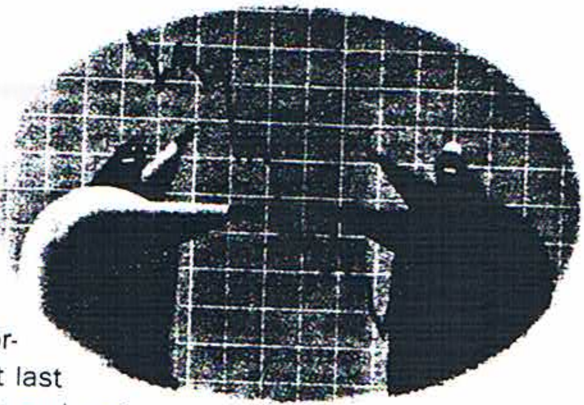
Who do you trust?

Communication and a major change in business methods are the keys to creating positive relationships

BY AL TUTTLE, ASSOCIATE EDITOR



DANIEL GUIDERA

NEWTON, MASS. — Poor manufacturer-distributor relationships are hurting business for both parties — it's that simple, according to the Industrial Performance Group of Northfield, Ill. IPG released a report last year linking poor working relationships to a drop in sales and profits for distributors and manufacturers; but that's not the end of the story.

In an effort to drive home the importance of his findings, Robert Nadeau, principal of IPG, has quantified the costs associated with communication breakdowns. In a follow-up survey to the report, 277 respondents said the top four drivers of unnecessary costs in the channel are: fixing mistakes, expediting orders/fast-tracking, holding excess inventory, and waiting, in that order.

Seventy-eight percent of respondents to the follow-up survey were distributors. All respondents were spread evenly across the revenue spectrum, from less than $1 million in sales per year to over $50 million per year.

One of the telling factors in the survey, Nadeau said, is that when asked to put a dollar value on losses due to those cost drivers, 77 percent answered with a figure under $400,000, regardless of the size of their businesses. Those estimates are well under their true costs, Nadeau said.

He found that the loss of bottom-line revenue is greater than most respondents imagined. Nadeau calculated that loss to equal two percent of distributors' gross revenue.

"If, for example, a company's net margin is five percent, a two-percent unnecessary gross cost figure amounts to 40 percent of the bottom line. When net margins are 10 percent, they amount to 20 percent of the bottom line," he said.

The following chart shows the net effect that a two-percent reduction in gross revenue has on the bottom line, by percentage of net margin. (**See chart p. 20)**

Sixteen percent of respondents were in the electrical equipment business, 13 percent in power

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Questron files for bankruptcy

SUN CAPITAL PARTNERS, INC.

BOCA RATON, FLA.— Questron Technology, Inc. signed a purchase agreement with QTI Acquisition Corp., a newly formed affiliate of Sun Capital Partners, Inc.

Questron, a distributor and provider of supply chain management solutions with a strong presence in the aerospace industry, ranked 56th in the 2001 INDUSTRIAL DISTRIBUTION Top 100 report, which is determined by annual U.S. sales data. In early February, the company filed for protection under Chapter 11 of the U.S. Bankruptcy Code for the District of Delaware. The sale of Questron's assets is subject to bankruptcy court approval.

The Nasdaq Stock Market℠ halted trading of Questron stock in February. After trading at a 52-week high of 4.54, the stock held at .22 when trading was halted.

Questron CEO Dominic A. Polimeni said in a recent statement that he expects customer service to remain uninterrupted and that the company has sufficient cash on hand to meet its employee obligations and operating expenses while the bankruptcy court reviews the proposed sale.

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Machine tool demand down 34 percent

ROCKVILLE, MD. — December U.S. machine tool consumption increased 11.7 percent from November, according to the United States Machine Tool Consumption report. The total December tool consumption was $162.37 million. This is down 46 percent from $300.51 million in December 2000. Year-end-totals for 2001 are $2.64 billion

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IPG's Robert Nadeau said mistrust is a major problem in distributor-supplier relations.

transmission/motion control, 10 percent in machine tools, and the rest were in various industrial categories, Nadeau said.

Although they have been addressed countless times, some problems persist, Nadeau said, such as the situation in which a distributor is having trouble selling a particular line and the manufacturer approaches other area distributors. The first distributor then looks for substitutes and drops the original line.

The survey results are not intended to show mistakes made prior to a factory's receipt of an order, or end-user errors, according to Nadeau. But, he said, distributors and suppliers are less than willing to admit problems on their ends, and find it difficult to raise the level of trust in sharing information.

"So, we have this distribution paradox: While unnecessary costs rise, communication has declined 20 percent since 1997 in the four critical areas that drive [those] costs. Suppliers and distributors know it's a problem, but to this point the status quo remains 'business as usual,'" Nadeau said.

The costs, he added, often get lumped into overhead expenses and therefore lose their actual sting.

Nadeau said he has sufficient numbers to start the process of showing the parties involved just how expensive mistrust and poor communication are. In fact, he said, "the structure and management approach utilized in many sales/distribution channels are much the same as they were 50 years ago."

