CHAPTER 1

The Role of Counter Sales in Wholesale Distribution

Wholesaler-distributors add value both up and down the supply chain.

After reading and studying the material in this chapter, you will be able to:

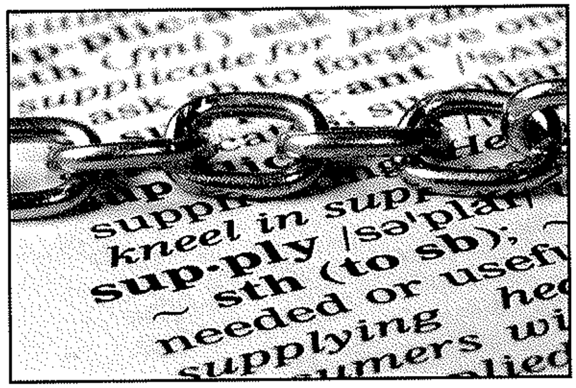
1. **Describe a wholesaler-distributor's role in a supply chain.**
2. **Discuss how a wholesaler-distributor adds value to manufacturers and customers.**
3. **Identify the most important role of a counter salesperson.**
4. **Explain the four key qualities of customer service.**

CHAPTER 1

The Role of Counter Sales

in Wholesale Distribution

Customers are able to buy from a number of supply houses and virtually anywhere in the world via the Internet. Unless a company's product or service is the only one of its kind, the company will need to look for ways to stand apart from its major competition. Customers have higher expectations of counter salespeople as their face-to-face contact versus anyone else in the company. They want to get the right product, at the right time, at the right price. They also want to talk to knowledgeable total solution providers who do more than just write orders and handle complaints.



As a counter salesperson in the wholesale distribution business, you are an important part of a supply chain. You are on the front line of your company's business. You are generally the person customers are looking for when they walk through the door. Customers want to place an order and expect you—the counter salesperson—to take care of them. Although this encounter is usually brief, customers expect you to have product and application knowledge in order to answer questions. They also expect your supply house to have accurate pricing, adequate inventory, and timely service. Finally, they expect a service attitude from you that proves their business is valued. This means providing your customers with accurate information about the features, benefits, and the value of each product or service in order to match the right products and the right services to their needs.

In this chapter, we'll look at the supply chain and the important role that wholesale distribution plays in supplying goods to end-users. We'll also briefly look the role you play in that process.

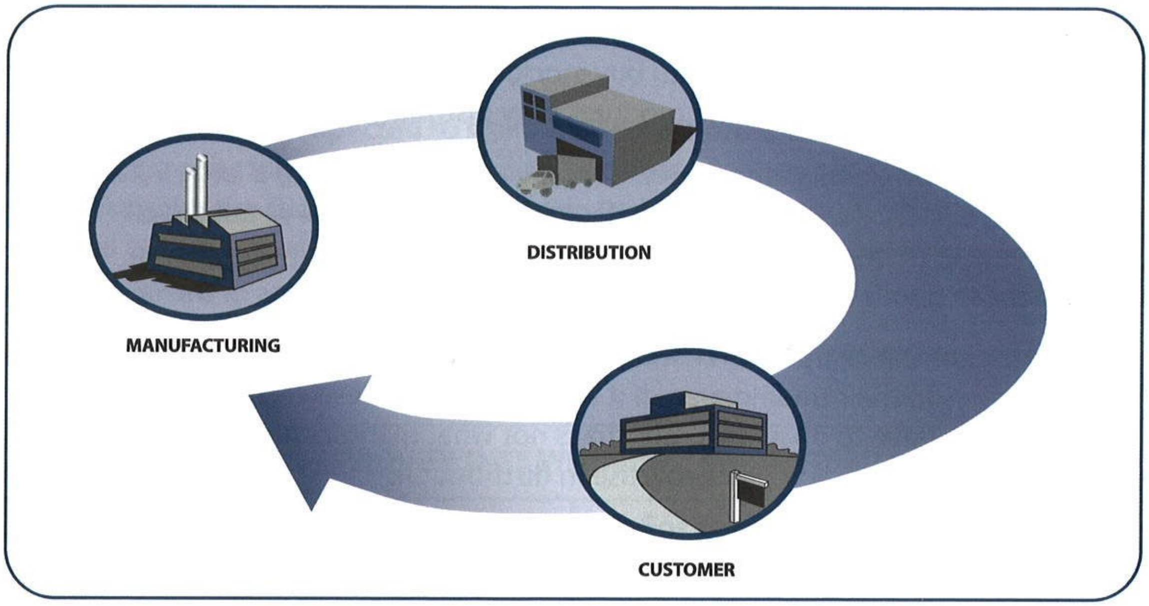
The Supply Chain

A ***wholesaler-distributor*** is part of what's known as a ***supply chain*** which is a network created among companies producing, handling, and/or distributing a specific product. Specifically, the supply chain encompasses the steps it takes to get a good or service from the supplier to the customer. A supply chain may have numerous links. The simplest version consists of three types of businesses: a manufacturer, a distributor, and a customer.

At the top of this basic supply chain is (1) a manufacturer (sometimes referred to as a vendor) that produces goods. The manufacturer /vendor then sells the goods to (2) a wholesaler-distributor that buys them in bulk. The wholesaler-distributor sells the goods in smaller lots to (3) retail, contractor, or end-user customers.

The Role of Counter Sales

in Wholesale Distribution



Wholesaler-distributors occupy the middle position in this supply chain. A wholesaler-distributor actually buys and owns the products prior to reselling them to its customers. This type of company usually stocks a large amount of goods in warehouses. The warehouse can span tens of thousands or even hundreds of thousands of square feet. These goods, known as ***inventory*** while being stored, may consist of many thousands of ***stock-keeping units (SKUs)*** from hundreds of different vendors.

A SKU describes an inventoried product that has its unique identification number. An SKU may refer to multiple quantities of a given product as long as the products have identical characteristics. For instance, boxes of copper elbows of a specific size can be regarded as a single SKU even though there would be many of these in a box and many boxes kept in inventory. Boxes of widgets of a different size would be regarded as a separate SKU. Most modern wholesaler-distributors keep track of SKUs via computer technology using bar codes and scanners.

