## ANSA Business Development – client case study 2003

# Managing Distributors (Rechanneling sales)

***Most 'distributor' arrangements are in a mess and provide little tangible benefit to the producer. Bringing distributors under control can demonstrate a higher margin though the distributor channel than through direct sales.***

Just over twelve months ago I read a document by one of my erstwhile associates. The document was entitled 'The Crushing of Margins' [*1]. I suppose it was a 'wake up call' alerting the clients, for whom it was intended, of the threats and opportunities manifested by the then current global business environment.

In the document there were all of the usual pointers, globalisation, web purchasing and auctions, outsourcing and seeking lowest cost producers and, of course, pricing power.

At the time of the documents publication the commentary that it contained was highly relevant but none of the threats materialised to any of our clients. As leaders and winners nearly every one of our clients grasped the opportunity of globalisation and they grabbed the opportunity provided by the web.

All of our clients are involved in web auctions but none see them as a threat indeed they profit from their involvement. So, in reality, whilst the alarm call was timely non of the threats materialised and all of the opportunities were seized.

Of course margins remain under tremendous pressure but experience from working with a host of market leading industrial producers would suggest that the key areas of focus needed today are threefold. ***Procurement and supply chain management; price management (in its widest connotation) and rechanneling sales are today's keys to protecting margins.***

All of our clients now have plans which focus, in concert, on each of the three areas. But this case study relates to one client in particular who, faced with the question of rechanneling sales, recognised a need to completely rethink their distributor policies. As a result of this rethink the key question emerged; is it better to completely restructure our distributor arrangements or manage what we have better?

If for no other reason than the extremely high risk of rapidly restructuring their sales channels the latter route of managing their existing distributor network better appealed more readily to our clients and indeed this course of action produced a radical shift to previously held convictions.

To our client at the time their distributors (or stockists as they were then called) were 'a necessary evil' providing a route to the many smaller user accounts, it has since been proven that sales through their distributor network produce higher margins than direct sales. (It was pleasing to note that the same conclusion has been reached by other researchers [*2]).

In assisting our client to bring about more effective management of their distributors our original brief was to consider how the existing distribution channel of our clients should be improved?

Specifically we were asked to address ***a) "What must we do to protect, indeed improve, margins" and b) "How can our distributors better assist in the overall company strategy of 'going for growth?"***

From our early research it quickly became apparent that our client's distributor policy (if one truly existed) was, to say the least, in a mess. Our client's sales were controlled on a regional basis by regional sales teams managed by reasonably autonomous regional sales managers.

Many of the regions were, in themselves, significant businesses with multi million pound turnovers. Some regions sought distributor partners to look after many small user accounts, others saw distributors as 'customers' and abdicated sales effort on the distributors areas. Some regions merely 'tolerated' the existence of distributors.

Cross region trading by distributors was not only obvious but also clearly uncontrolled. Some 'distributors' were themselves national suppliers and thus created tremendous competitive pressures in the various sales regions of our client. Indeed in some instances regions would use such distributors to attack business held by other regions!

In these instances the cross region trading also created a price transparency which, in itself, served to reduce overall prices and place pressure on margins.

Deeper analysis of all so called distributors revealed at least thirty different pricing or discount deals and no two distributors traded under the same conditions. The sheer number of distributors exceeded the number of regional sales people by a factor of four although only 25% of our clients sales went through their distributors!

Perhaps more importantly a number of serious threats to any real distributor policy became apparent during a workshop comprising of all of the senior managers in the business.

Challenged with the question "what are the reasons for and the benefits of having distributor partnerships" the managers produced the following list.

- Distributors could save technical sales time by answering many small user customer questions.
- Distributors would enhance access to the product by holding local stocks of the company's product.
- Distributors would promote sales by virtue of 'local' sales forces and 'local' customer loyalty and knowledge.
- Distributors would promote 'market share' growth by offering alternative product to that of competitors.
- Distributors would be in place to support national company agreements with stock and technical assistance.
- Distributors would provide market place feedback – especially competitor price information.
- Distributors held stock to their own account thus reducing company stock investment.
- Distributors local advertising and other publicity would create deeper market penetration.