More high numbers emerged as distributors voiced complaints about the flow of information. Seventy-five percent of survey respondents said they have inadequate access to high-quality product information; 64 percent cannot get reliable delivery and tracking information; and 61 percent are unhappy with information about product availability.

Part of building trust in the channel involves both sides understanding that costs flow upstream and down, said Nitin Bhatt, a practice leader of Grant Thornton LLP, a management consulting firm based in Chicago that specializes in mid-market companies.

"Today, supply chains compete with supply chains, rather than manufacturer with manufacturer, distributor with distributor. That's a fundamental shift in the way business is done due to technology and speed, among other factors," Bhatt said. "There are product flow issues and business flow issues, and the main component that bottlenecks the system is the human component."

If a worker in the system does not have enough information, or lacks trust in what he has, he will stop the process, he said.

"The costs are very significant. I would say they affect the bottom line greatly," he said.

Bhatt suggests an antidote for information problems: involve each other in major planning and business decisions to prevent miscommunication. That, in turn, creates trust because the business part-

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Cost Calculator	Net Margin	Net Margin	Net Margin	Net Margin	Net Margin	Net Margin	Net Margin	Net Margin
	5%	6%	7%	8%	9%	10%	11%	12%
Problem Cost:	40%	33%	29%	25%	22%	20%	18%	17%
Net Income								
$100,000	$40,000	$33,333	$28,571	$25,000	$22,222	$20,000	$18,182	$16,667

The chart shows the impact on net income for every $100,000 profit, depending on your net margins.

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ing session on Tuesday, April 16, for private, one-on-one meetings between manufacturers and distributors. The program is in addition to the annual Conference Table Session, scheduled for Tuesday morning, and the many informal networking opportunities available throughout the four-day event. The new program recognizes the unique networking opportunities provided by the convention, according to BSA.

"BSA conventions are an opportunity unlike any other for industry leaders to tap a valuable industry network, affirm existing alliances and establish new ones," said convention committee chairman Peter Fitzpatrick of Bearing Specialty Co. in Canton, Mass. "The challenges of doing business have never been greater, making the benefits of industry ties more important than ever."

Fitzpatrick pointed to another program of special interest: a customer panel that will discuss the concept of "value added" selling and marketing. Titled "Value Added — Fact or Fiction," the panel will focus on members' experience with and expectations of the value-added approach to business.

"One of the keys to growth in today's marketplace for both distributors and manufacturers is a commitment to adding value," Fitzpatrick said. "The panel discussion at the convention will give us a unique opportunity as an industry to hear from the end users of our products about this important subject." ■

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ners discuss issues face-to-face.

"One distributor had its main [suppliers] involved in choosing new computer systems because the two-way flow of information is so essential. The supplier came to the building and talked with management about what would save money and at the same time create nearly seamless communication to the supplier," he said.

Also, Bhatt said, distributors and suppliers must engage in joint strategic planning.

"Some will see this as giving out secret information, but it is just the opposite. Having the ability to plan together creates as much strength in the process as anything else," he said.

Bhatt recommends detailed analyses of business systems to find the points at which communication slows or stops, then specifically changing those bottlenecks.

"When bottlenecks are reduced, costs that go up and downstream are lowered. Policies, systems and products are the three areas that can cause problems. Each is made better when strategic planning sessions get moving," Bhatt said.

Lee Schwartz, of Lee Schwartz Profitability Group in Los Angeles, said there are tangible costs and soft costs related to mistrust in the supply chain. "Tangible costs for distributors include tracking additional supply sources when they believe suppliers are bypassing them, lost opportunities to buy cooperatively ... and loss of business opportunities because they are fighting ... instead of working to secure business," Schwartz said.

Honesty is the policy that reaps rewards in relationships, Schwartz said.

"I was president of a regional industrial wholesale company. One of our largest suppliers shipped us an order that contained $12,000 in non-invoiced product. I could have easily received them and hoped we didn't get caught," he said.

Of course, he called the supplier and, over time, got discounts and extended terms that far outweighed the original amount he might have illegally realized. The point, Schwartz said, was not the money but the relationship that was cemented between him and the supplier.

Dealing with complaints from one's own people and those of the other side sap strength.

"Soft costs are not as readily detectable but may carry a greater burden," he said. "Aggravation caused by dissension is distracting. Motivation to sell particular lines is diminished," he said. ■

Product training manuals available now

NEWTON, MASS. — The Industrial Distribution Assn. and INDUSTRIAL DISTRIBUTION magazine collaborated to produce a series of product training manuals for industrial distributors. Twelve manuals are available covering the following topics: saw blades, cutting tools, abrasives, hand tools, power tools, machine tools & accessories, tool & die supplies, chemicals & lubricants, maintenance supplies, materials handling equipment, quality control products and safety supplies.

Each manual is an introductory guide to the product. They can be used to train new employees or as a refresher course for existing employees.

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