The Role of Counter Sales

in Wholesale Distribution

Wholesaler-distributors add value for manufacturers

Wholesaler-distributors do much more than buy, stock, and sell merchandise. They perform a variety of functions that add value to the products they distribute for everyone in the supply chain.

For the manufacturer, wholesaler-distributors simplify the task of selling a large volume of goods to widely scattered customers. Rarely do manufacturers find it practical to sell directly to end-users. There are too many of them, and they are located throughout the country. Instead, it is more efficient to sell those goods to wholesaler-distributors who cover regions of the country.

Wholesaler-distributors stock that merchandise in convenient locations for rapid supply when needed by customers in their trading area. If it were not for wholesaler-distributors, manufacturers would have to do all this. But that's not what manufacturers do best. They are producers of goods with no particular expertise in distribution.

Wholesaler-distributors are experts of distribution.

Wholesaler-distributors also help manufacturers promote their merchandise in a given area and thus increase sales for the products they carry. They add further value by introducing new products into the marketplace on a regular basis. Wholesaler-distributors provide the local knowledge to help manufacturers understand why certain products sell and others don't in a given marketplace. These are all part of the marketing function of a wholesaler-distributor.

Wholesaler-distributors add value for customers

For customers, wholesaler-distributors provide value by carrying inventory from a wide array of manufacturers. This enables customers to do one-stop buying from a favorite wholesaler-distributor for all or most of the products they need.

Also, customers typically buy on ***credit***, meaning they don't have to pay until weeks after taking possession of the merchandise. The wholesaler-distributor in essence "finances" those goods in the interval. Without wholesaler-distributors performing this function, many customers would have to borrow money to purchase the goods they need.

Wholesaler-distributors offer one-stop buying opportunities.

The wholesaler-distributor's modest profit substitutes for interest payments to a bank. It's usually a better deal for the buyer.

Wholesaler-distributors are expected to stand behind the products they sell. That is, they will grant refunds or credits for goods that need to be returned. They offer training where needed for new or unfamiliar products. They also provide technical and troubleshooting assistance. Some wholesaler-distributors operate fabrication shops that modify certain products to customer specifications.

All of these services add value to the products sold by wholesaler-distributors.

BENEFITS PROVIDED BY WHOLESALER-DISTRIBUTORS	
For Manufacturers	**For Customers**
• Buy products in large quantities. • Stock products in convenient locations. • Break down large quantities of products into smaller lots. • Introduce new products. • Provide local market knowledge. • Reach widely scattered customers in remote locations.	• Provide goods from many manufacturers. • Grant credit. • Stand behind products. • Train customers on new products and troubleshoot. • Identify reputable manufacturers. • Inform customers about new products.

Wholesale distribution is a risky business

The business of wholesale distribution involves considerable risk. Wholesaler-distributors invest large amounts of money of their own and/or borrowed from banks to purchase inventory and cover other expenses. It takes a great deal of money to support their large facilities, maintain vehicles and equipment, and pay and retain valuable employees.

If they buy too many of the wrong products that they cannot sell in a reasonable time, they will not be able to meet their financial obligations. Then they must sell the business (if they can find a buyer) or go bankrupt.

Relatively few wholesaler-distributors meet this unfortunate fate. This is a tribute to the ability of wholesaler-distributors to correctly gauge their markets and figure out what customers want to buy. It's also a tribute to management's ability to run a tight ship by keeping costs in line and productivity up.

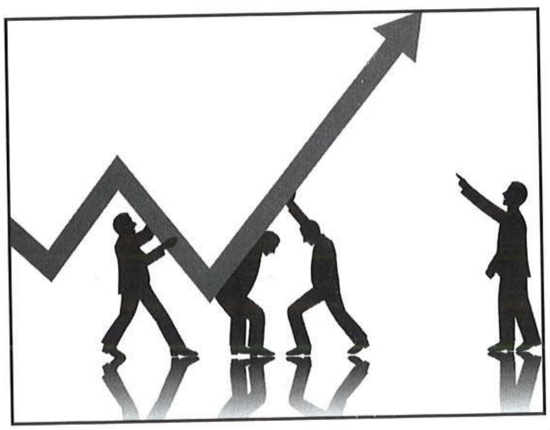
Wholesaler-distributors must run a tight ship.

Most wholesaler-distributors end up with less than five cents of profit for every dollar of sales. This is to say their average net profit is less than 5%, and out of that they must pay taxes.

With such little margin for error, wholesaler-distributors depend greatly on their employees to be productive and generate sufficient sales and profits. Do it right the first time.

Wholesale Distribution is a Team Effort

Wholesaler-distributors employ a variety of personnel to perform different job functions. They span administration, finance and accounting, purchasing and inventory management, sales and marketing, warehouse operations, and shipping and receiving. Some offer ancillary operations, such as showroom merchandising or product alteration.



People in diverse jobs have a common goal.

Each of these areas demands specialized skills and knowledge. At the same time, employees in different departments need to understand at least the basics of everyone else's role in the company. They need to know how they contribute to the common goal of making sales and generating profits.

With low profit margins, wholesaler-distributors are challenged to use their human resources in an effective and efficient manner. This requires that all employees work together as a team. They must respect and cooperate with one another if a wholesaler-distributor is to operate profitably enough to provide well-paying and secure jobs for all the team members. Team members must be trusted to do their jobs correctly.

The Role of Counter Sales

in Wholesale Distribution

Many steps are required to process an order

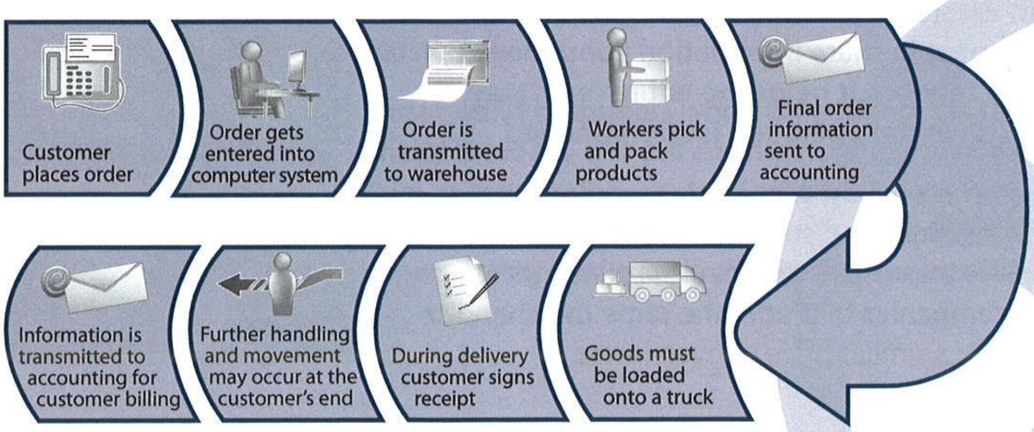
The fundamental business of a wholesaler-distributor is to sell products at a profit. A transaction between buyer and seller may seem like a simple process, but behind the scenes many actions occur in a wholesaler-distributor's operations.

