

# The perfect distributor in the eyes of a rep

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Before delving into the subjects of perfection and distribution, I feel compelled to make an observation. Isn't it obvious that electronic distributors have done a lot of the "right things" in the process of growing their businesses to a whopping industry total in excess of \$50 billion dollars (so what if 50% is with the "A" team)? It took roughly 80 years of nearly perfect decisions and hard work to move from "Radio Row" on New York's lower west side to cyberspace and ultimately prosper in a global economy. I hope that their future will be equally as successful as their past.

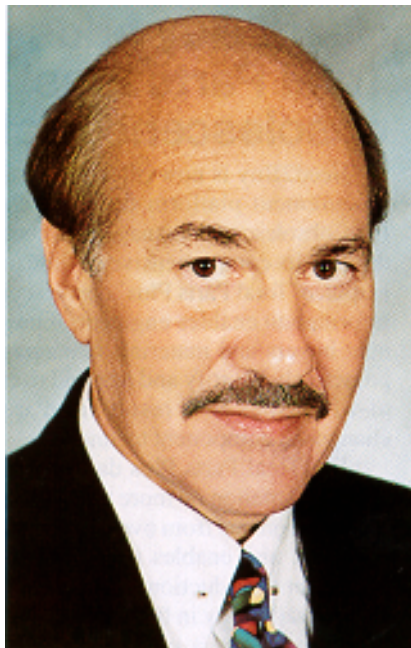
If perfection could be picked from trees, distributors would undeniably be the world's greatest harvesters. If investments in people, computer systems, automated warehouses and facilities made for perfection, electronic distribution would be the world's most efficient and profitable of all business enterprises. If stating "we are the best" made them perfect, then distributors would easily be looked upon as the ultimate in perfection. But au contraire! They aren't so perfect, but-to their credit-they feverishly strive to be!

Distributors are fiercely competitive (and that may be an understatement)! They spend billions of dollars to gain a competitive edge on their brethren. If they can't beat them, they eat them (pardon me, buy them), thus consuming their competition and that sometimes makes for "financial indigestion." Bottom line profits have been disappointing in light of debt service and now-soft market conditions. However, it is all in the interest of being more perfect as they fight, scratch and claw for greater market share. Will they ever be perfect? Obviously not! "Perfection" would mean achieving 100% market share at targeted

profit levels. Let's examine what comprises the PERFECT DISTRIBUTOR.

## TALENT

Distributors have a reputation for seeking the most skilled people money can buy. There is no doubt they have recruited some of the most talented sales, marketing, operations and administrative types in the industry, if not the world. However, there is a problem-they have a difficult time keeping them. Perfection would mean stability, but pirating (pardon me, recruiting) is very much the "norm" in the distribution world and it has contributed to inflated staff incomes and lower corporate net profit income percentages. The perfect distributor would employ perfect people, who never leave. This won't happen, but it remains a lofty goal. Today, one of the distributor's greatest threats is the talent raid of other distributors and-to a lesser extent-B2B companies. They offer huge salaries, incentives, stock options and the proverbial "golden parachute." This also entails a high "risk factor" in our indus-



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## PROFIT MARGINS

The perfect distributor generates respectable profit margins for investors and owners. They don't give away precious margin points for the sake of market share. If they do, they do not complain about it. If that's the way some distributors choose to make their bed, they should be perfectly content to sleep in it. Incidentally, it was only a few years ago that distributors were trying to reduce their cost of sales to 8% and now it is not unusual to see them selling at 8% gross profit margins. If you see me at EDS, please explain this one. I thought I was fairly intelligent, but in this case I'm thoroughly confused.

## CUSTOMER SERVICE

This is one area where distributors have truly excelled - they have to in order to differentiate themselves from other distributors selling the same commodities and, in many cases, the same exact product lines. Do any distributors have perfect customer service? Absolutely not - how can they? They receive imperfect information from imperfect people employed by imperfect manufacturers, who supply imperfect products. And yes, I dare say they are sold by imperfect reps and factory personnel. Nonetheless, our industry strives to be as perfect, if not more so, as any in the world. Distributors have equipped their customer service professionals with billions of dollars of hardware and software tools. If you don't think that's a lot of money, keep in mind they update and change every few years. No wonder there is bottom line pressure and all of this for the sake of world class, flexible and responsive customer service.

