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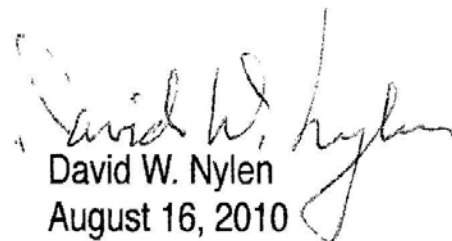
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David W. Nylen
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C.42 Wholesaler Selection

THE CHARACTERISTICS OF WHOLESALERS

Selection of wholesalers is a decision made as part of the design of the channel of distribution. The selection is made after the **direct versus indirect distribution** decision (GLOSSARY entry C.10), the **distribution intensity** decision (GLOSSARY entry C.12), and probably after the **retailer selection** decision (GLOSSARY entry C.33) since it is dependent on all of these.

The Functions of Wholesalers. A wholesaler is a middleman who sells primarily to other wholesalers, retailers, or commercial and governmental organizations, but not to end consumers. The names given to organizations involved in wholesaling vary by industry, but include wholesalers, jobbers, distributors, agents, representatives, brokers, and other terms. Some of these terms are further defined below, but marketers need to learn the prevailing usage in their particular industry.

As middlemen, wholesalers provide services to both the manufacturer whose products they sell and to their customers to whom they sell products. Wholesalers serve as purchasing agents for their customers, assembling and offering an assortment of merchandise that meets their customers' needs.¹ Wholesalers, depending upon their type, offer a variety of marketing services to manufacturers employing them. Among the functions that may be performed are these:

- **Customer Base.** Wholesalers are primarily valued because they offer access to their customer base. They provide a channel for bringing a manufacturer's product to the retailers

or other organizations that the wholesaler regularly serves. Wholesalers tend not to be strong at prospecting for new customers outside their established base.

- **Product Promotion.** Wholesalers promote the products of manufacturers to their customer base. In most cases, the **promotional mix** of wholesalers is dominated by personal selling. However, those wholesalers with long lines of products are most interested in selling the total assortment to current customers. They tend to be order takers. It is difficult to get these wholesalers to focus special sales effort on a particular product.
- **Physical Distribution.** In some cases, wholesalers warehouse inventories of manufacturer's products and provide for their delivery to purchasers. Modern wholesalers have highly efficient automated warehousing facilities and computerized order processing systems.
- **Financial.** Wholesalers may finance the inventory of the manufacturers by purchasing and taking title to it. In so doing, they also assume the financial risk of its damage or obsolescence. Wholesalers may further finance distribution by extending credit to their customers on product purchases.
- **Informational.** Wholesalers serve as a source of information on the market, particularly on the buying behavior and product reactions of their customer base. However, wholesalers seldom take the initiative in communicating information back to manufacturers from the marketplace.

Wholesalers vary in the amount and quality of these services performed for manufacturers. However, all of these middleman functions must be performed by someone in the channel of distribution. Manufacturers that select wholesalers providing only a portion of these services must find an alternative way of performing the functions, usually by performing them themselves.

Classes of Wholesalers. Wholesalers can be classified by the level of services offered,

¹See Phillip McVey, "Are Distribution Channels What the Textbooks Say?" *Journal of Marketing* 24 (January 1960), pp. 61-64.

