



How Do Two-Step Distributors Remain Viable?

**By Jason Bader, Managing Partner
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Over the last several years, wholesalers who cater to two step distribution industry have found it challenging to maintain their position in the supply chain. I blame it on UPS. They are the ones that shoved the word logistics down our collective throats. Before that, many of us could hardly define the word, much less spell it. Ok, it probably isn't all their fault, but the relative ease of logistics has diminished the justification for large localized inventory. This has caused the traditional dealer and manufacturer to question why they need this middle man. Why not redistribute the profit normally given to the wholesaler?

If housing inventory and fulfilling orders for the manufacturer were the only functions a wholesaler performed, I wouldn't be able to argue the point of obsolescence. Fortunately, the wholesaler offers additional services that are often overlooked. In fact, distributors often fail to remind their supply chain partners how many things they do.

Education

Although many manufacturers offer internet based training and long distance learning opportunities, nothing replaces the face to face learning experience. I have been a full time educator for eight years now. I have tried the webinar route, both as an instructor and a participant, and the educational value pales by comparison. I have spoken to several webinar participants and an overwhelming majority admit to multi-tasking during the session. They check email, text their friends, review reports, eat lunch, etc. All of these activities detract from the ability to retain material. Conversely, an on-site learning environment increases retention, allows for role playing scenarios and develops a relationship between educator and participant.

The developing of relationships in the market space should be of great concern to the wholesaler. A few years ago, I was doing research in the floor covering channel of distribution. The wholesalers in that market have been struggling to maintain their place in the supply chain. Manufacturers have been successful in jumping the chain because they developed relationships directly with the dealers. During the course of the study, a manufacturer said something during an interview that stuck with me, "The person that controls the relationships in the marketplace, controls the market." He basically told me that the wholesalers had given up their control when they turned the relationship nurturing activities over to the manufacturer sales representatives.

Introduce Products to the Market

Again, there are several marketing geniuses lurking about the manufacturing community that feel the distribution of information can best be handled through electronic means. This might explain why legacy manufacturers, who could barely muster a webpage 10 years ago, are all a twitter about social media. Sorry about the pun, but I couldn't resist.

By knowing the core markets their customers serve, wholesalers can narrow the vast array of products available so that the dealer can make intelligent additions. Left to an electronic catalogue and price list, most dealers will choose to be more conservative and overlook potential innovations. In order to best serve the direction of their dealer clients, wholesalers should conduct regular interviews and fact finding missions. From my research, one of the most irritating things a sales rep can do is present a product group that is completely outside the dealer's scope. If I ask for green ones, quit trying to sell me red ones.

Handle Problems

One of the most overlooked services wholesalers offer is the handling of problems. Sure, everyone can handle the order as it goes down the chain, but what happens when that transaction has to reverse course? Warranties, errors and damaged goods require local support. Sorry, an 800 number isn't going to cut it. Someone needs to become the advocate for the dealer in this scenario. Field level judgment calls need to be made. A manufacturer, without a significant local sale force, will be hard pressed to smooth the feathers of a disappointed customer.

The handling of problems can be a pivotal point in the relationship between the wholesaler and the dealer. It will also play a significant role in how the dealer views the manufacturer in question. No one ever remembers you for the handling of routine orders. Lasting impressions, and reputations, are developed by the handling of problems.

Extend Credit Liberally

The orders continue to flow to the manufacturer because the wholesalers extend fairly liberal credit policies. Yes, I said it. Everyone can take their head out of the sand. Privately held wholesale distributors carry a tremendous amount of risk so the manufacturer doesn't have to. Publicly held manufacturers, who are beholden to their quarterly reports and shareholders, would never be able to get away with this. Most corporate credit managers could never stomach the way wholesalers carry receivables. The difference is that we know the company personally. We often know the owner personally. I am not saying that we don't get burned by this behavior, but we do create opportunities for revenue.

In the four service areas I mentioned: education, promotion, advocacy and credit, the common denominator was the local relationship. When distributors don't value that personal relationship, they invite the manufacturer to fill the void. Once that relationship is established with the manufacturer representative, both sides question the need for the wholesale distributor.

As manufacturers reduce the number of feet on the street, wholesalers have a golden opportunity to strengthen their place in the chain. Re-introduce yourself to the market. Interview your dealers and become a part of their long term strategies. The difference between a wholesaler and fulfillment house is the personal relationships in the market – and a whole lot of gross margin. Good luck.

About the Author:

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