

## Ten Tips: Distributors Need to Make Money Too!

Export managers rarely think about how much money a distributor is making from representing their company. Big mistake! How often do you think about your own salary? How do you feel when you get a raise? Or no bonus or a reduction of salary? Most distributors are family owned operations, relying on net profit margins in the 3-5 percent range. Distributors make money on scale, always looking to attract companies with existing sales versus pioneering risky new product ventures.

### 1. Calculate how much revenue your distributor sources from representing your company.

A quick estimate can be generated from net sales multiplied by the distributor margin.

### 2. What is the work required to build your brand?

How much of the distributor's resources will you need to achieve your mutual objectives? Is your brand a tough sale, or growing a popular item? Dedicated brand manager or shared?

### 3. How much complexity is involved with your business?

Number of items in your product portfolio? Shelf life? Temperature control logistics? Highly competitive category or "niche?" Every day low price or frequent promotions? Average order size? How much help (pressure!) from manufacturer? Marketing budget? These inputs directly impact distributor profitability.

### 4. Distributor margin is the first place where they generate income!

Distributor executives receive salaries and "owner-operator" benefits like travel, cars, and jobs for family members. Country level price calculations are usually based upon the most expensive customer. A distributor gains income when other customers do not receive similar discounts and rebates.

### 5. All distributor margins are not equal!

The key is to examine "what's included." Some margins appear high, but could include periodic trade price promotions. Others margins may be lower on the surface, but then allocate separate line item add-ons for logistics, administrative overhead, or distributor profit margin.

### 6. Pioneering is extremely difficult!

It may take one year from the time of your first discussion with a distributor to the time he receives trade payment for his first shipment. Normally, a distributor must allocate his team resources for up to a year, with hope for a long term payout. This is a difficult gamble. Manufacturers must remember this fact, and understand when distributors refuse to partner with a company with no existing sales.

### 7. Marketing investment drives distributor Income.

Funding required consumer and trade marketing investments stimulates sales. Higher sales generally translates to higher distributor profit. No investment leads to marginal sales and lower distributor revenue.



### 8. Price increases: tough to execute, but pay raise for distributor

Customers are reluctant to accept price increases, because they hate to raise prices to the consumer. However, currency fluctuations and raw material prices force manufacturers to take price increases. Many distributors are very open to a timely, competitive price increase. Higher invoiced case costs deliver greater returns at a consistent margin, except if volume suffers.

### 9. Consider direct talks on margin and compensation

Most employees enjoy an annual performance and salary review. Many distributors would welcome a review of compensation trends. This would include sales, resource allocation, currency fluctuation, trade payment and competitive activity.

### 10. Open dialogue on alternate financial models

A company with critical mass may operate on an "open book," cost plus model with a distributor. A large brand may benefit from margin rebates when certain volume thresholds are met. Another approach involves manufacturer funding of a dedicated "team within a team" at a distributor. For a small brand or new entry, consider a monthly retainer fee to cover six month start-up period. Another is an incentive program which rewards the distributor for achieving volume targets.

### 11. Helpers are heroes!

Many distributors literally write the check for your invoice from their own funds. Frequently it is difficult for small-mid size distributors to dictate payment terms to multinational retailers. This forces distributors to swallow price increases, extra retailer fee demands, currency impact etc. Large brand owners that serve as caring partners that "help" will be rewarded with a healthier distributor and more focus on their priorities from an appreciative distributor.

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