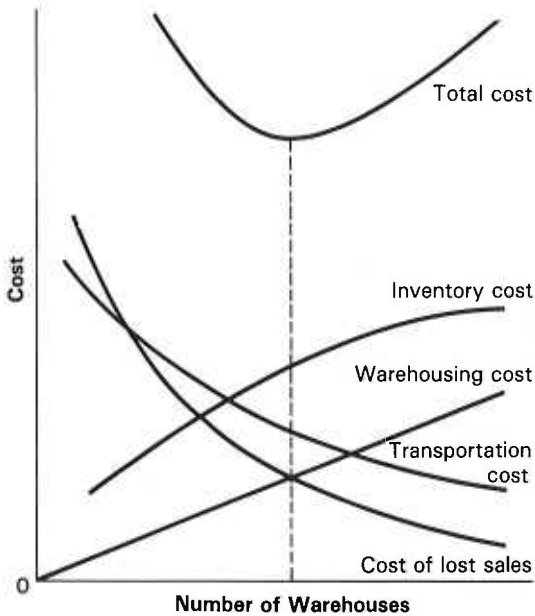


FIGURE C.41-2

Total Cost and Number of Warehouses

bulk shipments and provide the fastest delivery to customers.

- **Production Located.** Production-located warehouses are positioned at points that are close to multiple production plants. These warehouses serve as collection points for the output of different plants. They permit the customer to purchase the assortment of products needed from a single source. Consolidation of orders may result in lower transportation costs than if shipped separately from different plants.
- **Intermediate Locations.** When production plants are geographically decentralized, location of warehouses between customers and the production plants may be desirable. Such locations allow the producer to assemble desired assortments of goods from the various plants economically. Transportation economies may be realized by shipping these consolidated orders.

Whether warehouses should be located close to the market or close to production depends on several factors.⁴ If speed of de-

⁴See Graham Buxton, *Effective Marketing Logistics* (London: Macmillan Press, 1975), pp. 86-88.

livery is an important customer and competitive requirement, location close to the market will be favored. When customers are highly dispersed, better service and lower costs will result if they are serviced from central warehouses located at production locations. When the firm produces a wide variety of products at different locations, production or intermediate warehouse locations may be desirable as assembly points for inventory.

After a location pattern policy has been established, specific warehouse facility locations need to be selected. A number of mathematical models have been developed to solve the very complex facilities location problem.⁵ Two classes of models used are the infinite set approach and the feasible set approach. The **infinite set approach** assumes that an infinite number of locations is available in the area being considered. The center of gravity method is a widely used infinite set model. The **feasible set approach** works with only a finite set of locations that are known to be available as warehouse sites. The feasible set approach works with actual costs of each known location. Feasible set approaches include linear programming, simulation, and heuristic modeling.

Application of warehouse location models, of either type, requires extensive data on customer location and sales characteristics, transportation costs, warehousing costs, inventory costs, and other information.

SUGGESTIONS FOR FURTHER READING

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WATSON-GANDY, C. "Warehouse/Depot Location." In *Marketing Logistics and Distribution Planning*, eds. Martin Christopher and Gordon Wills. New York: John Wiley & Sons, 1972, pp. 209-41.

⁵Description of these models can be found in C. Watson-Gandy, "Warehouse/Depot Location," in *Marketing Logistics and Distribution Planning*, eds. Martin Christopher and Gordon Wills (New York: John Wiley, 1972), pp. 209-41.

breadth of product line and their ownership. The major classes of wholesalers are described below and outlined in Figure C.42-1.

Wholesalers can first be classified in three groups: merchant wholesalers, agents and brokers, and company owned operations. **Merchant wholesalers**, often called **distributors**, are the most important middlemen in both numbers and sales volume. They take legal title to the goods that they sell. They are compensated through trade discounts on the products they purchase, the amount dependent upon the level of service that they provide. Merchant wholesalers can be further classified in terms of the breadth of service that they provide:

- *Full Service Wholesalers.* As the name suggests, **full service wholesalers** perform the full range of middleman functions described above. The classification is further divided by the breadth of product line carried. **General line** wholesalers carry a broad line of merchandise such as hardware, personal care items, or paper and office supplies. A full service industrial wholesaler carrying a wide range of industrial supplies and accessories is called a **mill supply house**.

