8%
= Net Revenue Recognized:                        $8,020,000  80.2%

Effective Net Revenue as % of Gross: 80.2%
Total Trade Deductions: 19.8% of gross shipments
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7.2 Slotting Fee Capitalization vs. Expense

Slotting fees — the payments made to retailers for shelf placement — present an accounting judgment: should they be capitalized as an asset and amortized over the period of the shelf placement they purchase, or expensed immediately? Under ASC 606, if the slotting fee is a payment to a customer in exchange for a distinct good or service (access to a specific shelf space location that benefits the brand), it may be treated as a marketing expense. If it is simply a payment made to obtain a customer contract (shelf placement

rights), it must be treated as contra-revenue — a reduction to the transaction price for sales to that retailer — and amortized over the related sales transactions.

In practice, many consumer goods companies expense slotting fees as incurred, treating them as the cost of obtaining retail distribution similar to the cost of obtaining a customer contract under ASC 340-40. Others capitalize and amortize them over the shelf placement period (typically 12 months). The accounting policy should be consistent, applied to all retailers, and documented in the accounting policy manual with auditor approval.

7.3 Channel Conflict: Accounting When DTC and Wholesale Coexist

Many consumer goods brands operate both wholesale and DTC channels simultaneously. This creates a channel conflict accounting challenge: when the DTC channel sells the same product at retail price ($50) while the wholesale channel sells it to retailers at wholesale price ($25), the brand must ensure that its financial reporting clearly separates the two channels' performance. The gross margin on DTC appears higher (75%+) than on wholesale (55%–65%), but the variable cost structure is different — DTC carries fulfillment and digital marketing costs that wholesale does not.

The CFO should build a channel-level contribution margin P&L; that fully allocates all variable costs to each channel and allows the board to compare the true economics of each channel on an equal footing. This channel P&L; should also capture the interplay between channels — DTC advertising that builds brand awareness and drives retail sell-through has a halo benefit that is often invisible in a channel-siloed analysis. The CFO should develop a methodology for estimating the cross-channel halo effect and include it in the board presentation of channel economics.

SECTION 8
COMPLETE WHOLESALE METRICS FRAMEWORK

The Wholesale to Retail Metrics Framework

The wholesale metrics framework spans four domains: commercial performance (revenue, distribution, and sell-through), trade economics (the cost of obtaining and maintaining retail distribution), working capital efficiency (receivables, inventory, and payables), and account-level profitability (the true economics of each retail relationship). All four are essential — a brand with strong gross sales but poor sell-through, high chargebacks, and unfavorable trade terms may be generating negative contribution from its largest retail accounts.

8.1 Commercial Performance Metrics

Metric	Formula / Definition	Benchmark
Gross Revenue by Retailer	Gross shipments at list price by retail account	Track MoM and YoY; identify key account concentration
Net Revenue by Retailer	Gross minus all trade deductions by account	Track effective net/gross ratio; deteriorating = pricing pressure
Distribution (# of Doors)	Number of retail locations carrying the brand	Track by retailer; declining distribution = shelf threat
ACV (All Commodity Volume) %	% of total retail sales volume reached by brand	Rising ACV = improving distribution breadth
Sell-Through Rate (Weekly)	Units sold to consumer / Beginning inventory on hand	>15% weekly = healthy; <10% = markdown risk signal
Point-of-Sale (POS) Velocity	Units sold per store per week	Track vs. category benchmark; declining = shelf risk
Reorder Rate by Retailer	Repeat purchase orders / Initial purchase orders	>70% is strong; <50% signals product performance issues

8.2 Trade Economics Metrics

Metric	Formula / Definition	Benchmark
Trade Spend as % of Gross Revenue	Total trade deductions / Gross revenue	15%–30% for CPG; <20% target; track by retailer
Chargeback Rate by Retailer	Chargebacks received / Gross invoiced to retailer	<2% excellent; >5% requires compliance intervention
Chargeback Recovery Rate	Disputed chargebacks recovered / Total disputed	>50% is strong; track dispute win rate by type
Effective Net Revenue Rate	Net revenue / Gross revenue	Track trend; declining = trade spend creep
Markdown Allowance Rate	Markdown credits issued / Gross revenue	Track by season and by product category
Slotting Fee ROI	Incremental revenue from new placement / Slotting paid	Track over 12 months; positive ROI threshold

Metric	Formula / Definition	Benchmark
Co-op Efficiency	Incremental sell-through lift from co-op activity / Co-op $	Measure with retailer POS data; positive ROI required

8.3 Working Capital Metrics

Metric	Formula / Definition	Benchmark
Days Sales Outstanding (DSO)	(Average AR / Gross Revenue) x 365	<60 days healthy; >90 days requires active management
Days Payable Outstanding (DPO)	(Average AP / COGS) x 365	>45 days good; negotiate longer terms with suppliers
Days Inventory Outstanding (DIO)	(Average Inventory / COGS) x 365	<90 days healthy for most categories
Cash Conversion Cycle	DIO + DSO - DPO	<60 days good; <30 days excellent
Inventory Turns	Annual COGS / Average Inventory	>4x healthy; varies significantly by category
AR Concentration (top 3)	Top 3 customers / Total AR balance	>60% concentration = significant credit risk
Allowance for Doubtful Accounts	Reserve / Gross AR	Track; rising signals deteriorating retailer credit

