

Reinvigorate Your Supplier Relationship

By Mark Dancer, Pembroke Consulting

For wholesaler-distributors and manufacturers, the road to opportunity will continue to pass through each other's businesses. Distributors should improve the level of partnering with their best manufacturers, and start a new dialogue that can lead to mutually beneficial changes.

Manufacturers are already beginning to take action to change their channel strategies. Facing the Forces of Change: The Road to Opportunity reported the viewpoints of more than 400 manufacturing executives on the state of the current wholesale distribution channel and their own channel plans and strategies. These manufacturers did not pull any punches, and three declarations stood out:

- "We are getting less service while our costs continue to increase."
- "Lack of sales talent has forced us to reach around our distributors."
- "Wholesaler-distributors who do not execute a value-added strategy will lose their customers to challengers, some they know and some they don't know."

Valuing market share over efficiency

Distributors are fearful that manufacturers covet their customers and would opt to serve them directly if only they could match distributors' efficiency. Efficiency, from this viewpoint, is associated with maintaining local inventory and sales resources to service market demand, as well as carrying credit for the many small, slow-paying, and often unreliable end customers who account for a significant portion of the market.

Distributors continually remind aggressive manufacturers that they fill the role that typically is unacceptable to most suppliers. Manufacturers who consider the facts generally agree, and they shy away from taking markets directly.

While distributors may service end customers efficiently, they never capture 100 percent of the market. This is due to the fact that some customers will sometimes go elsewhere to buy the products that distributors offer. In addition, if there is more than one distributor in any local market, market share is shared. If other non-distributor channels also target the same customers with the same products, distributor share is diluted even further.

For distributors, this means that they must focus on transactional excellence, while trying to steal share from competitors without making the acquired business unprofitable. From the manufacturers' perspective, this means that one distribution partner alone will never maximize sales, regardless of how efficiently that partnering business runs its business.

This truth goes directly to the most fundamental disconnect between the objectives and expectations of distributors and manufacturers. Distributors focus on efficiency, margins, and productivity. Manufacturers are driven to defend and grow their market share. Why do manufacturers care so much about market share? Shouldn't they be content to collaborate with the most efficient partners, because customers will be better served? The answer to this question is no!

Manufacturers focus on market share because to do otherwise is to go out of business quickly. At least three factors contribute to overriding importance of market share for manufacturers.

Factory loading

Manufacturers must keep factories humming to cover fixed costs associated with plant, equipment, and employees. Distributors face similar pressures, but can usually add new products or brands when others decline. Manufacturers can and should develop new products, but often

they don't without also building new facilities or overhauling existing plants. Both actions take time and money, and market share will pay for investments and keep competitors at bay.

Substitution vulnerability

In today's global markets, customers have more options than ever; they are very willing to switch brands for incremental gains. Distributors' reputations are built on service levels; they do not lose credibility when customers switch products. However, when a manufacturer loses a sale, it has lost the customer. Therefore, market share is a key measure of success for manufacturers, just as service levels are critical for distributors.

Competitor beachheads

Competitive manufacturers are working simultaneously to keep their factories running at full capacity and to grow business by stealing customers. This takes significant overhead, which is measured in research and development, sales, advertising, branding, and other expenses. Maintaining or growing market share means that a manufacturer is denying the oxygen needed by its competitors. The best market share strategies keep competitors from ever establishing a critical mass needed to be a formidable opponent.

There are situations, however, when manufacturers value distributor efficiency as much or more than contributions to market share. For example, when foreign competitors choose to penetrate markets by selling directly, customer expectations change and the distributor's markup can be viewed as an unnecessary cost. In almost all cases however, market share is a dominant concern; while distributor efficiency seldom makes the critical difference in manufacturer strategies.

A deeper understanding of market share objectives for manufacturers will not yield new partnering opportunities by itself, but it should create a more productive dialogue between distributors and manufacturers. Educated partners are the best partners.

Taking action

Just as products have lifecycles, so do partnering relationships. It is time to move on, to innovate and to define the next generation of partnering models that will carry manufacturers and distributors forward. Proliferation of distributor business models provides much of the motivation to change, and manufacturers will provide the rest through their need to achieve new levels of sustained competitiveness. Distributors can enable the upgrade of these programs by understanding their suppliers' goals, expressing a willingness to accept change, and not focusing on short-term negotiating advantages that tend to kill full and frank conversations about program redesign.

In order to strategically upgrade partnering relationships with your best suppliers, you should create a road map with the specific and unique opportunities and challenges that you face with your suppliers. As a first step in creating your road map, the following action steps will help you better plan and manage new partnering opportunities with your suppliers.

- Visit the National Association of Manufacturers' Web site (www.nam.org) and learn about the manufacturing industry's challenges, initiatives, and advocacy efforts.
- Sort your manufacturers by size and partnering potential. Identify the suppliers with whom you most want to partner, based on the ideas and recommendations that are tailored to their market share and position.
- Create a matrix of market share and key competitors for your best manufacturer suppliers. Make a list of specific things you can do to help build market share for your suppliers.
- Ask some of your suppliers how your efficiency specifically helps them achieve their objectives. Sort their answers in two categories: routine, run-of-the-mill and real, strategic impact for the manufacturer.
- Conduct research to understand your customers' consideration set; that is, the number and supplier types they consider when ready to make a purchase. Measure how often

your best suppliers are considered. Use this information to assess whether your suppliers would consider their products to be over- or under-distributed.

- Learn about lean manufacturing by reading the literature, searching the term online with your manufacturer's company name, and/or attending a conference. Know what your manufacturers are thinking and doing before you talk to them.
- Identify which of your suppliers have robust, effective lean manufacturing programs, and ask them if they are interested in extending their efforts to collaborate on supply chain improvements.
- Convene your company's most creative thinkers and brainstorm scenarios for sharing customer visibility examples with your best suppliers. Try to build a business case. Engage your suppliers in a conversation if possible.
- Make a list of items that describe how your distribution business model has evolved over time. Identify ways that your suppliers can either help you change or get in your way. Use this list to create a new strategic dialogue with your suppliers.
- Divide your management team into two teams. Ask Team A to make a list of the 10 most important outcomes you are trying to create for your business. Ask Team B to create a list of the outcomes that a couple of your best suppliers are trying to achieve. Focus on mutual benefits and make a list of compensation changes that your suppliers might make to motivate the outcomes you both want to achieve.

The distributor-manufacturer relationship will remain contentious for some time because both sides feel threatened by each other and are threatened by the forces that reshape their markets. In most cases, the customer is the one true safe haven for improving the relationship, because finding ways to improve customer service typically benefits both parties. Manufacturers and distributors should focus on doing the right thing for the customer, reallocating roles and responsibilities, and finding new ways to compete and win in today's hyper-competitive markets.

About the Author

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