

# Distributors Are Very Important... Sometimes

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One of the most common types of business opportunity ventures, a distributor or dealer is an independent agent who's entered into an agreement to offer and sell the product of another company but isn't entitled to use the manufacturer's name as part of its business name. Depending on the agreement, the distributor may be limited to selling only that company's goods or it may have the freedom to market several different product lines or services from various firms.

In retail, distributors are invisible to most consumers. Their names mean nothing to the people who enjoy the products they deliver. But they effectively (if not always efficiently) bridge the geographical gap between producer and retailer. Supermarkets and department stores couldn't exist without a complicated distribution system, capable of moving enormous amounts of product of every size and description.

Retail distributors can deliver a lot of value to the markets they serve for the manufacturer.

- They transport goods from large warehouses to the retail outlets.
- They warehouse materials in different parts of the country.
- They handle the paperwork between the retail outlets and the manufacturers.
- They handle invoicing and collection.
- They don't sell for the manufacturer. That's the manufacturer's job,

through its advertising and promotion. Distributors put the product in the hands of the retailer. In many markets, the manufacturer has to have distributors, but they don't relieve the manufacturer of the primary sales responsibility.

Industrial distributors have some of these same duties for their industrial principles. There are four different types of Industrial Distributors in North America:

1. A stocking distributor only – deliver on time at agreed to price.
2. A stocking distributor with technical product knowledge and TS capabilities.
3. A stocking distributor with technical product knowledge and TS capabilities and pricing latitude.
4. Any of the above and they can be exclusive to one principle per type product or they can be non-exclusive, offering like or near-like products.

“In many markets, the manufacturer has to have distributors, but they don't relieve the manufacturer of sales responsibility.”

An industrial product is any item that is used in manufacturing or industry. Examples will vary according to the type of product being manufactured. Some common examples include carts or dollies, tapes, adhesives, coatings, sealants, ladders, lifts, storage lockers, cabinets, and scaffolding. Other industrial products are personal protection equipment, office supplies, light fixtures, or tools.

The Industrial Coatings, Adhesives and Sealants Products channel to

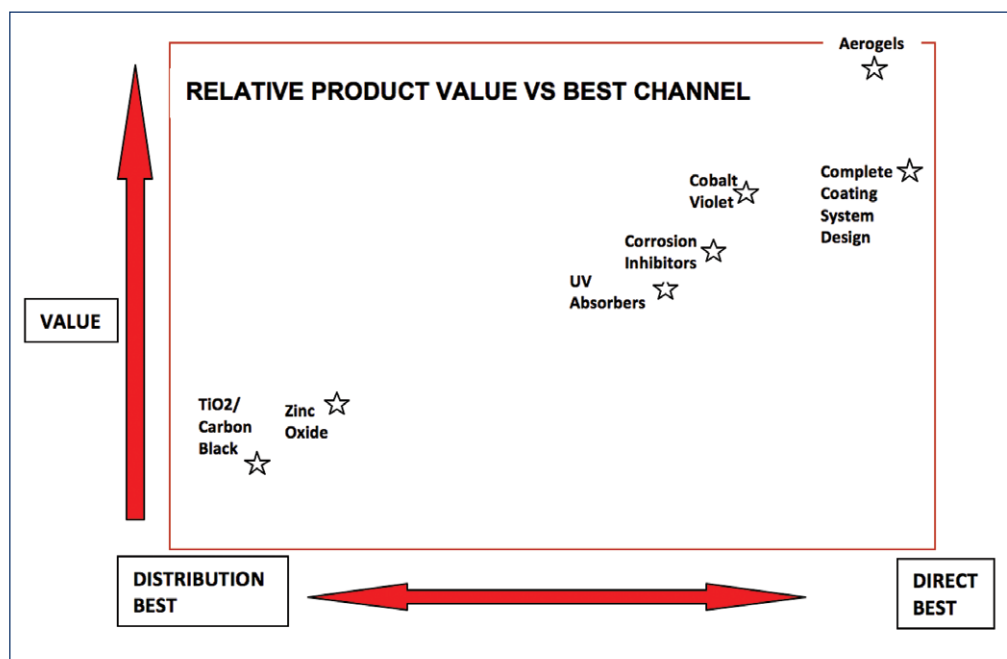


Diagram 1

market tactical decisions lie in the following areas:

- Geographic distance from the manufacturer's product
- Size of the accounts (customers) served
- Value of the product sold
- Complexity of the product itself or complexity-in-use down the supply chain

In the simple two-dimensional diagram pictured we are addressing only the last two decision elements... Product value and product complexity. **CONCLUSION:** The greater the complexity and value the greater the need for the supplier to market directly to the customer.

The diagram below is typical of many suppliers of complex or semi-complex industrial products within the coatings industry. The Raw Material supplier, in this case, has two significant barriers when gathering intelligence from the market place:

1. His own Distributors
2. His own Formulator customers.

The Raw material supplier, therefore, has no direct influence on the ultimate OEM Customer and even more disturbing, according to our research; the supplier has less than a 40 percent chance of building a product/service that is accurate for that OEM.