8.4 Account Profitability Metrics

Metric	Formula / Definition	Benchmark
Account Gross Margin	(Net Revenue - COGS) / Net Revenue by account	Track by retailer; compare to company average
Account Contribution Margin	Account GM - Trade Spend - Fulfillment - Returns	Must be positive; negative accounts require strategy review
Account Net Revenue Growth	YoY change in net revenue by retailer	Track momentum; declining signals shelf pressure
Customer Profitability Ranking	Rank all retail accounts by contribution margin	Bottom quartile accounts: renegotiate or exit
Cost to Serve by Account	Fulfillment + compliance + servicing cost by account	High cost-to-serve + low margin = candidate for exit

SECTION 9
WHOLESALE CFO OPERATING CHECKLIST

The Wholesale to Retail CFO Checklist

The following checklist covers the minimum capabilities the CFO of a wholesale consumer goods company must maintain. It addresses the revenue recognition, trade spend, chargeback management, working capital, and tax requirements specific to the wholesale model.

Revenue Recognition and Trade Spend

- Net revenue waterfall prepared monthly by retailer account: gross shipments less all trade deductions (co-op, promotional, off-invoice, bill-back, chargebacks, markdowns) arriving at net revenue recognized.
- Trade spend accrual policy documented: each component (co-op, promotional, bill-back, markdown) estimated at shipment date using variable consideration framework under ASC 606; estimates updated weekly as promotion results become available.
- Chargeback reserve policy documented by retailer: historical chargeback rates applied to current period shipments; reserve updated monthly; disputed chargebacks tracked separately with recovery probability.
- Markdown allowance reserve updated weekly using POS sell-through data; reserve reflects current inventory at retailer multiplied by expected markdown % and brand's negotiated share.
- Slotting fee accounting policy documented: capitalize-or-expense determination made per retailer agreement; consistent policy applied across all retailers; auditor approval obtained.

Chargeback and Deduction Management

- Deduction management process operational: all deductions received from retailers logged within 5 business days; validity assessed within 15 days; invalid deductions disputed within retailer's dispute window (typically 30–60 days).
- Chargeback root cause analysis performed monthly: top 5 chargeback types identified; operational corrective actions assigned to responsible teams (3PL, logistics, supply chain); prevention program monitored.
- Dispute win rate tracked by retailer and by chargeback type; deduction management ROI calculated quarterly; specialized deduction management resource or service evaluated if recovery rate below 40%.

• Resale certificate file maintained for all exempt retail customers; certificates renewed when expired (typically every 1–3 years); invalid certificate exposure assessed annually.

Working Capital and Financing

• ABL or factoring facility in place for receivables financing; borrowing base certificate prepared and submitted weekly or monthly per lender requirements; covenant compliance monitored.

• Early payment discount analysis performed for each retailer offering discount terms; discounts accepted only when the annualized cost is lower than available financing alternatives.

• Cash conversion cycle calculated monthly; target improvement identified in annual operating plan; DIO, DSO, and DPO tracked separately against targets.

• Inventory purchasing tied to retailer-confirmed purchase orders where possible; safety stock levels by SKU and by retailer DC set based on lead times and demand variability.

• AR aging report reviewed weekly; accounts > 90 days escalated to senior account management; credit holds placed on accounts with unresolved disputes or payment delays exceeding terms.

Tax and Compliance

• Resale certificate collection protocol operational for all new retail accounts; certificates collected before first shipment; annual review of certificate validity for all active accounts.

• Transfer pricing study current for all intercompany product sales exceeding $5M annually; arm's-length pricing methodology documented and benchmarked annually.

• Business personal property tax returns filed in all states where inventory is held in warehouses (owned, 3PL, or consignment); assessment values confirmed at each assessment date.

• Import duty classification (HTS codes) confirmed for all manufactured products; binding ruling requests filed for products with ambiguous classification; duty drawback program evaluated.

Closing Perspective: The Wholesale CFO as Channel Economist

Wholesale commerce is often dismissed as the old model — the distribution infrastructure that DTC was supposed to disrupt and replace. The financial reality is more nuanced. For most consumer goods categories, wholesale retail remains the dominant channel, the one with the greatest reach, the lowest fulfillment cost per unit, and the deepest consumer trust built through decades of in-store shopping behavior.

The brands that are thriving today are those that have mastered both channels — using DTC for brand building, customer insight, and margin optimization, while using wholesale for scale, distribution breadth, and retail partnership investment.

The wholesale CFO's greatest contribution is not managing the complexity of chargebacks and trade spend — though both require rigorous management. It is building the account-level profitability framework that makes the true economics of each retail relationship visible. Many wholesale brands discover, when they build this framework for the first time, that their largest retail accounts are also their least profitable — that the revenue volume generated by Walmart or Amazon comes with trade terms, compliance costs, chargeback exposure, and markdown obligations that erode contribution margin to near zero or below.

Armed with account-level profitability data, the CFO can engage in the most important strategic conversation in wholesale finance: which accounts to grow, which to rationalize, and which to exit. This is not a finance exercise — it is a strategy exercise. And the CFO who brings the data to that conversation with analytical rigor and clear commercial implications is the CFO who shapes the brand's channel strategy, not merely reports on it.

Part 11 examines the Consumer Subscription and Box Model — subscriber LTV and churn mechanics, prepaid liability treatment, fulfillment economics per box, ASC 606 for bundled subscription boxes, packaging cost structures, and state auto-renewal compliance.

End of Part 10: Wholesale to Retail (B2B2C) | Financial Architecture of Different Business Models

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