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## Can Your Distributor Go National?

By Dawn Shoemaker, Technical Writer  
Manufacturing.Net - October 23, 2006

While back a study conducted by the Industrial Distribution Association and the Industrial Manufacturers Association reported that more major manufacturing facilities are signing what are referred to as national contracts with distributors. These contracts are designed to provide manufacturing and other large facilities with various products and services — from cleaning and plumbing products to electrical goods and components, as well as training and educational programs, to help facilities use and benefit from the products they purchase.

In 2002, the survey estimated that 31 percent of all manufacturing facility purchases were made through a national contract. The survey also predicts that national contracting will continue to grow in the coming years and should even double by 2010.

A national contract between a distributor and a manufacturing client involves the distributor providing goods and services for virtually *all* of that client's facilities throughout the United States. In addition to this contract's popularity, the survey also found that the "scope of the agreements are increasing," suggesting that manufacturing customers are asking distributors to provide more services and products than in the past.

For the small to mid-sized distributor, this trend is not good news. For one reason, smaller distribution houses are likely to have a limited number of locations and have a service radius of no more than 200 miles. Large manufacturers may view this limited service area as a disadvantage since they have many facilities that are thousands of miles apart. In this situation to service their multiple locations, manufacturers are often forced to locate other small distributors in different areas of the country.

"In addition, these smaller distributorships may not have the technology or sophistication required to service these large customers," said Frank Lynn of Frank Lynn & Associates, Chicago, IL, which specializes in the integrated supply business. "The [manufacturing] plants are always looking for cost savings and that is not found in the product's price anymore. Instead, they look for value-added services, such as help with inventory tracking, running better information systems, taking people out of the [supply] operation to reduce costs, and most of all, running an efficient storeroom and distribution system."

Lynn also noted that playing on a national level can result in greater financial risk and responsibility for the smaller, individual distributor. "If things go wrong — and they often do — who is stuck covering the costs? The small to mid-sized distributor is just not in position to cover a major loss," he said.

### Distributors Meeting the Challenge

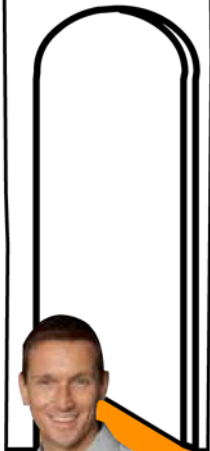
Although it appears "bigger is better" in the new world of national contracting for goods and services, the fact remains that the majority of U.S. distributorships are small to mid-sized firms. To level the playing field, these distributorships are adapting to change by joining buying groups.

"Distributor buying groups first emerged about 20-to-30 years ago in the professional cleaning industry as well as in other industries such as plumbing, electrical, building

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and construction," said Paul Lemieux, president of Pro-Link, a jansan buying group based in Canton, MA. "Mom-pop distributors, many of which had been in business for decades, found they were losing ground to big-box stores, larger distributors, and the increase in national contracting by major clients."

According to Lemieux, a buying group is essentially a marketing consortium of distributors, similar to an association. It gives individual members strength in numbers to compete with larger distributorships, provides better access to the latest products and technologies, and offers many other benefits.

"A buying group allows the small distributor to compete with the larger distribution houses," said Lemieux. "They have the buying power and resources of the larger players and, working with other members of the group, can service multiple locations of the same customer, which is exactly what national contracting is all about."

### Benefits to the End Customer

In the past 25 years, some industries have witnessed a dramatic decline in small distributorships. It is believed the formation and acceptance of buying groups will help those who have survived to grow and become stronger. "The independent distributor can no longer afford to be an island," added Lemieux. "Joining a buying and marketing group is one way the local distributor can become more competitive and offer improved products and services"

However, how do buying groups benefit the end customer, such as a large manufacturing facility? According to Lemieux, some benefits include:

- **Competitive pricing:** The large bulk purchasing of a buying group allows individual members to more competitively price goods, which can translate into more aggressive pricing programs for end customers.
- **Sophisticated ordering systems:** Buying groups often provide members and national account customers with state-of-the-art online ordering systems. This technology provides one-point ordering, invoicing and customer service, while maintaining the personalized service of a local distributorship.
- **Productivity/usage reports:** Along with advanced ordering and billing systems, some buying groups provide customers with reports detailing product usage in their facilities, which can often lead to cost savings.
- **Training:** Some buying groups develop their own training programs and/or contract with recognized trainers to educate members on the latest products and technologies available that may benefit their customers.
- **Knowledge resource:** Buying groups can offer their members peer networking opportunities to discuss customer problems, issues, and challenges. Several have developed formal "resource groups" to discuss problems, ask for advice and guidance, and exchange ideas with other members – all of which can lead to better service to end customers.

"Charles Darwin is often credited with coining the phrase 'survival of the fittest,' however that is not really correct," said Lemieux. "What he really wrote was, 'in the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment.'"

The fast-paced environment in which we now live is dramatically affecting the distribution industry, many other businesses, and even the ways we do business.

"Fortunately, some of these changes will have multiple benefits," Lemieux said. "Many buying groups are helping distributors prosper, adjust to an ever-more complex and sophisticated world, as well as benefit their end customers and help them compete."

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