

# Turn your industrial distributors into partners

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When the president of a small chemical distributor phoned a major chemical producer requesting expedited delivery of a specialty chemical for an important customer, the manufacturer's inside salesperson did not recognize him and told the distributor that a credit check would have to be run first. "Our company's dealt with this manufacturer for over 50 years, and they don't even know my name, our credit history, or how important this kind of order is to our business," the distributor lamented afterwards. "And they wonder why my salespeople don't go all out to sell their chemicals."

A veteran distributor sales manager for a major fastener manufacturer called on an industrial supply distributor only to discover it had a new president. "Here we go again," the sales manager said to himself. In the past five years, almost half the principal owners of his company's distributors had sold out, died, or retired. "It seems as though we have to start from scratch when one of our distributors changes management," he said. "For years, I'd visit this guy's dad every six months to see how things were going. To gain his cooperation, all we had to do was give competitive discounts, keep him well stocked, and run an occasional sales incentive program. But his son insists on knowing what we're doing to improve his company's

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ROI, how we plan to help him develop a new market, and what computer software his company should be using. I wonder if we're losing touch with our distributors."

A bushing manufacturer's sales rep called on a distributor for the first time in a year. The sales rep's prime concern was to learn why the distrib-

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utor's sales of the manufacturer's product had remained flat during that period. The question was particularly vexing to the rep because her company had given the distributor a new and costly set of merchandising aids "proven" to boost sales. The sales rep found the materials unused—stacked up in a remote corner of the distributor's warehouse. When asked about them, the distributor responded that they were very elaborate and too technical. More important, he said, no one from the sales rep's company had taken the time to demonstrate to the distributor how to use them in a sales presentation.

These situations show that for manufacturers to effectively plan and implement industrial distributor programs they must:

Gain a deep understanding of distributor requirements.

Build working partnerships with distributors.

Actively manage these partnerships.

Building working partnerships has become a priority for many manufacturers because of industrial distributors' expanded role in the U.S. economy. In 1982, sales by all wholesaler-distributors topped \$1.1 trillion. Of this total, \$20 billion was accounted for by industrial supply distributors that sell primarily to maintenance, repair, and operating supply accounts; another \$314 billion can be attributed to other types of distributors that sell the majority of their products to industrial and/or commercial businesses.<sup>1</sup>

According to a recent Arthur Andersen & Company study, wholesaler-distributor sales are expected to grow in real terms at a rate faster than the economy over the next ten years.<sup>2</sup> And a recent McGraw-Hill survey found that only 24% of all industrial marketers sell their products directly to end users exclusively; the remaining 76% use some type of intermediary, of which industrial distributors are the most prominent.<sup>3</sup>

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## Understanding distributor needs

How can manufacturers, especially those unfamiliar with distribution, determine their distributors' most important needs? The key appears to be in continuous, routine information collection. Here are some common practices:

**Monitor distributors.** The best way to learn about distributor requirements is to get out into the field periodically and listen carefully to what they have to say. It is the field salespeople who must perform this important task on a continuing basis. Timken Corporation, the leading manufacturer of tapered roller bearings, requires all its outside sales representatives to make calls on various officials of each of their distribution companies, including general managers, purchasing managers, and inside and outside salespeople.

Each contact contributes bits of information about the distributor's current opportunities, problems, and changing needs. Timken sales reps also call on end users and other individuals connected with the industry to learn about market trends and competitive actions that may affect distributors. Based on their observations, Timken sales reps recommend program changes to their national sales manager that are designed to improve distributor effectiveness.

One way that Square D, a leading manufacturer of circuit breakers, switchboards, transformers, and controller equipment, keeps in touch with its distributors' and customers' needs is through its "counter days" program, whereby Square D field salespeople spend a day at the distributor's location "working the counter" – answering customer questions and demonstrating Square D products. The "counter days" program is an excellent way to learn about distributor needs and reinforces to both distributors and customers Square D's commitment to a working partnership.

### Learn from companywide experiences.

Du Pont has established a distributor marketing steering committee, consisting of 35 divisional distributor marketing managers, to discuss common distribution problems, share market information on trends affecting the function, and ponder changing distributor requirements. Committee meetings often include presentations by market research analysts, consultants, and the distributor marketing managers of noncompeting companies.