An order begins with a customer interacting with a sales representative working in the field, at an inside sales desk, or at the counter. After the customer orders the desired products from a sales representative, the order is entered in to the supply house's computer system and transmitted to the warehouse. The correct products must be located and picked from the warehouse (or obtained elsewhere if not in stock). Then a warehouse worker must organize the products for shipping to the right location, or for pick up at the counter.

In many companies "paperwork" is actually paperless.

While this process plays out, the paperwork for this order gets transmitted to all the team members with a stake in the process. The salesperson who made the sale needs copies for his or her records. The accounts receivable (billing) staff needs to be notified in order to send out an invoice to collect the money. People responsible for purchasing and inventory control must be notified so they can replenish the goods sold. In many wholesale distribution companies this "paperwork" is actually paperless, in the sense that it is handled electronically.

The final step of order fulfillment is getting the product in the hands of the customer who ordered them. Goods are packed and loaded onto delivery vehicles or sent to the counter or will call for customer pickups. Customer pickup is where counter salespeople come into the picture. During delivery, the customer signs a receipt to confirm that the order was received and is correct. If the customer has not paid for the product, information is then sent to the supply house's accounting department so an invoice can be generated and sent.



Counter workers interact with the rest of the team

People who work the counter in a wholesale distribution company will interact with all of the company's other personnel at various times. They frequently interact with outside and inside sales staff to check on product availability, substitutions, and customer service issues. They also deal with warehouse workers who pick the materials ordered by a counter customer; however, in some operations counter people pick their own orders.

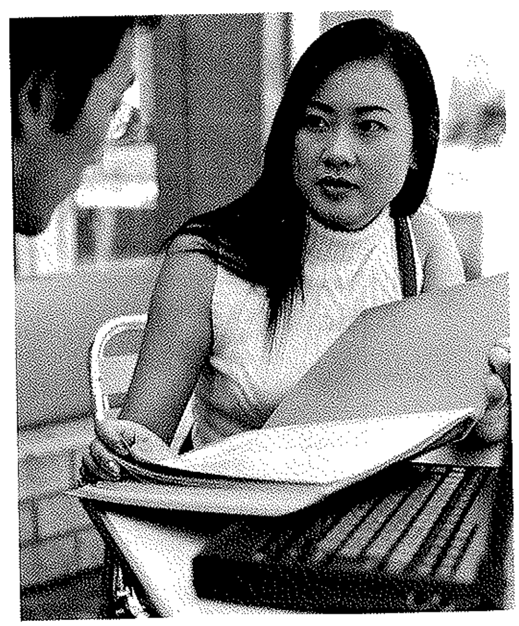
Counter salespeople interact with all departments.

Counter salespeople process paperwork or use a computer so that invoices or credits will be issued. This requires interaction with the office staff.

In many wholesale distribution companies, the will call/pickup counter is adjacent to the warehouse. So a counter salesperson may be asked to assist with warehouse operations when counter traffic is slow. Some wholesaler-distributors require their counter sales staff to be proficient in driving a forklift and operating other warehouse equipment.

Sometimes it's the other way around. People primarily assigned to warehouse operations may be asked to pitch in working the counter when traffic is at a peak. Then their role switches to that of a counter salesperson.

Counter sales has both internal and external customers



All of these co-workers should be regarded as ***"internal customers"*** or fellow team members who provide service to external customers. Whereas external customers buy products from counter salespeople, internal customers are in need of information or other forms of assistance. Counter salespeople must strive to please both external and internal customers. When counter salespeople share information about new products and services, it helps the entire team stay up-to-date. The entire operation is strengthened.

External customers are the lifeblood of wholesaler-distributors. Wholesaler-distributors must generate a large volume of sales to prosper. Yet they compete against many other companies that offer the same merchandise for sale, often at a similar price or even lower.

External customers can usually choose from many sellers

External customers often decide who to patronize by the quality of service they receive. So in order to succeed, all wholesaler-distributor team members must emphasize superior customer service in order to persuade customers to buy from them rather than competitors.

Many customers buy on the basis of service.

Customer service involves having the right products in the right place at the right time. All team members must perform their jobs well for that to happen.

Counter Sales Workers are Part of the Sales Team

As noted previously, the warehouse often is located next to the counter and warehouse duties may sometimes overlap with counter sales. As a result, counter salespeople sometimes are considered part of the warehouse staff and report to the warehouse manager.

No matter which department you as a counter salesperson may be assigned, your most important duty is to generate sales. A counter salesperson is part of the sales team, whether or not he or she reports to the sales manager.

Generating sales is your most important duty.

Three kinds of salespeople work for wholesaler-distributors

Wholesaler-distributors typically employ three different types of sales personnel. Outside or field salespeople spend most of their time out of the office calling on customers at their place of business or on the jobsite. Inside salespeople spend most of their time in the office answering calls from customers wishing to place orders, and making outgoing phone calls to generate business from existing or prospective customers.

Counter salespeople are responsible for servicing customers who pick up products themselves as opposed to having them shipped. Some of these are will-call customers who call ahead and expect their orders to be ready for pickup as soon as they arrive. Others will be walk-ins who won't place their order until they arrive. They must wait for you to locate and bring the materials to them. A chief goal of a counter salesperson is to make their wait as short as possible.

The Role of Counter Sales

in Wholesale Distribution

Counter Sales are More Important Than Ever

Goods sold at a wholesaler-distributor's pickup counter typically generate higher profits than those delivered to customers on company trucks or common carriers. This is because shipping costs add to overhead, and overhead eats into profits.

