QDI STRATEGIES

20/20 Vision for Marketing Breakthroughs

Distribution Strategy:

Measuring the Supplier Relationship is Vital to Both Manufacturers & Distributors

By Steven D. Bassill & Boone Mortensen

Boone Mortensen, a Sales/Marketing Executive, shares his practical knowledge from twenty-five years of managing customers and distribution channels.

As suppliers, both distributors and manufacturers frequently use the term "partner" when describing their relationship with their channels or customers. "Partner" is an often used and more often abused description of the relationship between companies, implying they are in step and merrily headed down the same path. The reality is that a good percentage of partnerships have sunken to the point where each party is preoccupied with fulfilling his own self-serving ends. The situation is not surprising, given that the prenuptials are rarely defined, applied in generalities, and infrequently measured. It is no wonder that so many collaborations are doomed to misunderstanding and mistrust.

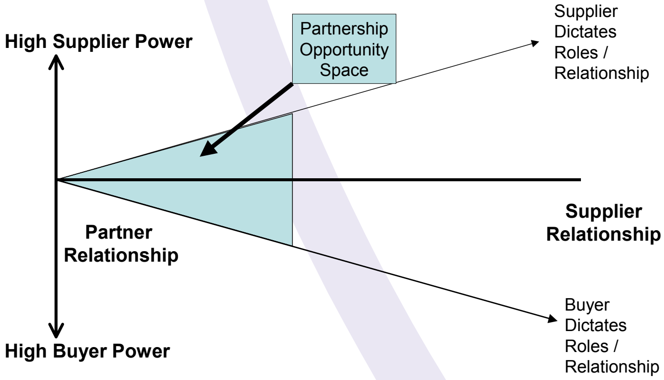
In any supplier relationship, true partnership happens when both parties are concerned about each other's performance. The closer a relationship is to a partnership, the more likely each party will be willing to make "investments" in the success of the affiliation. In a manufacturer-to-distributor scenario, the manufacturer might be willing to invest in sales training, lead development, and the provision of some level of "exclusivity." Distributors in turn are willing to invest in a commitment of inventory, sales support, and "mind share."

In This Article:

Evaluate your channel partners in new and innovative ways.

In a distributor-to-end-user scenario, the distributor may be willing to exist when the supplier and channel have risks and rewards that are about equal. The risk and reward ratio is a measure of relative power.

Relationship Space



If one party is much more dependent on the other, then the power is unequal. As the power becomes more unequal, one party will dictate the "rules" to the other. In this scenario, true partnership does not exist.

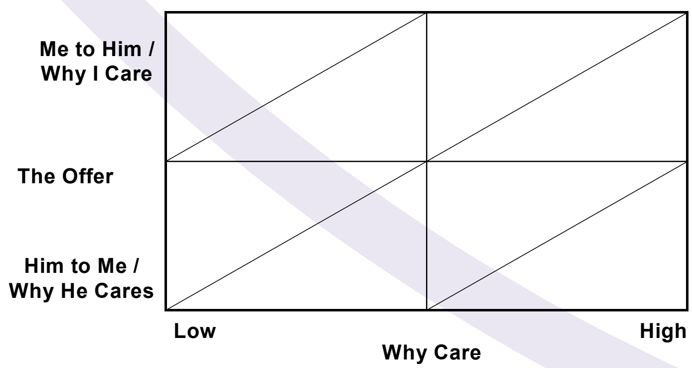
There are primary and secondary factors governing supplier selection; just because you do not have a partnership does not mean you do not want to do business with a selected supplier / customer. As the chart above shows, relationships vary from "partnerships" at one extreme to simply "suppliers / buyers" at the other extreme. While not all suppliers or customers will be your partners, it is important that you be able to distinguish between the two to measure performance.

Partner Needs Analysis:

To assess the performance of a "partner," you need to start by determining your own needs. Start by asking these four questions:

1. What do I have to offer this supplier / customer?
2. Why will he care?
3. What does this supplier / customer have to offer me?
4. Why do I care?

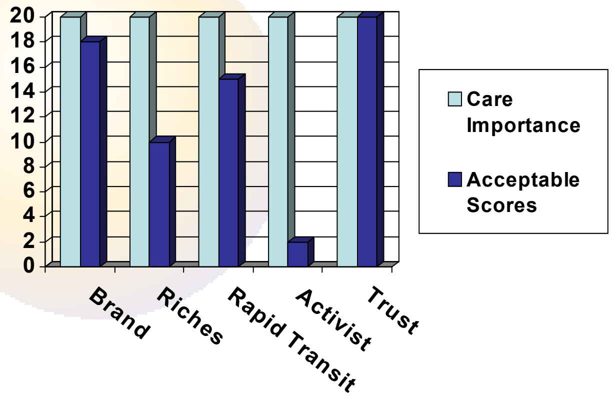
Four Questions



The purpose of these questions is to define you and your supplier's needs and offerings. You may not need every supplier to bring the same level of performance on all characteristics.