When a supplier with a semi to very complicated product offering can select a distributor with highly skilled technical sales people that markets no competitive product lines and "walks through the same doors" for all the principles it represents, and that distributor brings its principles Product Managers/Tech Service people into the formulators environment in a timely manner, there exists a decent chance of ongoing success.

That being said, our experience indicates the aforementioned circumstance rarely exists.

Therefore, when a semi-technical to highly technical product line is being offered to a set of targeted coatings or adhesives formulators, direct sales is usually the best tactic. Distributors, in this case, can service the less strategic coveted accounts and/or those accounts that are

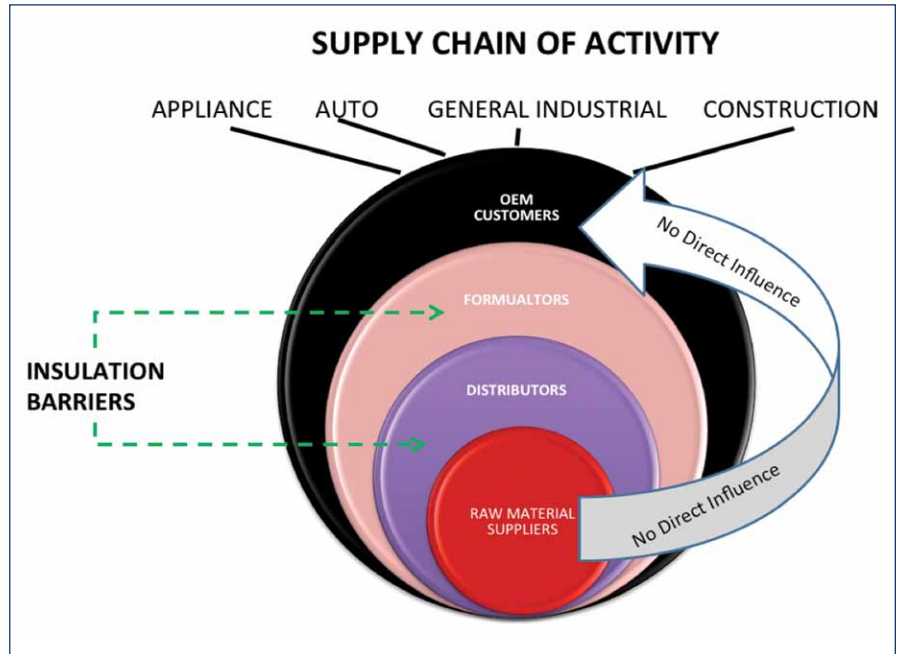


Diagram 2

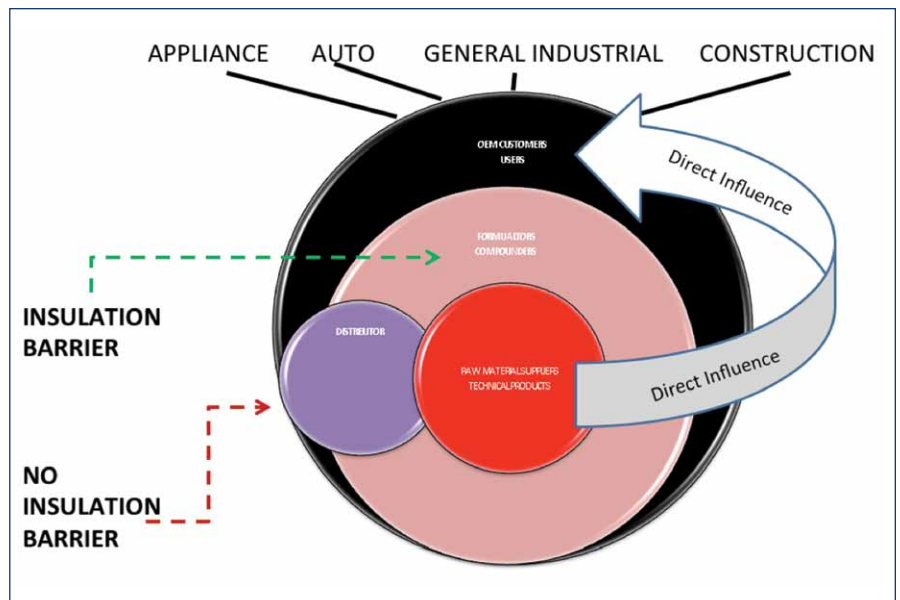


Diagram 3

geographically distant from the suppliers' activity epicenter.

Even then, when the marketing is devoted mostly through the supplier company's own sales/marketing force, a call-load program must include not only the formulators, as suggested, but to the OEM End-Users themselves . . . . your customer's customer.

In the diagram we depict an organization that has set aside the distributor

(therefore, no insulation exists from it as a barrier) as a "seller/marketer" (except in the cases mentioned above) and recognizes that his own customer (formulator) cannot possibly glean all the pertinent intelligence from the OEM End-Users and accurately provide same to you, the supplier, thus giving the supplier an opportunity to help his formulator customer define needs more accurately. **CW**