## #@!## SERVICES

Every distributor has a different way of stating and selling "VALUE ADDED." Many of the acronyms look like "mumbo jumbo," but it's all in the name of perfect services and, frankly, it all looks the same to me. How many ways are there to express the following services:

1. EDI (Electronic Data Interchange)
2. Technical support (FAE's) and Internet design center
3. JIT (Just-In-Time)
4. T&M (test and measurement)
5. In-plant stores with terminals
6. Dock-to-stock
7. Auto replenishment

8. On-line catalogs, stock checks, order entry and expedites
9. Kitting programs
10. ISO certification
11. ASIC and software design assistance
12. Bar coding
13. Assembly services
14. Inventory management
15. BOM (bill of material) pricing
16. Transaction cost reduction
17. Device programming
18. Total cost analysis
19. Consigned or Kan Ban inventory
20. Technology seminars

#### TECHNICAL SUPPORT

Part of being a perfect distributor entails technical assistance and they do a great job of it. Do they create demand? No! The OEM's design engineers create the demand and the distributor team is chartered to recognize and fulfill the opportunity. But isn't this the job of professional sales engineers employed by both manufacturers' representatives and direct sales forces? The perfect distributor acknowledges that it is a TEAM EFFORT and does not pompously attempt to take all of the credit. He or she congratulates all of the parties that helped generate the "design win." The perfect distributor realizes that WE WIN AND LOSE AS A TEAM. Distributors, like many reps and suppliers, employ highly trained, knowledgeable and technically competent personnel. Often these are referred to as FAE's, who are highly credentialed with degrees and advanced training.

#### RELATIONSHIPS

The perfect distributor realizes that success is built on relationships of the entire supply chain and not just the customer base. To accomplish their goals perfect distributors work closely with reps and factory personnel. In today's world, we sell relationships first and products second. We must all "deliver value" to our customers. The perfect distributor is just as friendly and respectful to manufacturers' reps as they are to factory-direct personnel. The difference in how they interact should be seamless and transparent.

#### SENSITIVE STUFF

Now the touchy and sensitive area- Do the large mega distributors try to "strong arm" their suppliers at the expense of the smaller distributors? Would the perfect distributor use bully tactics in order to get preferred pricing and al-

location? I think so, because the perfect distributor has smart management who understand anatomy-muscles and pressure points. Would you do the same?

Is the perfect distributor loyal to a given product line or their bottom line??? Ouch! Now that's a touchy one that I'll expound on at some future time, but let's think about it.

#### CHANNEL CHAOS

In order to get ahead and stay ahead, electronic distributors have been in a mode of "merging and purging." Is this bad? No! They do what they believe is best for their company. Is there "channel chaos"?? Yes, especially if you are a buyer, who is very selective and sensitive of sourcing and vendor reduction programs. How about the component manufacturer trying to manage a network of distributors? They need a scorecard! Just when they think they've pruned their distribution network to the proper number, the "A" team makes another acquisition. Is it out of control! I think so, but you be the judge.

#### FORECASTING

Does the perfect distributor give suppliers the perfect forecast. No, and please stop asking them for it. Can you forecast the stock market'? Did the TV networks pick or project our new president-especially in Florida'? Can you forecast your customers' business'? The perfect distributor has their limitations and this is clearly one of them. Good forecasts are more likely to come from customers' marketing departments, not their purchasing departments. It is virtually impossible to forecast for your customer's customers.

#### WEB SITES

Congratulations! The perfect electronic distributors have developed, maintained and continually improved the best web sites in the world. They link, they think and they interact. They provide EDI, pricing, technical assistance and a world of smarts. I'm convinced that there are more webmasters inhabiting the world of distribution than any other specialists. I'm obviously impressed. How can anyone argue about the wealth of information that distributors provide their customers and suppliers-they're great!