QDI suggests measuring suppliers and customers on the BRRAT scale. Suppliers and customers do not always have to score high on all five of these criteria, however they ought to achieve minimum scores on each. Following are QDI's recommendations for minimum performance scores.

BRRAT Performance Requirements



Clearly, trust is an absolute. If you can't trust your suppliers or customers, it is difficult to conduct any meaningful business. At the same time, a supplier's brands may not meet 100% of the promised performance, but they had better come close.

Beyond these two measures, you have some flexibility. Resellers don't have to get rich off of every supplier or product line, just as different customers will deliver different gross margins. In some cases, resellers may choose to market a loss leader or accept slower turns on some items. Additionally, some customers will require higher levels of post-sales support in place of the lowest prices, while it is not necessary for some suppliers to spend time and resources on market development. The brand may already be a commodity, and the channel is just meeting demand. Likewise as products become commodities you don't have to spend resources to teach people how to maintain the products.

Suppliers and customers—your potential partners—come in all shapes and sizes. While you should evaluate each of them on the BRRAT scale, your partners do not have to have perfect scores across the board. The trick is to deal with the partners who consistently perform to your standards.

When does a partner become a BRRAT and fall below your minimum performance requirements? Like brands, partners get old and tired. Supplier brands may not have the "pull" and "create the excitement" they once did. Partners may change their directions. Your partner may opt to take a leisurely stroll down memory lane rather than be an activist for your business.

Do your partners' brands match your short and long-term strategy? Has your customer changed his business direction and, as a result, diluted his value to *your* business? Are you measuring your partner against a defined list of criteria and guidelines? Is that list changing based on the changes in both businesses, or are you stuck in the mud with old or not-existent expectations?

Has your supplier or customer become a BRRAT?

The Number One rule of good relationship management is to measure and evaluate. Think of it in terms of a *ME* (measure & evaluate) analysis. Your relationship with your partner is a marriage that comes with conditions. Defining your requirements makes the relationship easier to manage and helps both partners define their *ME* analyses. The *ME* method dictates that you measure in the short-term (monthly or quarterly) and evaluate annually.

Brand

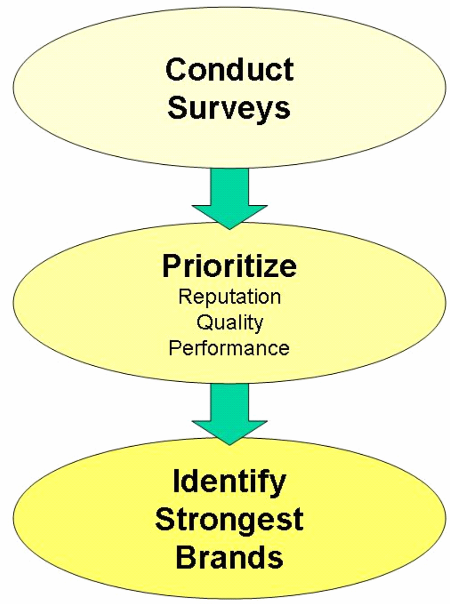
Most people subscribe to the notion that a brand is a promise. We don't know who said it first, but it makes sense. You expect a product or service to meet or exceed the commitment made by the manufacturer; if it doesn't, you are naturally dissatisfied. The same goes for stocking a brand – you expect the brand to meet minimum expectations.

The same can be said for a customer. You have expectations about a customer's performance. Sometimes these expectations are defined in general terms, while other times they are defined as specific performance levels on multiple criteria, from purchase levels to information exchange to degrees of collaboration in product development.

Define your strategy, document the requirements, and then match them to the suppliers' brand offer or the customer's value as a business partner. A clear strategy will prevent you from getting caught up in the frenzy over the next "hot" product or customer and investing in a brand based on a request from a valued customer – the "favorite son" mentality. Every company has a group of key customers: the folks that produce the volume and pay the bills. Preferred customers have preferences and it is not easy to say no to them, but there is nothing worse than "dead on arrival" merchandise. Some brands may not be right for the business. Adding or removing a brand is both expensive and time-consuming.

Do the research. Conduct surveys, asking resellers to verify the supplier's brands. Prioritize them from good to best by reputation, quality, performance, and other measures. Identify the strongest brands in each category. (Pneumatic power tool companies, for example, manufacture products for different construction segments: framing, finish, roofing, etc.)

