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Understanding the Issues With Each Other

Faced with an economic malaise, individuals, and companies, begin to focus more on their financial issues which emanate into today's channel challenges. While some channel their energies to growth initiatives, seeing opportunity in the face of others' problems, many focus inward, upward and downward.

In a mature industry faced with accelerating channel-wide consolidation, off-shoring and commodity costs; an industry-wide dearth of investment in branding, training and recruitment; and increased labor and operational costs, understanding each channel partners' challenges, and needs, is imperative to developing mutually profitable relationships.

While this may sound like doom and gloom, we believe that the skies are bright for those parties work together to capture opportunities. Our recently conducted Channel Challenges Survey helps identify industry challenges to provide a roadmap for discussion.

Research Methodology

The concept behind the research was to conduct a 360° "interview" of the industry. Essentially to let each channel audience define their top challenges with the channel parties that they work with. Hence manufacturers expressed their challenges with reps and distributors; reps with their manufacturers and distributors; and distributors with their reps and manufacturers. The goal is to identify the issues, and more importantly, the gaps between the parties.

The research was conducted via an e-survey and interviews. We had over 250 people respond to the e-survey and interviewed more than 20 companies to obtain input. Trends were evident pretty quickly.

It is important to note that for this article, the question that was asked was "What are your three biggest challenges with (manufacturers, reps, distributors)?" We then categorized the

responses and provided some detail on the essence of the responses.

This article focuses on the challenges that each party faces. Future articles will highlight specific issues such as training, operational support (including price management), marketing and the affects of consolidation.

The Sales Channel Challenge

The industry sales channel comprises of manufacturers and their sales organizations. A vast majority of lines, and a significant portion of industry sales, go to market through independent reps. Hence the first challenge ... two "for profit" entities, each with different management motivations. Reps, for the most part, are Sub-Chapter S corporations, with one or two principals. Manufacturers are corporations with the larger companies being accountable to shareholders. While the two should work in harmony, as they depend upon each other for success, the challenges that they see in each other are significantly different.

In considering their sales organizations, manufacturers responded that their top 5 challenges were:

Issue	% Responded
Sales Issues including specifications, sales strategy and advocating of value	23.0%
Commitment to Rep Product Training	15.1%
Time Management & Attention Given to Their Line	13.5%
Marketing Support, Competitive Feedback & New Product Support	9.5%
Understanding of Today's Distribution Issues	7.1%

Key input received from manufacturers included:

- Reps spend time on their large lines and I need to get a reasonable share of their time
- Reps don't understand that today's distributor is more driven financially. They are less product-oriented
- Distributor Inventory Restraints



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- The complexity of distribution has grown. Many reps don't understand how to navigate the multiple relationships, national accounts, and buying groups
- Most reps are short term focused vs. long term focused
- Implementing new initiatives / products to deal with market downturn.
- They need to understand that price changes based upon distributor size and commitment.
- I'd like them to call on everyone in a distributorship, not just purchasing.
- Strategic account management within a distributor is very important. More people influence decisions than ever before.
- The rep needs to be focused on creating pull through business and strategically selling by spending time with consultants and specifiers
- We need help in them "selling" price increases and selling value rather than price.
- Seeing the value of training to build future sales, rather than just tomorrow's sales.
- They need to provide better product training to their sales organizations and understand application usages.

Conversely, reps look at their relationship with manufacturers differently, some may say more tactically:

Issue	% Responded
Communication & customer service issues with the factory	22.7%
Pricing Administration & Support	13.6%
Transference of Non-Sales Functions	9.1%
Unreliable Shipping Information	9.1%

Territory planning (budgeting) and commissions both received 4.5% of the responses, perhaps recognition that these issues are beyond reps' control.

Key input from reps included:

- Manufacturers are downloading more administration to the reps

- Factories are shareholder-driven not customer driven
- Response time on quotes and return calls has diminished significantly, making us appear unresponsive to our distributors
- Manufacturers can't understand why they can't have 100% of our time.

In speaking with reps, a southwest rep expressed frustration with the state of the industry saying "It used to be that we had very good relations with our manufacturers and distributors. In late 1998 we began to see certain manufacturers want to force alliances through greater stock at the distributor along with greater end-user call frequency. Pricing for certain product groups began to be all over the board. We put on two people that did nothing but spec work and the other reps made joint distributor calls. Manufacturer demands now are at a point where we can not react in a timely manner sometimes. We can not afford to hire more reps...the commissions and sales are not there. We always had a problem getting correct credit for sales and do spend a fair amount of time tracking distributor transfers. Special pricing promos and progressive discounts are driving us crazy to make sure that the customer gets the proper credit."

Another rep commented, "As to our relationship with manufacturers, we are on a 30 day contract and some act as if we only handle their line. In general the amount of paper work that some manufacturers want is at a point where in really good times, we would tell them to take a hike."