Counter sales can be the most profitable sales.

While wholesaler-distributors continue to offer delivery to customers as part of their service, almost every wholesaler-distributor would like to increase counter sales as a percentage of total revenues. It would reduce the amount of money they need to spend on delivery vehicles and other shipping expenses. This is especially true in recessionary times when profit margins drop due to intensified price competition.

Counter customers know YOU, not the owner

As a counter salesperson, you are at the forefront of making the counter sales operation profitable. The customers you serve view **YOU** as the face of the company they are buying from. Most of them probably do not even know the names of the company owners. To them, **YOU** are the company. Top counter salespeople often end up on a first-name basis with their best customers.

When more than a hundred people a week see you as the face of your company, your positive, friendly attitude is everything!

Being in contact with customers gives counter salespeople an opportunity to enhance their value to the company, and the company's value to customers. Almost all wholesaler-distributors track sales performance of personnel with sales responsibilities. Increasing sales and profit margins is a tangible way to prove your value to the company.

Increasing sales is a tangible way to prove your value.

Most counter customers choose to pick up goods rather than have them delivered because they need them immediately.

The four key qualities of customer service are quick, accurate, helpful, and friendly.

Let's examine these qualities a little closer.

Quick service stems from product knowledge

Thorough knowledge of a wholesaler-distributor's products and applications is one of the keys to offering quick customer service. This knowledge builds over time but can be accelerated by attending product training sessions at every opportunity, by studying product literature, and reading your industry's trade magazines.

Nobody can know everything about the vast array of products sold by wholesaler-distributors. But it is possible to find out anything if you know where to look or who to ask. So, quick service requires that a counter salesperson know how to use electronic and printed catalogs efficiently. It also requires a thorough knowledge of your company's organization, policies, and procedures in order to find information or resolve customer problems in a timely manner.

You can't know everything, but you can know how to find out.

Quick service further demands that a counter salesperson must be familiar with the warehouse layout and stocking system. Nothing slows down service more than wandering around dozens of aisles in a warehouse in search of the right product.

Another element of quick service is the ability to operate in a fast-paced environment. Most wholesaler-distributor pickup counters are characterized by peaks and valleys rather than a steady flow of customers. During busy periods counter sales personnel must pick up the pace without sacrificing accuracy, helpfulness, and friendliness.

Accurate service requires attention to detail

Mistakes waste time and money for both the wholesaler-distributor and the customer. More often than not a mistake will wipe out all the profit of a given sale. It may even cause your company to lose a customer forever.

Accuracy requires attention to detail. It means closely reading purchase orders and double checking after the products are picked. It means listening carefully to customers when they order something verbally, and repeating the order to make sure you understand. It means asking questions if you aren't sure about something or if an order doesn't make sense.

Counter salespeople need to master modern technology.

Wholesaler-distributors have specific order entry procedures that must be followed to assure that orders and inventory counts are accurate. Counter salespeople must master these procedures, as well as basic computer and keyboarding skills to avoid typographical errors when entering information. They also must master the use of bar code scanners and other technologies used by many wholesaler-distributors to track inventory and transactions.

The Role of Counter Sales

in Wholesale Distribution

Helpful service means helping customers to buy

Remember, as a counter salesperson, your most important duty is to generate sales. This works hand-in-hand with helpful customer service.

Customers appreciate hassle-free buying.

Counter salespeople have a big advantage over many other sales professionals. When customers come to your counter, they already are convinced to buy what they think they need from your company. Your job is to help those customers buy in a way that is hassle-free, and to make sure they have everything they need. This saves them the time and trouble of visiting other suppliers. Satisfy these their needs and customers will return to your counter over and over.

The goal is to make your counter a one-stop buying experience. This helps the customer at the same time it helps you and your company increase sales and profits. It also keeps the customer from going to another supply house to complete the order. A counter salesperson can increase sales and average order size via ***cross-selling*** and ***add-on sales***. The fast food restaurant industry perfected this tactic long ago by compelling all of its counter salespeople to ask,"Would you like fries with that?"

Add-on sales build profitability
and help customers get a complete order.

Opportunities also exist to boost sales by ***upselling*** to better products, and drawing attention to promotional sales items as well as new products. Take advantage of every opportunity to attend sales seminars and read books detailing effective, low-key selling techniques.

Helpful service also means keeping merchandising and counter areas clean and attractive. It's up to the counter salesperson to replenish counter area inventory, remove discontinued items, and add products that will stimulate impulse sales.

Friendly service means what it says

This doesn't require a lot of explanation. Acting friendly is simply a matter of applying the Golden Rule which is simply treating people the way you would like to be treated when patronizing a business. We all have experienced the difference between buying from friendly versus grumpy or indifferent salespeople.

Nobody likes to buy from grumpy people.

Someone who doesn't like people probably shouldn't seek work as a counter salesperson. However, even the friendliest counter salesperson can be tested when harried during those busy periods, or when confronted by an angry customer.

Superior counter sales performers know how to muster the character to take it all in stride. They continue to display a positive attitude when customers complain or want refunds for returns. They know how to handle difficult customers with diplomacy and tact. If you acknowledge customers, listen, and show you care, most customers will understand. Customers who consistently experience friendly, attentive service are far less likely to raise the issue of a minor price difference between you and a competitor.

Friendly service requires a team player able to work productively with a wide range of personalities both inside and outside the company.

This chapter introduced several of the key concepts and principles of an effective and profitable counter sales operation. In Chapter 2 we'll take a closer look at how wholesalers make money and a few of the keys to profitability that the counter sales person needs to practice.

Quiz

The Role of Counter Sales in Wholesale Distribution

1. How many links are typical for a supply chain?

A. Two

B. Three

C. Numerous

D. Four

2. In the wholesale distribution business, the letters "SKU" stand for

A. Stock on hand

B. Storage kept up

C. Stock keeping unit

D. Stock returned

3. Wholesaler-distributors PRIMARILY add value for manufacturers by

A. Buying in large volume

B. Extending credit

C. Accepting returns

D. Modifying products

4. Wholesaler-distributors PRIMARILY add value for customers by

A. Buying in large volume

B. Extending credit

C. Selling to end users

D. Increasing sales

5. Which one of the following entities is NOT involved in the order process?

A. Accounts receivable

B. Counter sales

C. Warehouse picker

D. Company management

Quiz

The Role of Counter Sales in Wholesale Distribution

6. Counter salespeople are likely to perform all of the following duties EXCEPT

A. Recommend substitute products.
B. Drive a delivery truck.
C. Retrieve goods from the warehouse.
D. Assist will-call customers.