### Conduct market research studies.

Parker Hannifin Corporation, a major fluid power products manufacturer, has developed two comprehensive research programs to monitor distributor needs. The first is an annual mail survey that asks distributors to rate each Parker division on key performance dimensions and recommend program improvements.

The second program uses the Parker distributor agreement, which requires each distributor to forward to Parker's market research division a photocopy of every invoice for the sale of a Parker product. The invoices are sorted and analyzed by industry, product, and customer to enable Parker to develop distributor programs that mirror changing market conditions. One such program produces a series of market research reports tailored to each distributor. The reports analyze the distributor's sales and recommend customers that should be targeted for greater sales effort, products that should be promoted to various potential customers, and types of marketing techniques the distributor should use.

**Establish a distributor council.** Although some executives believe that distributor councils are little more than banquets and tennis or golf outings for a manufacturer's best distributors, this need not be the

1 Calculated from "Preliminary Report," 1982 Census of Wholesale Trade, U.S. Department of Commerce: Washington, D.C., May 1984.

2 Arthur Andersen & Company, Inc., *Future Trends in Wholesale Distribution*,

(Washington, D.C.: Distribution Research and Education Foundation: 1983), p. 7.

3 "Industry Markets Goods Through Dual Channels, Says McGraw-Hill Study," *Industrial Distribution*, April 1985, p. 15.

case. Dayco Corporation, a manufacturer and distributor of engineered plastic and rubber products, uses its council to keep up with its industrial distributors' changing needs. Selected to represent the entire network, about 10% of Dayco's distributors comprise the council and serve on a rotating basis.

Prior to the annual four-day meeting, Dayco asks council members to write suggestions for improving policies and programs; Dayco uses the responses to draft an agenda for the meeting. The council sessions are then largely taken up with discussion of proposed policy changes and new programs, distributor problems and concerns, the competition, and other pressing issues. Within one month of the council meetings, Dayco sends its distributors a written report outlining the suggested policies and programs that will be implemented. Historically, Dayco puts about 75% of distributor proposals into effect.

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## Building working partnerships

Building effective partnerships usually takes two to three years because they must be earned, not merely declared. The manufacturer's distributor programs are the basic implementation tools. These programs should be designed to meet distributor requirements and furnish benefits that surpass those of the competition.

Companies seeking to initiate or resuscitate distributor relationships can take any of three approaches to develop distributor programs:

### 1 Get the benefit of industry experience.

Several years ago, a Du Pont division decided to start selling Tyvek, a spun-bonded olefin that can be used for home insulation, through building products distributors. Rather than assume that the division had all the answers on steps to take, management obtained from a building products distributor association the name of a consultant who had been a distributor for many years. The consultant helped Du Pont draft a distributor marketing plan, select the distributors, and implement initial programs. The division has been pleased with the results.

### 2 Establish a position in the distribution marketplace.

In the early 1980s, Cherry Electrical Products, a manufacturer of electrical switches and electronic keyboards, displays, and components, noticed a dramatic rise in sales through electronics distributors, while its own sales through distributors plateaued. Determined to improve its productivity, Cherry hired a

new distributor marketing manager and charged him with revamping its distribution network.

He set to work by calling on end users, distributors, and manufacturers' reps. He gathered information on how distributors marketed electronic components, distributor requirements, and on what programs competitors were using. Thereupon the new manager rewrote company policies, revised the distributor discount system, and devised a set of marketing programs. These efforts created Cherry's reputation not only as a manufacturer of quality products and first-rate services but also as a company committed to its distributors. Cherry maintains its position by making every effort to meet changing distributor needs and by offering an array of superior distributor programs.

### 3 Devise a formal distributor marketing plan.

This plan should be written for the whole network and then broken down individually. The plan should include the following: a situation analysis, describing the network's makeup and activities; an opportunities and threats section, identifying the business situations the company should capitalize on or avoid; an objectives section, detailing sales quotas, products, and markets to receive special attention; a basic requirements analysis, spelling out the kinds of support distributors will need in the coming year to meet objectives and seize market opportunities; a distributor programs section, describing all the manufacturer's marketing actions for the coming year designed to meet distributor requirements; and finally, a control section, charting a timetable for program implementation and assigning responsibilities for execution.