In regard to e-commerce and B2B, the perfect distributor is ready for it. Personally, I am a bit skeptical. Expectations appear to exceed reality. It's still a P2P (people-to-people) world and re-

lationship selling is an inherent part of the equation. B2C was clearly overhyped and I believe the same is true of its brother, B2B.

#### INVENTORY

The perfect distributors want inventory, but can they afford it! Nobody seems to want stock unless it's on consignment or Kan Ban. It's like the proverbial hot potato. I hear conversations - "You carry it." "No, you take it," or "I'll take it as long as I get it JUST IN TIME." or "How about terms (extended billing)?" The cost of carrying an inventory will be a challenge for most perfect distributors and their suppliers. The pressures of customers for "cost reduction" make inventory expense look like a Herculean challenge. In a perfect world, we would have virtual Inventory. (Oops, I was dreaming!) Another challenge is product obsolescence. The perfect distributors and perfect suppliers will develop a program where neither party gets stuck with "lagging edge" components that have no home. That reminds me of the old Fats Domino song, "Ain't Got A Home," but it's true!

#### RESPONSIBILITIES

Perfect distributors know what is expected of them by customers and suppliers (both rep and direct). They communicate openly, honestly and frequently with their suppliers' sales force. They provide accurate and honest "meet comps" and "point-of-sale" information. I hasten to add they do it in a timely manner. They don't cross over "design wins" without a courtesy call telling their supplier why. They try to act as "partners" in the truest sense of the word and that means TRUST. This means all parties in the supply chain and not just one.

New opportunities are shared with suppliers and conversely the suppliers share their opportunities with their distributors. Exceptions are based on the buyer's preference or specific instruction. Product training is a shared responsibility with the manufacturer's sales force-rep or direct. Both make the time and understand priorities.

#### PARTNERSHIPS

The perfect distributor thinks as a partner. They don't think "What's in it for me?" Their approach is "What's in it for us?" Okay, I'm stretching, but I can dream, can't I?

The perfect distributor is collaborative with their partners. They trust and respect. They communicate openly, but

more importantly they have a shared vision for success.

#### PARADIGMS

If you think our industry has paradigms, "you ain't seen nothin' yet." I believe that the distributors you think are close to perfection today won't be recognizable in the near future. We are rapidly approaching the era of "super specialization." This can best be accomplished by experts, who truly understand the product, the market and their applications. These are the guys who can truly "add value" and not acronyms. Also, I question if global distributors can bear the weight and burden of carrying 300 to 500 product lines. They just are NOT THAT PERFECT! This should not come as a shock, but the time is VERY RIPE for the narrow line niche distributor. By the way, if you were not aware of it, the limited line specialist has been outperforming the broad line global distributors for years-bottom line speaking. Who? I'll give you a hint-the name of their company has two "T's" and one "I." Give me a call if you can't figure it out.

#### TRENDS

The perfect distributor is mindful of the evolution of their function from component fulfillment to supply chain management and the aforementioned "value added services." I do not believe that the traditional fulfillment role will meet tomorrow's business model. As the old industry proverb states, "Whatever got you where you are today won't be good enough to keep you there." It's an acknowledged fact that our industry changes with startling speed and that means dramatic changes on a continued basis. The perfect distributor will experience greater challenges from their customers than their competition.

#### SUMMARY

Distributors have come a long way in perfecting their multitude of services -both financially and logistically. They have mastered high-speed, low-cost delivery and inventory management solutions. Perfect? No, but the electronic distributors do it better than any other market segment in the world and for that they are to be commended. They put their money where their mouth is for the sake of perfection. The future will bear some turbulent times and I believe that only the smartest and most adaptable distributors will survive. They truly will be the MOST PERFECT of all.

**The perfect distributor helps make**

**their customers, suppliers and themselves more profitable, while growing their market share.**