Research Your Suppliers



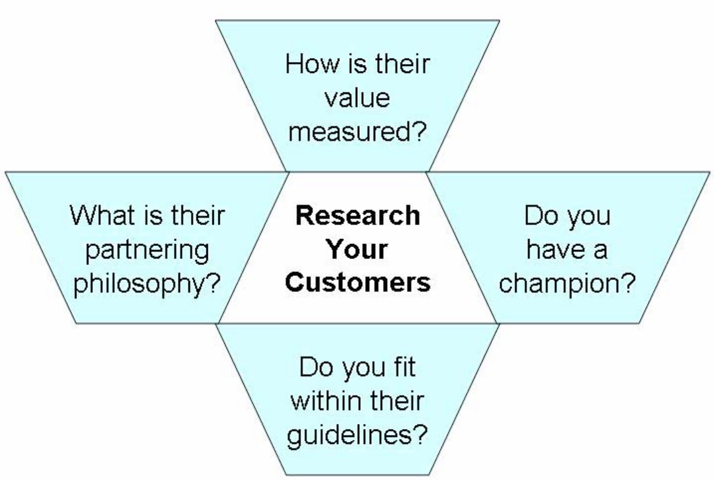
Although every manufacturer would prefer that you stock a complete assortment of their product line covering all the markets, consider whether this is realistic. Sometimes it is, but all suppliers have strengths within a category. For example, a company may make a good finishing tool but only a mediocre framing tool. So why would you want to stock a loser? This will create some natural tension, but always consider whether an item is your best interests. Nothing causes more friction than a brand that does not sell.

Do the research on customers, too. Verify the value they could provide to your company. Is their value measured in dollars of purchases, or is their value greater than this? What is their partnering philosophy? Do you fit within your potential customer's guidelines? Do you have a champion? If you don't have a champion, do you really think you can become a partner?

Distribution strategy is an important issue for resellers. What is your partner's distribution strategy? Does your supplier have too many companies selling their brands? It is odd that "smart" companies avoid price marketers, but then implement distribution strategies that promote price competition?

Price conflict can be more a symptom of poor distribution strategy than a poor pricing strategy. A poor distribution strategy devalues its brand. Why would you want to associate with a supplier that has a poor distribution strategy? Why be "me too" unless, naturally, you are using the suppliers' brands for another part of your strategy (for example, to attract customers to sell a private label)? Isn't it in the interest of partnership? Okay, maybe not, but the big players do it all the time, so why shouldn't you? Distribution strategy is critical.

You know what a bad strategy looks like: Stock a brand in the early stages of the life cycle, make some money, have some exclusivity, and then before you know it, your friends, relatives, enemies and everybody on the block is selling the brand you built. So much for partnership! The supplier does it in the interest of protecting the brand, but where does his "new" distribution strategy leave you?



Conversely, you should consider your customer's purchasing strategy. Too many companies being forced to compete for the same business may not make for a healthy partnership. If a distributor plans to use you as a "price" brand, it is better to know this going into the relationship, rather than after the fact.

Riches (Cash)

Will a brand / customer relationship make you money?

This is a simple question, but how many companies perform a thorough financial analysis before stocking a brand or investing in a customer relationship? (Let's not embarrass anybody… I won't tell if you won't!) This is the one area where the *ME* analysis should be fairly easy to perform even on a new relationship. For example, if you are in the tool business, check out the local big box retailer. Power tool margins can be in the teens or less. Most STAFDA (specialty tool distributors) companies' target margin is in the 33–40% range. The break-even point is around 25–28%. One study indicated that the minimum was 22–23%.

Where you fall depends on the internal factors governing your business model. Why stock a brand that falls below target minimums, by the individual item and for the complete product line? Taking less on a tool or a customer *may be* okay as long as the overall margins are acceptable. A plan outlining your one, three and five-year goals can give you an idea of the real and ancillary revenue a potential brand or customer will generate. Solid partners will generate cash from their relationships and help you grow your business. Think in terms of a partner's lifetime value. It is tough, given the supplier's and customer's propensity to change strategies, but it is worth consideration. It is part of trust.

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Rapid Transit

This is the "logistical efficiency" part of the equation. Rapid transit implies the rapid flow of product: you receive the product with speed and ease and you sell the product with speed and ease. Logistical efficiency has improved tenfold over the last five to ten years and, if managed correctly, it is almost a non-issue whether the product flows from the manufacture direct, through a retail channel, or through distribution. **Rapid Transit is all about efficiency**; it does not matter if a manufacturer uses distribution or not. A smaller lumberyard may find it far more efficient and cost-effective to buy through a wholesaler than to purchase larger quantities direct from the manufacturer. If the "velocity" is good, the additional cost may be justified.