If the manufacturer takes the time to obtain distributors' input for the plan, they will be likely to perceive it as their plan and work hard to implement it.

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## Developing sound communication

An essential ingredient for successful partnerships is sound, two-way communication between a manufacturer and its distributors that occurs at multiple levels and uses a variety of communication means. Communication between the manufacturer's order center or inside salesperson and the distributor's purchasing manager is extremely important since

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*"C'mon in and make yourself a drink while I slip into something a little less powerful."*

these individuals deal with each other more often than any others in the partnership. The manufacturer's order center personnel or inside salespeople, therefore, should be well qualified and trained.

These employees must take distributors' orders accurately and cheerfully, comprehend and work to resolve their problems, respond quickly to distributors' requests, know the names of their counterparts, be familiar with the distributors' history, and use their contacts to gather market information. Cherry Electrical Products assigns each distributor to a pair of inside salespeople. Although one person has primary responsibility for the distributor's orders, both are familiar with the distributor and can take orders and respond to problems.

Contacts between the manufacturer's outside salesperson and the distributor's top officers, purchasing managers, and salespeople should be nurtured. When visiting a distributor, the outside salesperson should help explain policy changes, gather distributor suggestions and market information, demonstrate products and merchandising tools, solve problems, train distributor sales and technical people on proper procedures and product applications, and conduct joint sales calls.

Because outside salespeople often get promoted, change territories, or quit, the distributor

marketing manager should make periodic calls on the president or CEO of each distributorship. The manager should explain major policy changes, review mutual performance, plan joint marketing programs, and generally reinforce the working partnership. Dayco takes this approach one step further. Each year, all its distributor marketing managers, the president, and even the chairman of the board make selected calls on distributors to demonstrate the importance of each distributor to Dayco.

While face-to-face contacts have the greatest impact on distributors, they are obviously the most expensive communication option. They should be used mainly to resolve differences, explain new products or policy changes, or review performance. Timken, for instance, makes a point of announcing all of its major policy and program changes to the distributor in person to permit full explanation and full responses to questions.

Quite a few manufacturers (Du Pont and Dayco, for example) use newsletters to inform distributors about new products and applications, personnel changes, distribution news, and human interest stories. Finally, with the boom in VCR sales, many manufacturers such as Parker Hannifin are communicating via videotape. The cassettes can contain messages to distributors from the manufacturer's senior

management, training programs, and promotional information [such as new product application stories].

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### Signaling commitment

To gain the benefits of a productive working partnership, manufacturers must demonstrate that they are committed to distributors for the long term. Companies boasting successful distributor partnerships usually have the most competent and best-trained field sales forces in their industries (signaling by this that they expect the best from their distributors).

Lincoln Electric, a manufacturer of arc-welding equipment and supplies, hires graduate engineers for its field sales positions. As part of their eight-month training program, they attend welding school and become certified welders. Before promotion to a field sales position, each trainee also must do what generations of sales trainees have done, demonstrate his or her ability to find a welding-related potential cost reduction at the company's production facility. When placed in the field, these knowledgeable salespeople are a useful resource to Lincoln Electric's distributors and customers on efficient welding technology and applications.

Another way to communicate confidence in distributors is to refer all customer inquiries and requests to them. Timken, for instance, encourages customers to seek technical assistance on minor difficulties from distributors. Timken handles only major problems. Du Pont's Chemicals and Pigments Division does not publish a less-than-truckload price list; LTL quantities are sold exclusively by distributors. Du Pont refers callers asking for an LTL price quote to distributors, thereby demonstrating that the company will not take business away from them.

Finally, manufacturers that limit the number of distributors per trading area are indicating that they want their distributor partners to be successful. When selective distribution is used, authorized distributors gain status and an enhanced local reputation, which can motivate them to sell aggressively. Square D and Parker Hannifin are just two examples of manufacturers whose distributors prominently display their authorized distributorship signs and strive to perform up to the manufacturers' reputations. Of course, multiple distributors are justified when a trading area's potential sales are extremely large; similarly, different types of distributors may have to be used when a market contains radically different types of customers. The key for the manufacturer is to be aware of the level of sales potential per trading area.

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### Passing the critical incident test

Incidents in which the distributor critically needs the manufacturer's assistance eventually come up in all relationships. For a working partnership to evolve, the manufacturer must respond decisively and meet this critical need so as to reinforce the importance and quality of the partnership in the distributor's mind.