FIGURE C.42-1

Classification of Wholesalers

Merchant Wholesalers

- Full service wholesalers
 - General line wholesalers
 - Single line wholesalers
 - Specialty wholesalers
- Limited service wholesalers
 - Cash and carry wholesalers
 - Drop shippers
 - Wagon jobbers
 - Mail order wholesalers

Agents and Brokers

- Manufacturers agents
- Selling agents
- Commission merchants
- Export/Import agents
- Brokers

Company-Owned Wholesale Operations

- Manufacturer-owned branches
 - Retailer distribution centers
-

Single-line wholesalers carry a narrower line of merchandise, serving a particular class of retailer or industry. Examples would be auto parts distributors and industrial tools distributors. Still more specialized are **specialty wholesalers** who carry a narrow line such as laboratory instruments or health foods, but have great depth in that line.

- *Limited Service Wholesalers.* **Limited service wholesalers** tend to specialize by offering only those services that are required by a particular industry. **Cash and carry wholesalers**, numerous in the grocery trade, do not offer credit or delivery service to their customers, who are primarily smaller, financially weaker retailers. **Drop shippers** sell bulky products such as lumber, coal, and building materials. They take title to the goods while they are in transit, but arrange direct (drop) shipment from the producer to the buyer, never handling the physical product. Their primary function is selling.

Wagon or truck jobbers sell and deliver products directly from delivery trucks. They specialize in perishable products such as bread, frozen foods, and dairy products. **Mail order wholesalers** sell through catalogs that are mailed to customers who can place orders by mail or, more often, by telephone. Mail order selling mainly serves small and distant purchasers not economically served by personal selling. Many wholesalers use catalog selling as an adjunct to personal selling for fill-in orders between sales calls. **Rack jobbers** are seen mainly in the retail food trade where they offer nonfood household and personal items, commonly displayed on peg boards or racks. Rack jobbers relieve the retailer of the detail of selecting, displaying, pricing, and rotating these hard-to-manage items.

The second group of wholesalers, **agents and brokers**, differs from merchant wholesalers in that they do not take title to and thus do not own the merchandise that they sell. They do not usually stock or deliver the merchandise. Their primary function is to sell the products, passing orders along to the manufacturer who delivers direct to the buyer. Agents and brokers are compensated through commission, the amount dependent on the level of service provided. There are a number of different types of agents and brokers, but the more important distinction is the market served.

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- *Manufacturers' Agents.* Most numerous of the agents are **manufacturers' agents**. They are usually small, owner-managed firms carrying a line of related, but noncompeting products from several manufacturers and providing mainly selling services. They operate in a limited geographic area and, within their territories, usually require exclusive rights to the products they distribute. Because costs are shared among a number of products, the manufacturer's agent offers difficult-to-match economies, especially for the smaller manufacturer.
- *Selling Agents.* Agents who take over the entire marketing function for a company, contracting to market its entire output of a product, are termed **selling agents**. Selling agents go beyond selling the product and provide for its promotion and pricing as well. Selling agents are most often seen serving financially distressed firms or firms that find themselves with a product very different from their main line of business.
- *Commission Merchants.* Unlike most agents, **commission merchants** take physical possession of the products they sell, although they do not take title. Commission merchants are most often used in the sale of unbranded commodity items such as farm products, textiles, and lumber. They commonly assemble the output of numerous producers, grading, storing, and packaging it as necessary. The products are sold at market prices, the commission merchant remitting the proceeds, less commission, to the producer.
- *Export-Import Agents.* **Export agents** represent domestic producers in overseas markets and **import agents** represent overseas producers in domestic markets. In addition to offering normal selling services, export and import agents assist producers with advice on foreign markets, customs and other legal problems, and overseas financing. (See GLOSSARY entry C.14 on **international market entry strategy**.)
- *Brokers.* **Brokers** serve either the buyer or the seller, bringing the two together to negotiate the sale. Brokers earn a commission on the completed sale. They are common in the fields of real estate, used machinery and other capital equipment such as ships and airplanes. **Food brokers** are more like a manufacturer's agent for food products, selling the food brands of smaller producers mainly to chain food stores where they have ongoing relations.