7. Counter salespeople can accelerate their product knowledge by

A. reading industry trade magazines.
B. upselling.
C. working at a fast pace.
D. developing computer skills.

8. Which of the following is an example of an internal customer?

A. Customer
B. Contractor
C. Manufacturer
D. Warehouse Worker

9. Accuracy in counter sales requires

A. quick service.
B. teamwork.
C. attention to detail.
D. friendly service.

10. The average net profit of a wholesaler-distributor is

A. determined by sales revenue.
B. less than 5%.
C. about 25%.
D. unaffected by taxes.

(Answers below)

Answers: 1–C; 2–C; 3–A; 4–B; 5–D; 6–B; 7–A; 8–D; 9–C; 10–B

CHAPTER 2

How Wholesaler-Distributors Generate Sales and Profits

Counter sales plays a key role in driving profitability.

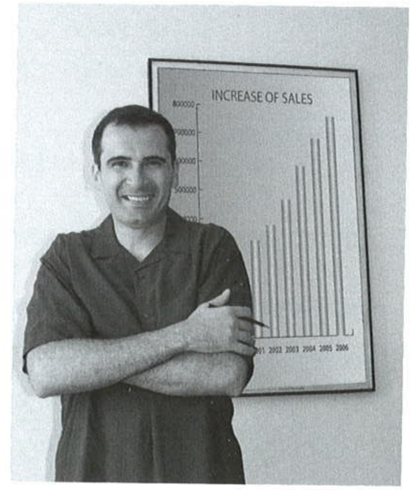
After reading and studying the material in this chapter, you will be able to:

1. **Describe the difference between gross sales and net sales.**
2. **Explain gross margin dollars, gross margin, and net profit.**
3. **Detail the difference between margin and mark-up.**
4. **Identify why counter sales are so profitable.**
5. **Discuss three ways counter salespeople can help increase profits.**

CHAPTER 2

How Wholesaler-Distributors

Generate Sales and Profits



Today's wholesale distribution business is a highly complex and extremely competitive business. Customers can easily find several sources for the products and services that they want. They can find and order products with a few taps on a computer keyboard. If they don't like what they get, they can easily return it or use a different supplier next time. This means that customers don't have to tolerate mistakes. They are unlikely to patronize suppliers who aren't highly skilled in getting them what they want, when they want it, at a reasonable price.

Wholesaler-distributors do well when they field a distribution team that is aware of the basic economics of the business and both operationally skilled and customer-focused. Counter sales can play a big part in ensuring a successful profitable operation. Counter salespeople don't need to be financial experts but they do need to understand some basic economics of how the business makes money. That knowledge will help them do their job to make a positive impact on the health and profitability of the wholesaler-distributor business.

Making Money in Wholesale Distribution is not Easy

A ***business*** (also called a company, enterprise, or firm) is a legally recognized organization designed to provide goods and/or services to customers. In capitalist economies, most businesses are privately owned and formed to earn profit that will increase the wealth of its owners and grow the business itself. One of the main objectives of business owners and operators is generation of a financial return (or profit) in exchange for work and acceptance of risk.

Why should you care if where you work is profitable or not? The answer is simple.

Every employee has a stake in the employer's prosperity.

Your company's profitability is your best job security. When a wholesaler-distributor makes money, that company can avoid layoffs and afford decent pay and benefits. Profits are often used to finance expansion. An expanding business provides opportunities for pay increases and job advancement. A healthy organization is essentially a better place to work.

On the other hand, a wholesaler-distributor that doesn't make a profit over time cannot survive and goes out of business.

How Wholesaler-Distributors

Generate Sales and Profits

Sales provide the largest income stream

The vast majority of wholesaler-distributor revenue comes from product sales. After all, that's the business they're in. There may be additional income from interest on bank accounts, investments, rents, and leases. However, these rarely account for more than a small percentage of a wholesaler-distributor's income.

Everything starts with the sale.

There is a saying in business that everything starts with sales because sales need to pay for everything. They need to pay for the cost of purchasing all the products that are sold. Sales also need to pay for all the ***overhead*** related to operating a wholesaler-distributor's counter, warehouse facilities, delivery vehicles, material handling equipment, and everything else. Overhead costs are general recurring costs of running a business such as rent, maintenance, and utilities. After all the bills are paid the small amount left over is called ***profit***.

Sales need to pay for everything.

Sales aren't always what they seem to be

Sales and profit are not the same thing. To understand how sales are related to profit, you need to understand the difference between three common terms used in business: "gross," "net," and "profit."

UNDERSTANDING HOW SALES ARE RELATED TO PROFIT

- ***GROSS:*** **whole of a certain amount of money, without any deductions taken out**
- ***NET:*** **remaining amount after certain expenses are deducted**
- ***PROFIT:*** **amount of money left over after all expenses are deducted**

In evaluating how well sales will pay the bills and generate a profit, we need to look at two categories of sales: gross sales and net sales.

How Wholesaler-Distributors

Generate Sales and Profits

A ***gross sale*** refers to the total amount of sales coming in (usually over a period of time) and is calculated by the number of items sold times the prices of the items.

Number of items sold
x ***Selling prices of items***
= ***Gross Sales Dollars***

For example:

100 widgets
x ***$28 each***
= ***$280 Gross Sales Dollars***

While it is easy to think of gross sales as the money that will be coming in, there is a more realistic figure called "net sales." ***Net sales*** is an accounting term which refers to the gross sales figures minus the cost of goods returned, allowances for damaged goods, or special discounts given such as freight and cash discounts.

Net sales is the "real" sales figure because only net sales can realistically be expected to turn into cash that pays the bills.

As you'll see in the following illustration, 75% of every sales dollar goes to pay for the cost of goods sold. That leaves a gross profit of 25% which must pay for operating expenses which are the expenses incurred in carrying out an organization's day-to-day activities, but not directly associated with production. Operating expenses include such things as payroll, sales commissions, employee benefits and pension contributions, transportation and travel, amortization and depreciation, rent, repairs, and taxes.

