



# Do suppliers and distributors need each other?

**By understanding each partner's total value package and communicating expectations, channel partners can improve their working relationships.**

*by Ed Rigsbee*

In recent years, many manufacturers have scrutinized their supply chain strategies. Many wonder if their traditional manufacturer-distributor or end-user strategy still serves. They ask, "Do we need each other?" especially in reference to their distribution partners. Some adhered to tradition, others changed directions.

Why have manufacturers considered disrupting the supply chain? Is it greed?

The quick and easy answer to this complex question is value. Have you ever visited a restaurant and been disappointed? Remember the time you read the menu, ordered something exciting and anticipated a great meal? But you were disappointed because your meal either was not as advertised, was a much smaller portion than you expected or just plain tasted lousy. In your mind, the meal wasn't worth the price, was it? There wasn't enough value for the price.

It is no different in the supply chain.

When they outsource distribution functions and pay a distributor to perform a service, manufacturers want mind share and sales penetration. And, they want it at a price lower than they could do it themselves, otherwise why outsource? Perhaps you might say, "To concentrate on their core strength, manufacturing, rather than dilute themselves with sales and distribution activities." Perhaps.

My broad-brush distribution statement, dangerous as it sounds, is this: Too many distributors don't deliver the value their principles/sources/suppliers need or want. To compete in today's highly competitive global market, you must be world-class. World-class means you are in the top 20 percent of companies that do what you do. Are you? (Stop here for a moment and let the question sink in.)

If you answered no, I'm sorry for you. But if you answered yes, the world is full of possibility. For those that endeavor to perform at world-class levels, small things can make a big difference. While relationships are considered soft skills, nonetheless, relationships are crucial to your success.

Over the last decade, my research has revealed that communication is one of the major pitfalls to business relationship success. The research also reveals that the term partnering has been bastardized to the level of absurdity. Too often, the partnering paradigm means: Do what I say and we're partners. That is pure bunk.

Today, the manufacturers and distributors that perform at world-class levels embrace partnering and alliance relationships as if their livelihood depended on it. That's because it does. Every relationship between a manufacturer and a distributor falls on a continuum someplace between adversarial and complementary.

Where do yours fall?

### Three relationship levels

There are basically three levels of buyer/seller relationships. The first and most common relationship level is *Adversarial*. This is the traditional win-relinquish relationship where you, the buyer, squeeze your principle/supplier for the very last bit of a discount. Or, you the manufacturer, compress the commission/compensation rate of your distributors so low, they cannot deliver the services you demand. You are determined to get the last drop! Neither is focused on the real cost of doing business with one another but only concerned with getting the absolutely lowest price. This is a transactional only relationship.

Next is the *Barometric* relationship. In a Barometric buyer/seller relationship, you are always checking the atmospheric pressure, meaning the relationship is still being monitored and measured closely. Generally, you have not yet developed a high level of trust with one another. It could be a single-source relationship but with a short contract. While this relationship can grow and flourish, it can also sour quickly. Few people thrive while others constantly peek over their shoulder. In this type of relationship, each side must still engage in CYA (cover your assets).

The highest level buyer/seller or manufacturer/distributor relationship is *Complementary*. This level is where true integral partnering takes place. At this level, the visions and values of each organization overlap one another. There is a true alignment of values. Each understands the needs of their alliance partner and works hard to help their partner get what they need while likewise serving their own organization. Terms frequently used in this level of relationship include:

- ◆ Trust
- ◆ Value

- ◆ Delivering mind-share
- ◆ Value-based purchasing
- ◆ Sole-source relationships
- ◆ Vendor managed inventorying (VMI)
- ◆ Just-in-time (JIT) shipments and
- ◆ Electronic data interchange (EDI)

The best way to get to the complementary relationship level is by delivering anticipated value. But, how does an organization overcome unrealistic expectations of another? First, through understanding your Total Value Package (TVP). Your TVP is all that you offer your supply chain alliance partners on both the buy and sell sides. Second, it is through Relationship Value Updates (RVUs). Through the RVU process, you can understand and determine the value your alliance partner needs. Then you decide if you want to give it to them. If you don't understand the value they need, how can you begin to meet their expectations of you?

Quarterly RVUs are best, but semiannually works if you are serious about building complementary level relationships. The idea is to limit the negative conversations with your alliance partner when expectations are not met. Unfortunately, unrealistic expectations are common in alliance relationships.

The most effective way to administer RVUs is for you and your partner to complete the RVU and send it to one another. Do not exchange them in person, because self-protection can rear its ugly head.

This approach can help manufacturers and distributors understand how others perceive them. Additionally, when you realize that some things you do for your channel partner create high-level value for them and costs you little, you may be inclined to do more. Conversely, when you realize that some things you do for your supply chain partner create little value and cost you a bundle, you'll quickly cut back in that area. (For more information on RVUs, see the article, Keeping Your Alliance Alive & Healthy, at [www.rigsbee.com](http://www.rigsbee.com).) Manufacturers and distributors, I ask you, "Do you need each other?" For those that perform at world-class levels and deliver high-value services, my answer is, "Absolutely." @

Ed Rigsbee, CSP, is the author of three business relationship books: *PartnerShift -- How to Profit from the Partnering Trend*, *Developing Strategic Alliances* and *The Art of Partnering*. Rigsbee has more than 500 published articles to his credit and is a regular keynote presenter at corporate and trade association conferences across North America. He can be reached at (800) 839-1520 or [EdRigsbee@aol.com](mailto:EdRigsbee@aol.com).