Company owned wholesale operations are the third class of wholesaler. Increasingly large manufacturers and retailers have integrated their channels of distribution, taking over the wholesaling function. While no firm is required to use an independent wholesaler, those that elect not to must provide the wholesaling function themselves. Two classes of company owned wholesale operations are those owned by manufacturers and those owned by retailers.

- *Manufacturer Owned Branches.* Manufacturers that elect direct distribution (not through a wholesaler), must provide the functions that would be provided by the wholesaler (see GLOSSARY entry C.10). To provide sales and service support for products, manufacturers may establish sales branches where products are displayed and demonstrated and sales and repair services are offered. Some manufacturers also establish warehouse facilities, either separately or with sales branches. Manufacturer-owned warehouses provide facilities for storage of product and repair parts inventory, order processing, and shipping.
- *Retailer Distribution Centers.* Increasingly, chain and conglomerate retail organizations have formed their own central buying and warehousing organizations to serve stores within a geographic region. Through these **retailer distribution centers** retailers purchase and take delivery direct from manufacturers, in effect taking over the wholesaling function. Growth of these integrated channels, part of the trend to **vertical marketing systems**, offers the system owner greater control over middleman activities (see GLOSSARY entry C.7).

WHOLESALE SELECTION: PROCESS AND CRITERIA

In establishing channels of distribution, marketers can bypass the wholesaler and sell direct to retailers or industrial customers. Many manufacturers find the use of wholesalers to be the more efficient alternative. Good wholesalers are specialists with highly efficient facilities, an established customer base, and the ability to share costs with products of other manufacturers. However, finding and recruiting the good wholesalers re-

quires a well-planned effort and, often, a considerable period of time for implementation.

A Process for Selecting Wholesalers. The wholesaler selection process is much like the **retailer selection** process that usually precedes it (see GLOSSARY entry C.33). It is a process of matching the distribution requirements of the product with the characteristics of available wholesalers. Wholesaler characteristics were summarized in the sections above. Selection is simplified by first selecting the class of wholesaler to be used and then selecting specific wholesaler firms within that class. The process has five steps.

- **Step 1: Define Distribution Requirements for the Product.** The cost of using a wholesaler rises with the level of services provided. Efficiency is realized when the selection of wholesaler matches the services offered by that wholesaler with the services required by the product. Wholesaler selection should, thus, begin by establishing the service requirements of the product, including the target market to be reached. If the product is to be sold through retailers, the target market should be stated in terms of the retailers that the wholesaler must reach. Distribution requirements should also define the level of selling, technical support, and product service needed, the level of product and parts availability required, and the level of financial and credit support needed.
- **Step 2: Define Wholesaler Selection Criteria.** Using the distribution requirements as a guide, criteria should be set that define the characteristics desired in wholesalers selected for this product. The criteria should be tailored to the distinctive requirements of the product and the firm. The manufacturer must decide which functions the firm will perform itself and which are to be performed by the wholesaler. Once defined, the criteria will be used in both selecting the class of wholesaler to be used and selecting the specific firms within the class. Classes of selection criteria that should be included are considered in the next section.
- **Step 3: Select the Class of Wholesaler to be Used.** Determining the class of wholesaler to be used narrows the alternatives from which individual wholesaler firms are chosen. The class of wholesaler to be used is determined by matching the selection criteria against the character-

istics of alternative types of wholesalers to ascertain which class best meets the criteria. Classes of wholesalers are listed in Figure C.42-1 and their characteristics summarized in the first section of this entry.