Why would you even consider a brand if you had difficulty placing an order, the order was never shipped on time and was rarely complete? Likewise, why would you consider doing business with a customer whose culture and system of doing business are headaches? Companies tout fill-rates in the 90-95% range as excellent. The Home Depot requirement is 100% complete. If other channels, like the "big boxes" sell the same brands as you, find out if this means you will be down towards the bottom of the totem pole. Likewise, if the customer has lots of other suppliers, find out where you could fit in his business.

The reality is that you treat your best customers differently. Your partners will, too. Make your requirements clear right from the start and then routinely complete a *ME* analysis.

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Activist

Does your partner execute promotional strategies that you expect? Do you need sales representation? A meaningful question, not only for the role a supplier will play to a reseller, but also for the role a customer contact will play within his company. Sales representation can be "to an account" or "within an account." You may need both—a champion to help you get into an account, then a champion within the account to represent you correctly.

Brand activism is often overlooked in favor of distribution, price, logistics and other metrics. There is no substitute for good brand / relationship building. For larger marketers, this is generally a combination of national and local advertising, along with field sales support and promotion. For smaller companies, it can mean local support. Both are effective depending on the brand and category.

For some product lines, there is no substitution for local representation, including knowledge and brand preference building at the customer level. Again, any marketer trying to develop the market for his product needs to develop "alliances" within his marketplace to help him succeed. These alliances are within his channel and within the customer base and become the market development forces for business expansion.

Suppliers and customers are generally cutting back on staff. Some marketers are eliminating their sales organizations and some manufacturers are eliminating several layers of technical and engineering support. Determine how these efforts will impact your business. Companies rarely understand the value a sales organization really has to brand building, and the value of skilled engineers in specifying their product. Most look to reduce their customer—marketers by cutting their sales organizations (field sales, call centers and customer service) and customers by reducing head-count and outsourcing, "necessary evils" in today's business climate. These actions are prime examples of short-term thinking. When selecting a partner, always select the Activist, who will work to support your relationships.

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Trust

A person once said, "I can't define trust, I just know when it is not there." I separate the trust from part of the brand promise equation because they are different.

Products may fulfill their "promises," but that doesn't mean your supplier will. Likewise, customers may deliver on their volume commitments, but that doesn't make them a long-term partner. Suppliers with especially strong brands sometimes have a lapse in judgment and think they can do anything because their brand is powerful. Do yourself a favor—fire them as you would fire a customer who, while giving you revenue, eats away at your competitive strength. Some suppliers have a propensity to execute unilateral strategies with little regard for their channel partners. They are the companies who use you to invite them to the party and then run off with your buddies.

Real trust is when the supplier does what he says he will do one hundred percent of the time. A real partner will let you know if changes are going to be made and why, has a long-term consistent business strategy supporting your goals, and communicates with you so there are no surprises. When the communication stops, so does the trust. Trust is a two-way street that also applies to both sides of the supplier/channel relationship.

Do you have BRRAT (S)?

We have written this paper to get marketers to think about their relationships with their business partners. Sometimes that partner is a supplier (as in the case of a distributor), sometimes that partner is a distributor (as in the case of a marketer), and sometimes that partner is the end-use customer for both the distributor and the marketer. When your partner becomes a BRRAT, it is time to fire him.

> ***Real trust is when the supplier does what he says he will do 100% of the time.***

However, our purpose has been to provide you with a few thoughts that will help you develop and nurture better partners. Give us some feedback. Let us know if our thoughts have helped you. Also, let us know your own ideas of how to develop strong partnerships so we can share them with our readers.

About QDI Strategies, Inc.

QDI Strategies is a marketing consulting firm that helps clients create breakthroughs in product, brand, and channel strategies. Our work focuses on two critical junctures in the lives of our clients: (1) when they enter or create new markets and channels, and (2) when they have to reinvent / redesign their business model in the face of maturing markets.

At each juncture, QDI consultants help clients make these key strategy decisions by providing insight into market behavior and dynamics, by leveraging our decades of strategy experience and models, and by deploying decision support tools in a client centered discovery and decision-making process.

For More Information

If you would like to receive additional information on identifying and harvesting new technologies, or would like to arrange an informative presentation, contact Steve Bassill at 847-566-2020.

QDI STRATEGIES, INC.
1580 S. Milwaukee Ave., Suite 620
Libertyville, IL 60048
Tel 847-566-2020
Fax 847-281-9723
www.qdistrategies.com