How Wholesaler-Distributors

Generate Sales and Profits

Gross Profit (25%)

Cost of Goods (75%)

Net Profit (2%)

After all the expenses are paid, the company has a 2% net profit before taxes. A typical wholesaler-distributor pays about a third (or 30%) of that net profit to the government in taxes. That means a wholesaler-distributor probably earns a final profit of less than 1.5% or 1.5 cents on every dollar of sales income.

This is one reason it is important for all the team members to fill an order properly, avoid damaging product, and get everything right the first time. Returns and mistakes reduce the real or net sales figure and that means less money to pay the bills.

Gross sales dollars
– ***Cost of discounts, returns, mistakes***
= ***Net sales dollars***

For example:

$280 Gross sales dollars
– ***$ 56 Widgets returned (2 x $28 each)***
= ***$224 Net sales dollars***

How net sales pay for everything

One of the ways that wholesaler-distributors keep track of how the business is doing is with an income statement. The ***income statement*** is a financial statement that tells the business how well it is doing over a specific period of time such as a month, quarter, or year.

Sometimes called a ***profit and loss statement*** (or P&L), the income statement shows the wholesaler-distributor's revenue, costs of the products it has sold, the cost of all the operating expenses or overhead, and a small profit if there is any. These records provide information that shows the ability of a company to generate profit by increasing revenue and reducing costs.

In its simplest version, an income statement looks like this:

Income Statement

	Net sales
–	Cost of goods sold
=	Gross margin dollars
–	Operating expenses
=	Net profit before taxes
–	Taxes
=	Profit after taxes

One million dollars in sales at a typical wholesaler might break down like this:

Income Statement

	Net Sales		$ 1,000,000.
–	Cost of goods sold	–	$ 750,000.
=	Gross margin dollars	=	$ 250,000.
–	Operating expenses	–	$ 230,000.
=	Net profit before taxes	=	$ 20,000.
–	Taxes	–	$ 6,000.
=	Profit after taxes	=	$ 14,000.

How Wholesaler-Distributors

Generate Sales and Profits

Understanding these basics is key to helping the wholesaler-distributor make money in a very tough business climate. The ***profit before taxes***, also known as the "bottom line," for many wholesalers is often only a little over 2%. That means the margin for error in running a healthy business is quite small.

Here is a summary of a typical wholesaler-distributors financial performance.

TODAY'S TYPICAL ASA MEMBER FINANCIAL PERFORMANCE*

Income Statement	***Typical***
Net Sales	100.0%
Cost of Goods Sold	76.2%
Gross Margin	23.8%
Operating Expenses	22.6%
Net Operating Income (other than sales)	5.0%
Non-operating Expenses	1.6%
Net Profit Before Tax	*4.6%*
Net Profit After Tax	2.9%

**Compiled from ASA's Operating Performance Report*

As an example, a typical wholesaler-distributor with $1 million in sales that earns 3% net profit generates just $30,000 in net profit. This is money to reinvest in the business so it can be improved, expanded, and made more competitive.

Every member of the distribution team can make either a positive or a negative impact on these items that drops right down to the bottom line. Let's take a look at a few of these.

Gross margin dollars must pay operating expenses

In wholesale distribution, the main direct cost is the cost of the products or goods sold. This figure is usually referred to as ***cost of goods sold (COGS)***. The difference between sales revenue expressed in dollars and COGS (direct cost) are called ***gross margin dollars***. Gross margin dollars are sometimes called ***gross profit***. The gross margin dollars on an item is calculated by subtracting the cost of an item from its selling price.

For instance, let's examine a product sold at $200 for which the wholesaler-distributor paid $150. The wholesaler-distributor realized a gross profit of $50.

	$200	***Sales***
–	***$150***	***Cost of goods sold***
=	***$ 50***	***Gross margin dollars***

This is a simple one-time transaction, of course. Wholesaler-distributors calculate the overall gross margin dollars for the business over a period of time by subtracting the cost of all goods sold in that period from all the sales dollars received in that same period.

Why many sales are unprofitable

A sale needs to generate enough gross margin dollars to cover the cost of servicing the sale. Unfortunately many sales in distribution don't cover their own service costs—much less contribute to the bottom line.

Suppose that $200 sale that generated $50 in gross margin dollars was set up for delivery that costs $60. In addition, the customer had asked for technical assistance which cost the wholesaler-distributor $40. The customer needed to be invoiced several times and received a collections call before paying the bill. The customer then took a 2% discount even though the bill was not paid within 10 days. Clearly, that sale did not contribute to the bottom line. It did not even pay its own costs.

Your sales and service policies are there for a reason. Follow those policies.

Many distributors, with the help of computers, have developed well-defined pricing, service, credit, and delivery policies that help ensure that the gross margin dollars from a sale will cover the expense or service costs related to the sale. Sales at the counter can avoid some of the costs of servicing the sale because delivery is often not involved and many customers pay right away. Still, counter sales personnel need to understand and support the company policies to help ensure that the sales made actually contribute to the business.

Gross Margin is a Key Measurement

Gross margin is an important measurement to wholesaler-distributors. It tells them, in essence, whether they are selling enough above their own cost of goods to also cover operating expenses and make a profit. Historically, a 25% gross margin, averaged out across all transactions, is about the norm for many wholesaler-distributors, although this will vary from industry to industry.

$$\frac{\$\ 50\ \textit{Gross Profit}}{\$200\ \textit{Gross Sales}} = .25 = 25\%\ \textit{Gross Margin}$$

All margins are not created equal

Although a wholesaler-distributor may average a gross margin of 25% across all sales, it is not good business practice to just arbitrarily price the product so that it generates the average margin.

In distribution, many of the most common items sold every day by every wholesaler are extremely competitive in price. Every customer knows those prices so opportunities for higher margins are often limited. Some items are so competitive that they will only allow a margin of 5% or so. Other items, such as specialty items, will allow for a much larger margin, possibly as much as 40%. Not taking the additional amount just leaves money on the table. That additional amount is needed to make up for the lower margin items.