- **Step 4: Select Wholesaler Firms within the Class.** Selection of wholesaler firms follows a process similar to selecting the class of wholesaler. A list of wholesalers of the selected type is formed for each geographic territory where distribution is required. The wholesaler selection criteria are then applied to each wholesale firm to determine which best meets the criteria. Whether or not more than one wholesaler is selected per area will depend on the exclusivity requirements of the wholesaler, the **distribution intensity** desired, and the number of target markets to be covered. If the product must gain distribution in two or more unrelated target markets, (for example, one in retail stores and one in industrial firms) then more than one wholesale firm may be required per territory to gain the desired coverage.²
- **Step 5: Recruit the Wholesaler Firm.** After the most desirable wholesaler has been selected for a territory, sales representatives must solicit the wholesaler to gain agreement to carry the product and cooperate in its marketing. In deciding whether or not to carry a product, the wholesaler will consider whether the product is within the firm's product market scope, whether it meets a need of current customers, whether it fills a gap in the line or is duplicated by an existing product, whether the product offers superiority, and what incentives are offered for cooperation. Successful recruiting of wholesalers requires a carefully planned sales program that presents the product and the promotion, pricing, and incentives program that is available to the wholesaler and the wholesaler's customers. (See GLOSSARY entry C.6 on **channel cooperation** programs.)

Wholesaler Selection Criteria. A key to effective wholesaler selection lies in defining criteria that reflect the requirements of the product and the capabilities of the firm. Sev-

²Suggested by James D. Hlavacek and Tommy J. McCuiston, "Industrial Distributors—When, Who, and How?" *Harvard Business Review* (March-April 1983), pp. 97-98.

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eral areas in which criteria should normally be written are suggested below.

- *Does the Wholesaler Reach the Target Customer?* The most important asset of wholesalers is the customer base to which they have access. It is essential in selecting a wholesaler that the customer base match the target retailers or industrial firms for the product. Wholesaler capability to develop customers for a product outside their current clientele base is usually weak. If the product is to be marketed to more than one segment, each should be carefully defined. This criterion, or a companion one, should also specify the geographic territory that is to be covered.
- *Does the Wholesaler Offer the Required Service?* A principal feature of differentiating wholesalers is the range and level of services offered. The greater the level of services offered by the wholesaler, the greater the cost. To be efficient in the use of wholesalers, the service required must be carefully defined and matched to wholesaler offerings.
- *What level of Specialization Does the Wholesaler Offer?* Wholesalers vary in the degree to which they specialize. An electronic test equipment manufacturer's agent offers far more specialized selling skills and technical support than would an electrical supplies merchant wholesaler, but would also be more costly. The manufacturer must define the level of specialization required and match that to available wholesalers.
- *Is the Wholesaler Available?* A manufacturer should never assume that the wholesaler most desired will be available. In many markets and for many product categories, there is a shortage of appropriate middlemen. Wholesalers will turn down products that are outside the scope of their assortment, do not fill a gap in their line, duplicate current offerings, or offer no demonstrable superiority. New products with no track record may find it particularly difficult to find an appropriate wholesaler. Often it is necessary to start with a less than desirable wholesaler or even sell direct to build a track record before upgrading to a more desirable channel member.
- *Is the Wholesaler Cost Effective?* Payment to wholesalers is made in terms of discounts and

allowances or commissions. The cost varies with the level of service provided. (See GLOSSARY entry C.11 on **discount structure determination**.) Full service wholesalers, who handle physical product in addition to selling the product, may require discounts that are several times the commission required by some agents and brokers who offer only selling services. Likewise, more specialized wholesalers who carry limited product lines will be more costly than long line general merchandise wholesalers. Efficient use of wholesalers requires careful matching of services required with services offered.

- *Does the Wholesaler Have Sufficient Financial Strength?* Financial strength is particularly important for merchant wholesalers who must purchase product from the manufacturer and extend credit to their customers. The ability to do this requires considerable working capital. Financial good health is important to all wholesalers' ability to continue offering necessary services.
- *Is the Wholesaler a Market Leader?* In examining wholesalers in a market, one frequently stands out as the market leader in its class. Such wholesalers have superior market share and sales growth and are considered the experts and the innovators. If such a wholesaler is available and meets other criteria, it would be a desirable choice since its success should carry over to the products that it carries.

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