

# Not a Bad Dream, and Not All Bad

BY ROBERT KRAVITZ

**A** number of years ago, Arthur Anderson and Co. conducted a series of studies for the National Association of Wholesale Distributors. The study examined how the wholesale distribution industry was changing and made recommendations on what participants could do to protect their position in the channel.

The project was initially commissioned in the late 1980s, when the state of the U.S. economy began to push many wholesale distributors towards consolidation, lower profit margins and less overall profitability. The study sought to better understand what was occurring, if these trends would continue, and what, if anything, distributors could do to adapt.

Arthur Anderson contacted more than 750 expert panelists asking for their views on the state of the distribution industry. Analyzing their responses and predictions, they submitted a report, *The New Realities of Wholesale Distribution*, which foretold dramatic change for the distribution industry.

The report concluded that distributors had to begin operating under "new realities" recognizing that consolidation, shrinking margins in some commodity lines and declining profitability would continue to grow. It also said that some distributors were already aware of these changes and were taking actions to meet the challenges, but often these actions were inconsistent and unsuccessful. Additionally, it reported that some distributors would thrive in the future, many would struggle to survive and others would fail.

As sobering as the message was, the study also indicated there were opportunities for distributors who manage to anticipate change, incorporate strategic planning systems to meet the challenges of the future, enthusiastically endorse the latest technologies that help improve productivity, and, possibly most importantly, improve their customer service.

"Quality [customer] service is one platform on which wholesale distributors of the future can build their businesses," notes Pat Dolan, who was with Arthur Anderson at the time the study was conducted. "The study predicted that doing the right things right the first time would be essential to retaining customers."

Fifteen years later, it's interesting to see just how many of the report's predictions have come true. Since the report was published,

we've seen the number of Jan/San distributors shrink from more than 25,000 to approximately 7,000 — the result of consolidations and business failures, just as the report forecasted. Relationships between distributors and manufacturers have, for the most part, become more difficult and competition, not only from big box retailers, has also impacted the bottom line for distributors.

According to the panelists contacted by Arthur Anderson, below are some of the significant issues that were predicted to confront the industry into the year 2000:

- A "dangerous" deterioration in the relationship between the manufacturers and distributors.
- A failure to achieve the productivity levels possible with more aggressive adoption of new technologies.
- Not enthusiastically embracing new technologies and the opportunities it affords.
- Competition from big box retailers and other sales channels that were not being taken seriously as threats by most wholesalers.

## Manufacturer and distributor weigh-in

To better understand the situation today, as well as see what steps can be employed to improve the situation — and profitability — of distributors, two leaders in the industry, one manufacturer and one distributor, were asked to share their views.

Michael Schaffer is president of Chicago-based Tornado Industries, a manufacturer of equipment for the cleaning industry. An industry veteran, Schaffer has helped his company emerge as a leading manufacturer of cleaning equipment.

Anthony Crisafulli is vice-president of ATRA Janitorial Company, Pompton Plains, New Jersey. A family-owned business, ATRA was founded in 1982, 10 years before *The New Realities of Wholesale Distribution* was published. The company has managed to adjust and succeed in the industry's "new realities."

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**Q: Mike, what are your thoughts on the Arthur Anderson study, *The New Realities of Wholesale Distribution*?**

**A:** I find it interesting just how many people in our industry have found pleasure in the fact that Arthur Anderson is now out of business. While I understand the satisfaction associated with outlasting someone that predicted your demise, people would do well to remember that Arthur Anderson did not fail as a result of being off base in the report. To the contrary, they were uncannily correct in their predictions. If there is any satisfaction to be taken or irony to be found in Arthur Anderson's demise, it is only that they failed to react to warning signs in their own business, while cautioning others.

The report spoke to the wholesale distribution industry in general, relationships with customers and the strain between distribution and manufacturers. Again, it predicted correctly many of the issues that our industry has faced, and continues to face. If you picked the report up today and read it, it is almost as valid as when it was originally released.

**Q. Anthony, do you also believe many of the report's findings are correct?**

**A:** Yes. It's definitely a much more challenging world today than when my family started the business 25 years ago. The competition seems like it was so much less at that time, it's almost hard to believe. I got involved with the business as the industry was changing, which may have helped me better adapt to the new realities.

**Q. Since you both seem to agree that the study was right-on-the-mark, Mike, what challenges do you see for distributors in the near future?**

**A:** Distributors will face increased competition from a variety of sources and many will continue to suffer loss of market share. You will also see product differences continue to narrow, making it harder for distributors to differentiate themselves from their competitors via their product offerings alone. Certainly, more and more products in our industry are being viewed as commodities. I also see order size decreasing for many dealers, which will continue to occur unless dealers take steps to reverse that trend.



**Q. And, Anthony?**

**A:** We do see many of these things happening in our own business as well as for other distributors. Staying ahead of the game with improved technology, finding product niches, making customer service key, are all ways to meet these challenges. In addition to the pressures that Mike mentioned, we see others, most of which relate to increased overhead costs. Medical insurance costs are going through the roof and we are being squeezed with fuel-related costs, many of which are just passed on to us by manufacturers that we cannot pass on to our customers.

**Q. Mike, from a manufacturer's perspective, what can dealers do to address these challenges?**

**A:** Distributors have to identify and concentrate on competencies that deliver real value to their customers. The key is to find a way to play a vital role in their customer's business operations. On the equipment side, as an example, dealers can't expect to continue successfully selling within the category without making a commitment to the service side. Like cleaning equipment today, as a product, automobiles, for example, are more reliable than ever been. However, take the service department away from an auto dealer and the dealership can't survive. Today, unlike in the past, I take my car in when it is not broken, simply for a checkup, write a check for several hundred dollars and leave with a smile on my face thinking I have been treated well. Why? That industry has succeeded in shifting the prior paradigm. In our industry, we have distributors selling equipment that have a part-time guy in the warehouse that doubles as their repairman, yet like the auto industry, a well-run service department offers margins that can't be found anywhere else in the business.

**A.** (Anthony) I agree with Mike, but would also like to see relationships improve between manufacturers and dealers in our industry. As an example, we need manufacturers to work with distributors regarding price increases. Some are doing this [and] many more can. We also want them to support the manufacturer-distributor relationship. Some manufacturers are selling directly to the end-user. This undercuts the manufacturer-distributor relationship and contributes to making cleaning products just a commodity. In order for distributors to succeed, it is important that both the distributor and manufacturer work together, promoting the features and benefits of the manufacturer's products and the valuable role the distributor plays as expert, problem-solver and educator. **MS**

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