Individual items sold in less than carton quantities need a higher margin. Emergency items that the customer needs "right now" require extra effort to get to the customer. Special orders, special brands, and items that are highly unique deserve a higher margin. In many instances, it is better to get a little better margin than to sell more product.

In the merchandising area of the store, the purchase of impulse items, such as tape or hand cleaner, is triggered by seeing the product or upon exposure to a well-crafted promotional message. These items are sold one at a time and command a higher margin. When a customer purchases these items they build both the sale and its profitability. A healthy business needs its counter salespeople to seize the opportunities to improve both sales and margins in the counter area.

Increase your cost to a price that gives the margin you need

Another measure that is very important to wholesaler-distributors is "mark-up." ***Mark-up*** is the percent wholesalers-distributors increase or "mark up" the price of the goods they purchase in order to determine a selling price that provides the gross margin they need. Determining the right mark-up to set the price of a product is vital. You don't want to underprice or overprice products.

Assume the wholesaler-distributor bought a product at $150 and marked it up to a price of $200. The sale made $50 gross margin dollars, or a gross margin percent of 25%.

The wholesaler could have used the following formula to determine the selling price on a $150 item to get a 25% ***margin***.

$$\frac{\textbf{Product cost}}{\textbf{(1- desired gross margin)}} = \textbf{Selling Price}$$

$$\frac{\$150}{.75\ (1-.25)} = \$200 \textbf{ Selling Price}$$

For a good look at how mark-ups and margins are related, review the Gross Margin/Mark-up Chart.

When setting prices most businesses use a computer to calculate selling prices. Setting prices can often be a collaborative effort of sales, purchasing, accounting, and management to ensure that all opportunities are taken and all costs are covered. It is very important that all members of the sales team follow company pricing policy.

For Gross Margin	Use Mark-Up Percentage
60	150
55	**122**
50	100
45	**82**
40	67
35	**54**
33	50
30	**43**
25	**33**
20	**25**
15	18

Confusing margin and mark-up can kill the business

It is easy to confuse margin and mark-up, but the distinction is very important. Look at the Gross Margin/Mark-up Chart and you'll see that a mark-up of 33% will yield a gross margin of 25%, NOT 33%! Setting a price based on a mark-up of 25% will yield a margin of 20%, not 25%. That 5% difference can easily spell the difference between a profitable operation and one that cannot survive in a competitive environment. Here is one way to remember the distinction:

Mark-up is the percent of COST that is profit.
Margin is the percent of the SELLING PRICE that is profit.

The distinction may sound academic but consider what can happen when margin and mark-up are confused. Assume that the company's Operating Expense (indirect costs such as rent, utilities, salaries, etc.) is $229,000 for this sale. When an employee marks up products purchased for $750,000 by 33-1/3%, the sale is $1,000,000 ($750,000 x 1.3333333 = $1,000,000 [rounded]). When an employee marks up those same products at 25%, the sale is $937,500 (750,000 X 1.25 - $937,500).

CONFUSING MARGIN AND MARK-UP COSTS MONEY

25% GM From a 33% Mark-up		***25% Mark-up Yields 20% GM***	
Sales	$1,000,000	Sales	$937,500
Cost of Goods Sold (75%)	- $750,000*	Cost of Goods Sold (75%)	-$750,000**
Gross Margin (25%)	$250,000	Gross Margin (25%)	$187,500
Operating Expense (23%)	- $229,000	Operating Expense (20%)	-$229,000
Net Before Taxes (2%)	**$21,000**	**Net**	**($41,500)**

**Marked up at 33-1/3%*
***Mark up at 25%*

If an employee confuses margin and mark-up and marks up an item 25% over cost rather than 33% of cost, it generates a gross margin of 20%. The 20% gross margin does not generate the gross margin dollars needed to cover the operating expenses and generate a profit. In the case above, the net result of the confusion is a $41,000 loss rather than a $21,000 profit.

The timing of how money comes in and goes out is critical

Wholesaler-distributors keep close track of their profitability via key reports that offer detailed breakdowns of sales and expenses in numerous categories. These reports enable management to spot problems and take corrective action early. Many of the financial problems faced by wholesaler-distributors can be traced to insufficient cash flow.

Cash flow is a term used to describe the comparison between money received and spent by a business during a defined period of time.

How Wholesaler-Distributors

Generate Sales and Profits

Wholesaler-distributors can face a cash flow dilemma in that they generate the vast majority of their sales via credit transactions. Most customers don't pay for the goods right away. Instead they receive invoices that tell them to pay within 30 days. Often times, wholesaler-distributors wait 40 days or more for their money.

On the other hand, wholesaler-distributors are expected and required to pay their bills on time. This means wholesaler-distributors sometimes spend more money on business operations than they take in during a given period of time. So they must find a way to finance operations in the time it takes for them to collect money owed to them (known as "accounts receivable").

One way is to borrow money from a bank, and many wholesaler-distributors have strong banking relationships for precisely this reason. This is not ideal, however, because money borrowed from a bank must be paid back with interest. Interest payments add yet another expense to the business.

Counter Sales Help to Increase Sales and Profits

Sales generated over the counter tend to be among the most profitable for a wholesaler-distributor for the simple reason that they eliminate much of the expense that goes into fulfilling an order, especially sales and delivery expenses.

It costs hundreds of dollars to make a field sales call.
Delivery costs are very expensive.

These costs usually get eliminated when the customers come to you and drive away with the merchandise in their own vehicle.

Because of sales and delivery expenses, some wholesaler-distributors are transitioning some of their sales efforts to inside and counter sales. They are also eliminating deliveries for smaller orders, initiating a charge for delivery, or offering an incentive to the customer when they pick up their order.

This growing importance of the role of counter functions means that selling and sales are more important than ever. It also means that "will call" type of orders must be processed quickly, accurately and completely and that these important customers experience no delay in picking up their orders.

