

Manufacturer / Distributor Relationships Improve Sales and Profits!

Getting Everyone on the Same Page!
This adage rings particularly true when it comes to
manufacturer/distributor working relationships.

Research found that the majority of manufacturers and distributors are keenly aware of the problems in their working relationships. They also understand how these problems impact their bottom lines as a result of higher sales & marketing costs and lost sales volume. But perhaps the most significant finding is that of the 3,000 manufacturers and distributors we interviewed and surveyed, only three percent of them have taken action to remedy this situation. In today's economic environment, how could this number be so low?

We worked to identify the barriers that keep the majority of manufacturers and distributors from taking action to change the nature of their working relationships. While it may be a hard proposition to accept, the greatest barrier to better working relationships stems from differences in how manufacturers and distributors think and make decisions. In other words, when it comes to making decisions that impact sales performance and profitability, manufacturers and distributors are not on the same page.

During the course of the year, 115 manufacturers and 132 distributors, from various industry segments, participated in an in-depth opinion survey designed to identify the extent to which manufacturers and distributors share a similar set of assumptions and beliefs regarding:

- 1) Current and future conditions in their industry;
- 2) Who their customers are;
- 3) The basis of competition;
- 4) The purpose and role of the manufacturer/distributor working relationship.

What we discovered is that manufacturers and distributors are more likely to disagree on these topics than they are to agree. Getting manufacturers and distributors on the same page will go a long way toward improving the sales performance and profitability of both parties.

What follows is a brief summary of our findings, conclusions and recommendations.

Current & Future Industry Conditions.

While the manufacturers and distributors who participated in our survey agreed that their industries are very different than they were five years ago, our findings indicate that they do not share a common view about the future of their industries.

Which customers will we serve in the future?

Through which channels will we reach these customers? Who will we be competing against in the future and what will be the basis of competition?

Where will our profits come from? What skills and capabilities will we need to survive and prosper?

Manufacturers and distributors who take the time to discuss the questions above will discover that it's really not that hard to recognize and respond in a pro-active manner to industry changes as they develop.

Who is the customer?

It appears as though a large number of manufacturers are confused about who their customer is. Our research indicates that many manufacturers are still operating under the misconception that the distributor is their customer. This flawed mental model stems from the transactional working relationships that evolved during simpler times. Today however, the customer, not the manufacturer's marketing department defines the value proposition. In this new environment there can be no confusion about who the customer is and how best to serve them. If manufacturers continue to be confused regarding who their customer is, rest assured, it won't take long for their competitors to remedy the situation.

How they should compete?

Manufacturers and distributors agreed that quality and price no longer form the basis of competitive advantage and that to succeed in today's marketplace they both need to do a better job of collecting and sharing information.

They were also in agreement that the strategies and tactics used in the past no longer work in today's marketplace. However, there was significant disagreement between the two parties regarding how to respond to current market conditions and competitive pressures.

When an industry evolves to the point where everyone has quality products and low pricing, the basis of competition shifts to the delivery of value which is defined by one person and one person only – the customer. If manufacturers and distributors cannot agree on how they should compete in this new environment, they are destined to continue to compete on the old dimensions – quality & price – which they both agree no longer form the basis of competitive advantage.

The purpose and role of the sales/distribution channel.

Manufacturers and distributors agree that their working relationships have not kept pace with the changes that have occurred in their industries. They also agree that problems in their working relationships have a significant negative impact on the sales performance and profitability of both parties.

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