Obviously not all of the feedback was positive indeed some managers felt that direct sales by an enlarged sales force would create faster growth than any reliance upon distributors. Their argument was later strengthened when our detailed survey of their existing distributors highlighted some startling facts. In some specific instances our clients distributors were extremely effective competitors!

Following this workshop a thorough and detailed survey of each distributor revealed a horrific picture.

- Over 90% of the distributors were incapable of delivering technical advice to the standard that would be required of one of our client's sales people. The distributors were no more than 'messengers' relaying questions and answers between user and supplier.
- Only 20% of the distributors held stocks in sufficient numbers, product ranges and value. No distributor held stocks in sufficient quantity to be regarded as 'stockists' or to service the local market fully. Indeed most distributors merely acted as 'ordering points' and expected our client to deliver directly to the user!
- Only 10% of the distributors had an external sales force capable of adding value by virtue of delivering technical sales assistance, advise or design recommendations.
- Every distributor stocked competitors product alongside that of our clients, indeed many gave more prominence to the competitor products.
- Far from offering user customer loyalty not one single distributor made any attempt to cross sell the company product as an alternative to a competitor product and, perhaps more importantly, a very high percentage of distributors would offer an alternative competitors product to a current client user customer as the competitor's product 'was cheaper'!
- Only one distributor held stocks to support and service a national company agreement.

In the light of this damning situation our clients agreed the need for radical action which started with the creation of a national distributor policy.

The salient points of this policy were:-

- A network of stockists would be created. These networked companies would be encouraged to work together.
- Distributors would in future be known as and branded as 'Premier Stockists'
- Each of our client's regions would have only one, possibly two, 'Premier Stockists'; if there were to be two 'Premier Stockists' then a 'no competition and full cooperation' clause would be in each of their 'Premier Stockists' contracts. This 'no competition and full cooperation' would be actively policed by the region's sales people.
- 'Premier Stockists' would not hold in stock or supply any competitors product (This was later amended to allow the supply of competitor product under some very strict circumstances)
- Clients product would only be offered to the market at an agreed national price list level.
- Prior to being appointed a 'Premier Stockist' strict criteria was to be met ; as an example:-
    - Minimum stock levels equivalent to three months of the annual target.
    - Technically qualified staff in client product and product application.
    - 'Sales trained' staff.
    - At least two external sales people.
    - Annual competence and performance assessment.
- 'Premier Stockists' would be restricted to a geographical area similar to our clients area. The client could only be represented on this area any 'off area' sales by a 'Premier Stockist' would result in the removal of the stockist from the network.
- In return for becoming a 'Premier Stockist' the distributor would be the only distributors who could purchase from our clients at a discount to the national price list. In addition they would receive marketing and technical support, free deliveries, extended credit payment.
- All sales leads received by our client from a 'Premier Stockist's' area would be referred to the 'Premier Stockist'.
- The branded network would be heavily publicised in national advertising and customised catalogues were provided for the 'Premier Stockists'.

Our client made an extremely heavy commitment to the commercial, technical and sales training of the 'Premier Stockists' staff. Indeed this training would equate to 6 days off the job training per annum.

Other distributors on an area could purchase product but would not receive a discount, marketing support, technical support or free deliveries and they would have to pay on a pro forma basis.

The biggest question related to the 'sales' distribution. Our client understandably wished to retain sales coverage on each of their areas in addition to having 'Premier Stockists'. After much debate, often heated, it was agreed that the most productive use of our clients direct sales force was with the OEM and other large users these would remain client 'house accounts'.

***OUTCOME***

Now some three years after the inception of the 'Premier Stockist' network some 40% of sales are channelled via the network and ***margins are now at least 25% higher than from direct sales.*** Excellent cooperation exists between our client and the network and sales continue to grow.

Obviously there are many nuances, which we would not wish to publish, in the trading agreement between the network and our client. Equally there are many significant agreed actions that make the whole thing work. Details of these 'Premier Stockist in Action' points are available to our clients upon request.

*[1] 'The Crushing of Margins' [Private client document] John Winkler

*[2] ' Rechanneling Sales' John M. Abele, William K. Caesar, and Roland H. John The McKinsey quarterly 2003 number 3

**'Managing Distributors' and other associated workshops are available from ANSA Business Development.**

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