

# QDI STRATEGIES

*20/20 Vision for Marketing Breakthroughs*

## Distribution Strategy: A Primer for Manufacturers & Distributors

By Steven D. Bassill &  
Boone Mortensen

*Boone Mortensen, a Sales/Marketing Executive, shares his practical knowledge from twenty-five years of managing customers and distribution channels.*

Distributor, exasperated:  
*You sell to everybody!*

Supplier, well rehearsed:  
*Every distributor has his or her own set of customers. How can you tell me not to sell other companies? We're only protecting our brands.*

Distributor:  
*There are only so many end users. I'm now in a situation where my competitors & I sell your products to the same customers. It drives the price down & devalues my company.*

Supplier:  
*Too much distribution will never harm a brand. You keep your customers with service. Besides, you have the best price.*

Distributor:  
*Selling price makes little difference. I don't make enough margin dollars to pay for the services you want me to provide. I now have the double-whammy of slow turns & little margin.*

Supplier:  
*What can I say? This business is no longer a forty percent margin game. You have to take less margin to get the turns.*

Distributor:  
*I'll have to since you gave Godzilla down the street a lower price.*

Supplier:  
*We don't give them a lower price; they're just more efficient. They don't need traditional margins.*

Distributor:  
*You sell directly to them & you sell directly to me. We both have systems to track sales, inventory, turns & everything else. I sell direct, their customers have to go to them.*

### In This Article:

*Consider the importance of sharing your distribution strategy with your business partners.*

# 20/20 Vision for Marketing

*It's a different model. How are they more efficient?*

Supplier:

*They get people in & people out. They have the turns, the "velocity," & we get some "economies of scale." Volume creates efficiency.*

Distributor:

*If I gave it away we would get more volume. Is that what you want?*

Supplier:

*Don't start a price war, especially one you will lose.*

Distributor:

*We know our customer & how to keep him. The problem is Godzilla's retail pricing. They have cut it so low they have eliminated the margin.*

Supplier:

*How can you criticize us for selling to them? We're protecting our brand. They attract so many customers that if we were not on their shelf, we wouldn't be in business long.*

Distributor:

*The problem is not Godzilla. The problem is that you have too much distribution.*

Supplier:

*What difference does the amount of distribution make to you? Our brand brings in the customer.*

Distributor:

*Not like it once did. You have a strong brand, but there are so many others. We have to bring in other lines to stay competitive & make enough to survive.*

Supplier:

*Then we may have to reconsider our distribution strategy.*

Distributor:

*Well when you understand your distribution strategy let's talk. Right now it seems to me that you will sell to anybody who is breathing.*

Sound familiar? Let's hope not, but as a distributor or manufacturer you may someday find yourself in a

similar conversation with your channel partner.

Friction is caused by the inherent animosity between distributors looking for some level of exclusivity & suppliers seeking to protect & build their brands.

A flawed or confusing distribution strategy only adds complexity & is a primary reason why distrust exists between a supplier & his marketing channels. What makes the problem more difficult is that few parties are willing or able to articulate why they sell to specific channels or customers.

**Sharing distribution strategies may break the ice between suppliers & distributors & lead to growth opportunities & joint strategies.**

This is unfortunate; a discussion on distribution strategy is an opportunity to enhance the partnership. The big D for distribution is the "place" in the four Ps of marketing. Marketing guru Philip Kotler defines distribution channels (also referred to as marketing channels) as "sets of interdependent organizations involved in the process of making a product or service available for use or consumption." That is a mouthful for those of you looking for the official definition. The other three Ps (price, product & promotion) are important & critical elements, but distribution is where you'll find the action.

Distribution strategy is not easy. Suppliers struggle with it. Efforts to insure that brands are available to end users when & where they want to buy mean that product distribution is a critical element in a brand's success or failure. The general executive mentality is that there is never enough distribution: more is always

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better, when sales are off it's caused by a lack of distribution, & when sales are good they can be improved by additional distribution. Distribution is always a target. It is no wonder why supplier distribution strategies are often described as schizophrenic, senseless, stupid, & devoid of any rational reasoning.