From an observational viewpoint there appears to be a disconnect. Manufacturers want to focus on revenue generation activities whereas reps, who earn their living on revenue generation activities, are allocating more time to administrative and customer service issues. Given that the compensation model is based on revenue, reps are challenged with spending time on non-revenue issues. To facilitate a stronger, more mutually profitable relationship, manufacturers should identify ways to either streamline administrative issues or compensate reps for selected administrative support.



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Sales Support or Messenger?

Reps are frequently caught at the fulcrum of an issue. They are the middle point between the distributor and the manufacturer, purportedly representing the manufacturer, albeit not always with the authority (but much of the responsibility!)

The top 5 challenges that reps have with distributors are:

Issue	% Responded
Lack of Inventory	9.8%
Less Loyalty to brand & rep	9.8%
Focused continuously on price	9.8%
Improving Margins vs. Lowering Market Price	7.3%
Selling to end-users vs. order-taking	7.3%

Essentially, reps feel that distributors are taking a more dispassionate, analytical and financial approach to the business by reducing inventory investments and focusing resources on negotiating lower prices, however, they see distributors selling based upon price and being reactive in the sales process. It appears that, for many distributors, the traditional role of distribution (product transference and credit) are acceptable roles and that nominal margin is acceptable.

Reps feedback that supported these observations included:

- Distributors are disinterested in *selling* something new
- There is a challenge in getting distributors to pass information on to their staff. Everything seems to "sit on a desk."
- Few distributors are committed to carrying inventory
- There is less and less loyalty to a brand, let alone to the relationship we have with them
- Many distributors are selling product on price only
- It's near impossible to get them to talk about product to end users.

According to a Midwest rep who covers four states, "Our main challenge is with distributors

and their stocking levels (being low because they can draw from our warehouses) and loyalty to special pricing. By that I mean that we get a special price from the manufacturer, give it to the distributor and they in turn shop the price to get more margin, hopefully. We've done the spec work, and get the price shopped out from under us!" He further commented that "Attitude and ethics are changing in this business. It is not so much about competition as it is that the distributor is focusing on their cost once the sale price has been established.

A Northeast rep with 18 lines reinforced the Midwest rep saying, "Our biggest challenge with some distributor's, is that they don't seem to stay loyal to certain lines and even their own PO's. We have had occasion where we have a PO in hand, we placed the order and had the distributor cancel the PO by fax the day we placed the order. When we call back to confirm the cancelled order we often find its gone to someone else for a few hundred dollars difference. Additionally, there are certain distributors in the Northeast that call themselves the leaders in the market, when in fact they are the lowest margin distributors in the marketplace. Several of these distributors are bidding jobs without quotes, then basically hang the order out on a 'clothesline' and invite reps and manufacturers to meet or beat the price."

Distributors, needless to say, view reps somewhat differently. While there are many good distributor/rep relationships, some of the challenges that distributors face with reps include:

Issue	% Responded
Need for Competitive Pricing	13.0%
Confidence in them as a sales partner	10.9%
Tailoring Training to Distributor & Salespeople	10.9%
Customer service responsiveness	8.7%
Providing Accurate Shipping Information	6.5%



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The challenges that distributors face with reps focus on administrative and pricing issues while at the same time, probably due to prior experience with selected reps, they are reluctant to view them as a valuable sales resource. This can be based upon marketplace favoritism, personality conflicts or a sense of trust.

Distributors reinforced their input with comments that included:

- We need them to maintain a high level of service/support for us.
- Quick results on customers issues is needed to retain the business
- It would be nice if they understood the concept of limited distribution. I don't need more competition for their line.
- Reps who refuse to supply levels to compete with other distributors in our area because we do not support all the lines they carry.
- They need to provide us with competitive pricing
- It would be nice if they understood distributor profitability.
- They're always asking for business for all of their lines. Don't they understand we have other lines we're selling that we prefer. They ask for too much.

Yes, distributors want it all! Fairness and price for them and service for their customer. Factoring in the rep input, however, the solution becomes identifying reps (and lines) that are willing to support (and the word needs to be defined in writing with specific actions) each other. Pricing, distribution, sales and service issues will remain a point of contention if both parties cannot rely on each other and be comfortable that they can adequately achieve market share, and growth, in a specific marketplace.

The Customer Viewpoint

As the industry evolves, economic challenges restrain growth, consolidation creates conflicts and product differentiation becomes diminished; financial considerations are moving to center stage.

Over the past decade, manufacturers have more aggressively sought alternative channels to meet

customer demand. Their rationale for these moves can be partially explained by some of the challenges that they expressed with distribution. Challenges include:

Issue	% Responded
Committed to carrying inventory	16.0%
Less loyalty to brand and company	13.0%
Ineffective marketing of products & usage of coop	10.7%
Well trained salespeople with product knowledge	9.9%
Very sensitive to price	8.4%
Gaining, and retaining, attention on line/product category	7.6%

Specifically, additional input from manufacturers included:

- Distributors carry too many competitive lines within one product category
- Many distributors don't know who their customer is & providing the goods and services they want.
- Many don't carry enough inventory to service the market and don't carry enough every day basic inventory items in stock. Depend on rep warehouse or us to ship small orders
- I wish distributors would stock the products that we want them to stock. We know what sells.
- Few want to establish a 'real' lasting partnership / relationship
- There is a growing lack of loyalty to a product
- Loyalty? Today they shop you for a penny.
- They don't understand how to market
- Insufficient participation in new product introductions.
- Many are strictly price shopping orders.
- Ineffective, sometimes non-existent, attention to product category
- Knowing how to sell features vs. price

Distributors, on the other hand, are more focused on everyday issues. The challenges that respondents expressed included:



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Issue	% Responded
Competitive Pricing & Price Administration	33%
Quality, responsive customer service	8%
Product availability & order accuracy	7%
Creating Distribution & Supplier Conflicts	6%
Delivery Commitments & Freight/Prepaid Orders	8%
Understanding distributor gross margin needs	6%

Specific comments included:

- Need quick results on customers issues and quotes.
- I wish manufacturers were more selective in their distribution selections
- Their ever expanding product offerings often conflict with our existing manufacturer relationships.
- It's challenging getting orders shipped correctly.
- Some vendors don't support their products
- Failure to meet competitive offerings from off-shore manufacturers
- I'd like to get distributor net prices
- Keeping up with price increases is ongoing
- Pricing issues; SPA's, into stock & direct shipments are daily challenges and administrative burdens
- Inconsistent application of SPAs - given to too many small customers
- SPA's inflate the value of our inventory, increase our transactional expense, and increase the risk of selling at a loss
- Receiving quality sales assistance to grow sales is a problem with a number of reps
- When the manufacturer's selected representative has lines that compete directly with one or more of our primary supplier partners, and we don't necessarily trust the rep.

According to a Midwest, multi-branch distributor, "Roughly 75% of the material we buy and resell comes from manufacturers and their reps that for

the majority of the time it is a pleasure to transact business with. The rest are a genuine pain in the neck to buy from basically because the won't or don't want to do what they promise when it comes prices, especially special prices and on time shipments. Promising a price verbally is no longer acceptable even with our best manufacturer."

The manufacturer-distributor conflict appears to become one of developing a marketplace strategy vs. a distributor-specific strategy, and the rep is in the middle trying to execute, and appease, both parties.

Essentially manufacturers want distributors to stock more product and support their brand. While this is admirable to secure business in a marketplace, manufacturers record a sale when products are transferred to distribution. They also know that if a distributor is stocked, they'll sell the inventory and need to reorder. Additionally, customer service issues are mitigated; freight costs are reduced; and the administrative burden per order is reduced given a larger transaction size.

"Loyalty" unfortunately may become a remembrance from a bygone era driven, away by the focus on price; ineffective, and inconsistent sales and marketing support; the drive to open additional distribution; and personnel changes at distributors, manufacturers and reps. Rather than be "expected", loyalty may now need to be "earned" through performance and continuous actions. While manufacturers may lament that loyalty is diminishing, in the words of one manufacturer, "distributors are focused on financials vs. products." And a branch manager at a national chain reinforced the state of relations commenting, "Trust is a word we don't use much with manufacturers and their reps, because it seems that what is said about a price and return goods doesn't always come to fruition. Quotes especially for wire have been shortened and a number of other product groups have had their lead time increased, but price guarantees shortened. I guess overall, I am seeing the market place change like I have not seen in the past. Pricing, inventory and profitability along



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with trusting what we hear from channel partners have all become areas that challenge us daily.”

What to Do?

Not all should be forsaken. Addressing these issues on a macro / industry level is impossible. Yes initiatives like standardizing the SPA process can minimize administrative challenges and enhance profitability, but to reach into core issues, consider

1. Understanding each others' specific challenges with each other. Considering asking key “partners” what are their 3 biggest challenges with (channel entity) and with yourself. Are the challenges the same? If not, why? Why not? What can be done to improve in these areas?
2. Recognizing that the challenges change by relationship. Consider generating a list of challenges across the channel parties you interact with and look for trends. Address the most important issues, and then communicate the change.
3. Agreeing to disagree and understand the “reality” of the relationship with the party.

As the channel continues to evolve and becomes more consolidated, pricing, “support”, line conflicts and customer service issues will raise more channel dissonance. Successful companies in other industries have identified strategies to “partner” with suppliers, with the right to the relationship earned on an ongoing basis (albeit not on an order by order basis!)

Allen Ray is principal of **Allen Ray Associates**, www.allenray.com. Allen Ray Associates helps companies improve profitability through effective pricing strategies and streamlining business processes through effective eBusiness utilization. Allen can be reached at 817.704.0068 or allen@allenray.com.

David Gordon is principal of **Channel Marketing Group**, www.channelmkt.com. Channel Marketing Group develops strategic planning, market share/growth initiatives, and market/customer research for manufacturers and distributors. He can be reached at 919.488.8635 or dgordon@channelmkt.com.

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Allen Ray, Allen Ray Associates, 817.704.0068 allen@allenray.com

David Gordon, Channel Marketing Group, 919.488.8635 dgordon@channelmkt.com