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In Distributor/Supplier Relationships: Knowledge is Power

by Frank Hurtte

American management Guru Peter Drucker said, “Today knowledge has power. It controls access to opportunity and advancement.” I believe that in the world of distribution lack of knowledge has a dangerously explosive power. A “knowledge void” creates a negative energy spin damaging to everything in its wake. Lack of visibility is what we are talking about. Lack of visibility hampers the communication (and sales) process from Manufacturer Supplier to Distributor all along the channel.

When sales trend upward, issues caused by lack of knowledge seem to work themselves out. Regardless of true cause, everyone imagines it’s his or her own agendas driving the growth bonanza. During these times of plenty very little scrutiny is placed on the sales process. In interviews with different levels within the channel, I have found multiple explanations for the growth phenomenon.

The Distributor Salesperson claims prosperity is coming from her ability to relate to parts managers in the customer organization. The Distributors Sales Manager tells me it’s the result of a newly implemented project tracking system. And, miles away at the supplier’s sales office, the Local Rep relates the story of his company’s successful re-launch of a product long respected in the market. When I confront the group with this observation, they smile and agree it must be a witches’ brew of each person’s individual contribution. When we are again separated, each remarks that their contribution was most responsible for the gains. Human nature being what it is, I would guess that when questions trickle down the chain of command, each of these people give their boss a “rosy” view of the present condition.

When sales direction takes a turn for the worse, it creates a new and not so friendly environment. Every step in the sales chain – Manufacturer’s national headquarters to District Sales Manager to Local Rep to Distributor Sales Manager to Distributor Sales Person – knows they personally haven’t changed their sales tactic. And, with this, a knowledge void begins to form. Social scientists tell us lack of information leads to anxiety. And I can tell you that anxiety is bad for business relationships.

If we examine what happens on a micro scale, we might observe the following. On the second month of a downward trend, red flags begin to appear. (To exacerbate matters, by the time the signals are in place, we are well into month three.) The Distributor Salesperson knows something is going on and begins talking about a number of issues. These could be a downturn in the local economy, the decision to postpone a key capitol project, the replacement of old products with new lower priced ones, or a new (and evil) competitor slashing prices. The Distributor Manager informally polls the sales force for other plausible explanations. The Local Rep offers to “remove any price obstacles” in closing orders. More times than we care to admit, these conversations have been held in a data free environment.

The anxiety level is ratcheted up a notch when a call comes from the Manufacturer’s Headquarters to the local sales office. The dialog looks something like this.

National VP of Sales: “What’s happening out there, sales were doing fine but for the past couple of months, things aren’t going right. Are you executing that new product launch we discussed last summer?”

Local Rep: “I just finished visiting all of my distributor locations talking about the launch. I’m working the plan like crazy.”

National VP of Sales: “Is that distributor following all the rules? I noticed a couple of reports where their name didn’t appear.”



Frank Hurtte of River Heights Consulting combines “in the trenches” experience with long range strategic thinking.

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Local Rep: "I really don't know, sometimes, they don't seem to be interested in following all the rules. They are never 100% on board."

National VP of Sales: "Remember, our motto is execution not excuses... get it going!"

This short phone call just lit the fuse on the "knowledge void" time bomb. The National VP doesn't really know the distributor that well. To be brutally honest he barely knows the Local Rep. The Local Rep is nervous and may feel that his/her own quality of work is being questioned. When the Local Rep is put into this situation, a number of unpleasant options come to the surface. To relieve pressure from above, the Local Rep may begin to look for faults (real or imagined) at his distributor. Past policy issues - no matter how petty - rise to the surface. Returns are questioned, inventory levels are criticized, and the idiosyncrasies of distributor people grow to massive proportion. Significant orders are steered to secondary distributors in hopes of bagging a "stock boost order". And, in too many instances, the Local Rep takes orders direct to prove to his/her management that "they aren't the issue" and "they are aggressive sales people".

The antidote to this horror story is knowledge. Knowledge will drive behavior and work to build strong powerful relationships and you have this at your fingertips. Sales data, customer activity data, and billing data should be shared up and down the sales channel. The data should be shared in good times and bad times. Here are some examples of how the data might be sliced:

<u>Old Message</u>	<u>New Data</u>
Sales are up Sales are down	Number of customers
	Number of new customers
	Number of customers lost
	Average order size
	Number of orders
	Top 5 customers % up - down
	"Target" account % up - down
	New customer % up - down
	Total number of customers up vs. down
	Your product line vs. all product lines

Table 1: Suggested Data for Today's Comparison

Other more sophisticated (but still worth considering) metrics for discussion might be sales results along specific industry groupings or SIC codes. With future technology and refined selling tools (process oriented selling, disciplined selling, and others) we will easily be able to measure and track the proactive variables of sales. These might consist of such things as projects above the funnel, number of prospecting calls, new contacts added and technology users touched.

In a perfect world, POS data might answer many of the questions outlined above. However, the current situation is most companies receiving POS data from their distributors have yet to developed tools for fast turnaround and easy interpretation of the data. Even if you participate in POS programs don't assume your counterpart has this information, or understands the ramifications of the raw data.

With product lines important to your future, I suggest a regular (read that quarterly in good times and bi-monthly in bad times) discussion of this data. Keep a running scorecard of your performance. Keep a record of metrics for all lines vs. specific targeted lines. In a short meeting format, discuss your interpretation of the data. Ask for additional interpretation from your Local Rep. Log the meetings and record the interpretations for later review. And, on a bi-annual basis share the progress you are making with your Manufacturer's Corporate Headquarters. The act of discussing data will endear you and serve to develop your relationship. Looking at your situation from a different perspective will sharpen your skills of perception.

About the author...

Frank Hurtte (frankehurte@riverheightsconsulting.com) is a consultant to distribution and the sales channel at River Heights Consulting. He has 28 years of real world experience and is available as a speaker and executive coach. He has written a number of articles and white papers on distribution and the selling process. Frank looks at the distributor manufacturer relationship from a number of different angles. You can contact Frank at 563-514-1104 or through www.riverheightsconsulting.com.