You may ask: "Is it really important to know this? Why not let the suppliers run their businesses & the distributors run theirs?" This is certainly an attitude that both manufacturers & distributors can take, but the reality is a supplier's distribution strategy is an important element to his success as well as his distributor's success.

Gaining a general understanding is important to distributors & may be as simple as having a "calm" discussion about why the supplier set up a dealer next door. Hopefully, the manufacturer's sales rep will be able to give a coherent story. If he doesn't, then get his management involved. The dealer next door may have nothing to do with the local sales rep; his assignment could be the result of the manufacturer's overall distribution strategy. Sometimes your local rep will not even know about such an authorization because of some national agreement. Besides, your rep probably thinks their company's strategy is as screwed up as you do.

## The Trouble With Management

When it comes to distribution, upper management generally has little knowledge of the interrelationship between their marketing channels & the potential harm that a change in strategy can have on their brand.

Companies will spend hours, days & weeks discussing a price reduction or increase, ultimately making the decision to expand distribution based on the actions of another company. Foolishly, they give scant consideration to the long-term impact.

Executives will have finance-types analyze ratios to determine that for a drop in price of ten percent, "X" number of additional units must be sold to make the same profits. They should spend that time figuring out the number of new distributors they will have to add to make up for those they lose because of poor distribution strategy. Managers might be stunned to find their losses are far greater than the impact of a price reduction.

Whether you are a supplier or a distributor, you have marketing channels. The supplier & manufacturer channels may include wholesale, specialty distribution companies / VARs, OEMs, big box retailers, buying groups, lumberyards or various industrial segments. The distributor channels may consist of contractors, lumberyards, rental yards, roofing companies or general manufacturing. The VARs' channel may consist of other resellers & OEMs.

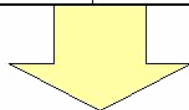
***Managers should spend as much time evaluating the impact of their changes in distribution strategy as they do in evaluating the impact of a price move.***

## A Recipe for Success

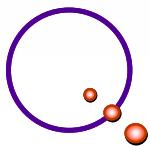
To manage customers, you must segment them effectively. This can be a fairly basic exercise, or an elaborate analysis requiring a great deal of time & effort.

A simple way to begin is to list all of your customer segments on a piece of paper. Next group the customers according to similarities such as company profiles, services they perform & other characteristics. Now list the buckets or channels on the top of a matrix. Next identify the product, price or programs you offer. For example, “Programs” could include co-op advertising, freight, terms, dating, pricing or service. List your offerings down the left side of the

	Channel A	Channel B	Channel C	Channel D	Channel E
Freight	X	X		X	
Terms			X		X
Dating		X	X		X
Pricing	X	X	X	X	
Service	X	X		X	



Create channel strategies



**QDI STRATEGIES, INC.**

1580 S. Milwaukee Ave., Suite 620

Libertyville, IL 60048

Tel 847-566-2020

Fax 847-281-9723

[www.qdistrategies.com](http://www.qdistrategies.com)

matrix. Now specify the various programs you provide to each customer group or marketing channel. Once you have completed the segmenting exercise, start to create channel strategies.

A supplier’s distribution strategy needs to be constantly evaluated both by his management team & his distributors. Each needs to know the impact that this strategy will have on his or her business. Ideally, the supplier’s & distributor’s strategies will match.

Gaining a level of understanding of each other’s strategies will require & open & frank discussion. You may be surprised; sharing distribution strategies may break the ice & lead to growth opportunities & joint strategies. Who knows, suppliers & their distributors may start to believe they can actually work together for mutual gain.

## About QDI Strategies, Inc.

QDI Strategies, Inc. is a marketing consulting firm that specializes in helping companies make breakthroughs in product, brand & channel strategies. Our consultants have helped clients develop & implement breakthrough decisions across numerous industries over the last twenty years. This experience provides you with the expertise to develop market-driven answers to your business issues.

## For More Information

If you would like to receive additional information on channel management, or would like to arrange an informative presentation, please contact Steve Bassill at 847-566-2020.

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