

The Anatomy of a Distributor

The Supplier

The supplier, usually, manufacturing for the international market can reasonably expect a steady growth in the distributors market place. The distributor will actively sell the products, stock adequate accessories and spares, provide back-up, and pay the bills on time.

An advantage of an international market to a supplier is the inability of a local market failure to adversely effect the global manufacturing/buying pattern.

The Distributor

The motivation of a successful distributor is profit and no distributor can survive without it. All other motivations such as desire to sell, enjoyment of the products, ego trips, scientific/medical advances, are all subservient to it.

The ideal is concise:-

Buy at a low price

Sell at a high price

Be paid by the end customer before the supplier is paid

Carry a minimum stock

Distribute products requiring a minimum of engineering back-up

Distribute products requiring a minimum salesforce ideally restrict products to mail order.

In practice successful distribution requires a balanced and flexible combination of all the above motivations.

The distributor is usually restricted territorially to a small area and is therefore subject to local purchasing patterns. In order to counteract this most distributors have several suppliers. This is where the main conflict lies as each supplier expects the distributor to promote his product range at the expense of the others.

In order to achieve this the supplier must treat the distributor as a customer and consciously sell his products and services.

If the main purpose is to achieve profitable sales, each hour of the day must be allocated by the distributors organization. If an agency generates 10% of the distributors profit it can expect 10% input from the distributor.

even Products which are popular and easy to sell can achieve high turnover at low profit margins whilst difficult products are restricted to low turnover with high profits.

Products with low turnover and low profits will inevitably rank very low in the sales table.

There is a general formulae for successful distribution.

The gross profit on a product should be around 30%

10 % is spent on direct sales expenditure:

Salaries:travel:car: general expenses

10% is spent on administration:

Office administration: warranty: engineering; marketing; exhibitions.

10% is profit; which in practice includes capital acquisitions: demonstration models: test equipment: increase in stock levels: investment within the company.

Each of these areas is interrelated.

In practice the success of a product is more mundane and depends entirely on the hassle factor. The more hassle, either product or administration, the distributor receives, from either customer or supplier, the less chance the product has of success.

The distributor has customers who demand good products, good prices, good deliveries, and good after sales services. He also has competitors who are only too willing to step in and supply any area in which he defaults.

It therefore becomes obvious and fairly easy for a distributor to choose the products that he will actively and successfully promote.

The Sales Person

The sales person usually earns a combination of salary and commission on every sale. He/she also has the one to one relationship with the actual user and is actively involved with customer in service and product failures.

It is human nature to take the path of least resistance. Easy profitable (commission wise) products are actively sold whilst difficult products remain in the sales presenter.

The user continually raises questions beyond the knowledge of the distributor. Suppliers who consistently answer within 24hrs are promoted those who don't are not.

Reliable trouble free products are preferred to problematical products. Follow up visits for repair or continual in service training are non profitable to a sales person.

Products

It is important that products specifications meet the sales descriptions in literature and vital that they meet their published technical specification.

Countries in the EEC are spending vast amounts to tie down manufacturers to supply working, safe equipment and failure on behalf of suppliers in the past has led to the mass of recent new legislation and obligatory type testing.

Failure of companies to obtain BS5750 (ISO900) (GMP) and their products IEC601 Pts I & II will prevent their distribution in the EEC by mid 1996.

Failure to supply correct technical information and swift corrective action is the quickest way to turn off a distributor.

In many cases the time spent waiting for replies or action is spent promoting other agencies.

Technical expertise is now required less with the latest generations of equipment where PCB exchanges are becoming the rule. However supplier repair and exchange costs vary enormously and is becoming an important factor in distributor supplier relationships.

The trend for distributors must lie in more general engineering and less specialization. *e.g. electronic equipment*

The distributor expects to hold adequate stocks for day to day sales but does not expect a 9 month wait for parts. The stocks of the main supplier need to be adequate as the distributor is relying on his stock rotating before it becomes obsolete.

Marketing

As there is a finite number of working hours in a day these hours must be spent economically.

Projects held up by, non delivery of demonstration equipment or information are automatically not followed up. The supplier who supplies the required information etc. on time is aggressively promoted.

If a supplier fails to supply they lose the allocated slot in the programme to another supplier.

In order for the supplier to continually retain the interest of a distributor he must respond quickly and offer incentives or lose the interest.

Administration

Administrators are human and will always follow the easy route.

Invoices for goods delivered on time, working, and complete are paid automatically and therefore quickly.

Part orders, or confusing paperwork causes delays.

Paperwork, telephone calls, Faxes eat unnecessarily into the profits.

The supplier who can trust the distributor and is prepared to learn the distributors system succeeds at the expense of those who do not.

Conclusion

The distributor is a customer to the supplier and requires the same respect and courting as an end user.

It is important for the supplier to always be aware that the distributor is independent, not part of the suppliers' organization.

Distributors with a proven track record are continually courted by other suppliers who want part of his time and energies.

Successful distributors are not dependant or beholden to a single supplier. A favour by one supplier can often be viewed by a distributor as a basic requirement if it is supplied automatically by another.

The most successful Supplier/distributor relationships are those built on trust where both parties accept that overall they both get a fair deal.

A Point to ponder

There are more manufacturers world-wide than distributors in any given territory.

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