Manufacturers excelling in marketing through distributors can usually cite stories of situations in which they came through in the clutch. Dayco provides an excellent example. Several years ago, an industrial distributor needed to place an emergency order but could not get through to Dayco's order center. He was, however, able to phone Dayco's chairman of the board because the chairman makes a point of being accessible to all the distributors.

Rather than turn the distributor over to a subordinate, the chairman listened carefully to him, worked up a three-page order, and later made sure that the order had been filled. This story sent a loud and clear message to everyone in Dayco's organization and distribution system. To be able to deal with critical incidents, a manufacturer must train its personnel, especially sales and order center people, to be sensitive to distributors' key concerns, including product delivery, pricing, and credit.

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### Managing these partnerships

What action can manufacturers take to improve the productivity of their distributor partnerships? The main short-run task is to ensure that operational promises are kept. Distributors want delivery within stated lead times, quality products that are not defective, adequate promotional and merchandising support, and rapid technical problem-solving assistance. Manufacturers must coordinate sales activities with those of the transportation and manufacturing people so that delivery promises will be kept. To facilitate problem solving, Cherry Electrical Products has a policy of rapid, in-kind response (for example, if distributors call, Cherry responds by phone).

Over time, a manufacturer must develop a reputation for equitable policies that are consistently and uniformly implemented. Policies that are grounded in marketplace realities, that are in tune with distributor requirements, and that are well publicized will accomplish this. To underscore its consistent and uni-

form dealings with all its distributors, Square D in the mid-1960s published portions of its distributor policies in full-page advertisements in *Electrical Wholesaling*.

Manufacturers must be able to defuse the occasional disputes that inevitably arise. The key to turning problems into opportunities is launching an immediate resolution attempt. If after investigation you determine that the distributor has caused the problem, present its executives with your conclusions supported by the facts. If the problem is your fault, tell the distributor what you plan to do to resolve it. Be sure also to check whether the problem is widespread, and if it is, determine how to solve it systemwide. Inform all distributors of any policy or program changes needed to resolve the issue.

Look at how Lincoln Electric works with its distributors to meet the challenges of a changing marketplace. To deal with intense price competition, the company has devised what it calls the "Guaranteed Cost Reduction Program" for its distributors; whenever a customer requests that a distributor lower its prices on Lincoln supplies and equipment to meet those of competitive manufacturers, the company and the particular distributor guarantee in writing that they will find cost reductions in the customer's plant during the coming year that meet or exceed the price difference between Lincoln's products and the competition's. The Lincoln sales rep and distributor counterpart together survey the customer's operations, identify possible cost reductions, and help to implement them.

At the end of the year, the customer independently audits performance. If the cost savings do not match those promised, Lincoln Electric and the distributor pay the customer the difference (Lincoln contributes 70%). All the customer has to do is continue buying Lincoln Electric products from the distributor. To date, individual customers have reaped up to \$100,000 in annual cost savings and, more important, Lincoln has reinforced its relationships with its distributors.

Finally, in sustaining long-term working partnerships, manufacturers should plan for the future. Dayco uses an intriguing program, called "Aftermarket 2000," to accomplish long-term continuity in its partnerships. Each year, Dayco sponsors a week-long retreat for 20 young distributor executives and 20 young Dayco executives that features notable speakers, seminars on future economic and market trends, and most important, plenty of time to interact. In this way, the future senior executives of Dayco and its distributors have an opportunity to get to know each other and develop over time the mutual trust and understanding that will be critical to the continued success of Dayco and its distributors. Such a program can help to alleviate the problem of starting all over again when managements change.

Building productive partnerships with industrial distributors takes years of effort. When the effort is successful, the partnership can be expected to yield the following results:

- 1 Motivation for superior effort and performance from both parties.
- 2 An atmosphere of goodwill that produces a willingness to overlook inevitable mistakes.
- 3 A reduction in the distributor turnover rate and a consequent lowering of the manufacturer's costs of bringing new distributors into the network.
- 4 Coordinated performance in the marketplace, with satisfied end users who are loyal to both the manufacturer and the distributor.

Clearly, building sound partnerships is worth the effort. ☺