Thriving in a Hostile Environment

Beachgrass Consulting

Managing distributors

Distributors buy and sell products without transforming them. To perform efficiently, all distributors need to have an **understanding of the market, in which they operate, working capital and logistics (stores, warehouses, trucks, etc.)**. The market in which they operate can be defined either geographically (e.g. stores, franchises, contact networks, installed bases), or by industry (e.g. pharmaceuticals, IT, medical devices, construction, etc.), or a combination of both.

The next point is to define **the number of tiers** (or intermediaries between the end-customers and your company) in your distribution chain. This number is defined by a number of factors such as market transportation network, distances, market cultural complexity, customer support objectives, product characteristics, etc. Usually, the more tiers, the deeper the reach, the proximity with end-customers, but also the less competitive your prices due to margin stack-up and you lose quickly contact with the end-customers. In practice, there are usually one or two tiers. The Internet is changing this and the 2-tier chains need to rethink their value propositions.

So, before appointing a new distributor, it is important to analyze the considered distributor's market understanding, working capital level and its management, logistics means. Which other brands does it carry? What is the management's experience with your market? **Does the distributor have enough working capital to deliver the revenue growth you are expecting?** Can it increase its working capital easily? How does it manage its cash cycle? Has it the logistics required for your products (storage conditions, delivery lead-times, etc.)?

The objective of this analysis is to check whether the considered distributor can **fulfill your expectations**. If this is not the case, but this distributor remains still an attractive one, for instance it is the best available in a given area, this analysis helps identify the distributor's weak points that will need special monitoring.

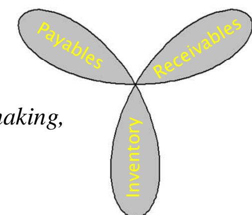
Once you have signed and launched a new distributor, it is important to work on developing a **mutual trust**. Studies have demonstrated that **trusting distributors generate 78% more revenues** that untrusting ones. To develop this mutual trust, techniques are available. They are built on mutual planning, clear separation of rational points from emotional matters (both are needed but must be kept apart to develop trust), close monitoring and a genuine desire to succeed together.

Managing distributors means two things: **managing conflicts and ensuring proper market coverage.**

There are conflicts between the direct sales force and distributors, and conflicts between distributors. Here again, clear rules, separation of reason (facts, numbers) and emotions, rule-of-the-law are the main ingredients to handle and resolve conflicts. To ensure these ingredients are available, communication and filing are important.

Proper **market coverage** means that end-customers get access to your products easily, quickly and at good market conditions (prices, lead-times, support, etc.). This implies very often some "over-distribution" to ensure competition will produce the good market conditions, but this "over-distribution" has to be monitored to ensure distributors make enough margins to stay committed to your company. This requires a clear, measurable distribution strategy, a precise mapping of your distributors and solid contract terms and conditions.

Working capital is the "propeller" of money making, cash is the grease



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