People are the most important factor in boosting counter sales

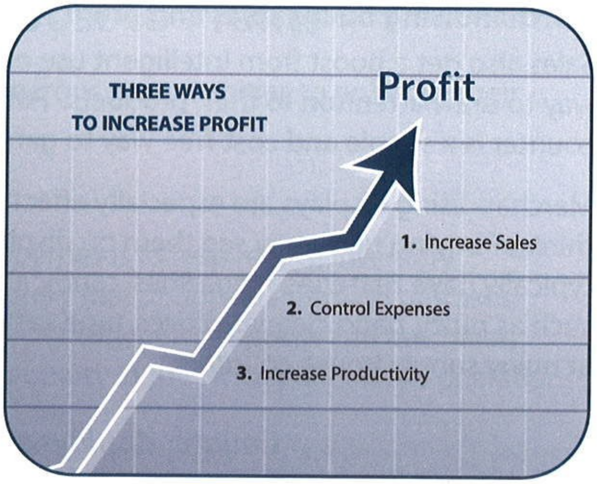
The most important factor in boosting counter sales rests with the people working that counter. If they are fast, accurate, helpful, and friendly, customers will find it easy to do business there and keep returning. Knowledge of products and their applications is especially important. If the counter sales staff is deficient in any of those qualities, customers will likely try to find other suppliers more to their liking. Remember:

Attitude is everything.

How Counter Salespeople Increase Sales and Profits

Counter salespeople can help to increase profits in three different ways. They can:

1. **increase sales;**
2. **control expenses; and**
3. **increase productivity.**



There are many ways to increase sales revenue

Selling more products is the most obvious way to boost sales. Counter salespeople have many opportunities to do this.

Most customers know what and how much they want to buy when they arrive at the counter. At least they think they do. But do they really?

Customers may think they know what they want, but not always.

Top counter salespeople are adept at increasing the order size with low-key, suggestive selling techniques. For example, if a customer orders bolts, it's natural to ask if he or she also needs nuts and washers. If the customer's line of work has to do with corrosive applications, you would be doing the customer a favor by pointing out that stainless steel bolts, nuts, and washers might be better to buy. In some cases the counter computer lists companion items for a product making suggestive selling a bit easier.

Hold the line on prices to boost revenue and profits

Selling companion items and upgrading to better quality goods are just a few of the ways counter salespeople can increase sales and profits—along with their value to the company.

Adhere to company pricing policies.

Although many wholesaler-distributors do not allow counter salespeople to alter prices, it is common for wholesaler-distributors to charge different prices for different customers based on how much they buy over time, order size, their payment record, their returns, and so on. Typically the prices that must be charged will be calculated by the management team and displayed on a computer.

Merchandising builds sales and profits

Sales also get a boost from intelligent use of merchandising displays. Vendors provide these as a way to draw attention to their products. Putting these displays at strategic positions along the counter is a simple and cost-free way to generate more sales.

Merchandising displays are especially effective for so-called "impulse" items that customers won't think of buying until they see them on display. This is a common practice at supermarkets, which typically have batteries, magazines, candy, and gum on display at the check-out counter. Items such as putty, hand cleaner, gloves, tape, fasteners, and small hand tools fulfill the same purpose at many supply house counters.

Counter displays encourage impulse purchases.

Make sure you have the merchandise available in inventory before putting up any displays, and keep the displays attractive, and updated. If one display doesn't seem to be doing any good in moving merchandise, substitute another one.

Selling is helping the customer to buy

Unfortunately, many counter workers regard themselves simply as order takers rather than sales professionals. They are not comfortable suggesting that customers buy things they don't have in mind when they come in.

They are wrong about that, but right about one thing. High-pressure sales tactics are uncalled for and will only drive customers away. A better way to think of selling is that of helping customers to buy more efficiently.

Suggestive selling leads to win-win!

How Wholesaler-Distributors

Generate Sales and Profits

Remember what you learned in Chapter 1. Being helpful is a key component of customer service. ***Suggestive selling*** is a service that reminds customers to purchase items they might need but which aren't front-of-mind at the moment. Most customers put a high value on one-stop shopping. Suggestive selling helps them do that. It can save them the trouble of making multiple trips to a supply house which might not be yours. It saves them the expense and aggravation of running out of key materials in the middle of a project.

Likewise, you are doing them a favor when you point out better products for a given application. If they decline to buy the more expensive product, that's okay. But failing to give them the opportunity to upgrade to a better product is a disservice.

Reducing Expenses Gives a Big Boost to Profits

Besides increasing sales, counter salespeople have numerous opportunities to enhance their value by reducing various expenses within their control.

Shrinkage is like setting money on fire

One of the most direct ways a counter worker can cut expenses is to help reduce inventory ***shrinkage.*** This is a catch-all term used to describe inventory that disappears through mistakes, damage, theft or any other loss. Shrinkage can apply to inventory, office supplies and machines, warehouse equipment, company vehicles, or any other property in the vicinity of counter operations.

Here are a few ways you can cut shrinkage:

- **Handle merchandise properly. Follow package directions like "this side up" and handle fragile merchandise with care even when rushed. Handle merchandise like you are purchasing it for your own use.**
- **Avoid product handling mistakes. A misplaced product can result in an unfilled order.**
- **Do everything you can do to prevent theft including not tolerating theft from employees, customers, or break-ins and maintaining good surveillance of self-service areas with mirrors and other devices.**
- **Mistakes in order processing will also lead to returned goods. Returns take time to process and cost money via refunds or credits. Mistakes usually remove whatever profit was built into a transaction.**

Be alert for ways to reduce expenses

Reducing shrinkage and eliminating mistakes are two of the biggest ways counter staff can control expenses. There are also simple steps, such as turning off unused lights and machinery, and matching the amount of customer refreshments with consumption patterns to reduce waste.

Or maybe you see that a boxed product is arranged on a delivery vehicle in a way that might easily result in breakage. It may be tempting to shrug your shoulders and say, "That's not my department" or "That's not my responsibility." However, you can make a difference by noticing errors and correcting them.

The One-Percent Difference

There is a thin line between success and failure in wholesale distribution. Little margin for error exists when a business operates on low net profit margins.

Fortunately, there is a positive side to this business arithmetic. When margins are so small, every little thing you do can have a large impact on business fortunes.

Think in terms of 1% improvements. One percent doesn't sound like much, but sometimes it makes a huge difference. Most people could improve their performance by 1% in many areas if they really committed themselves to it.

Making small improvements throughout a company can make a much better company and improve profits. There are a few areas where a 1% improvement can have a tremendous impact. For instance, let's take a look at the impact a 1% improvement can make for a wholesaler that operates with a 2% pre-tax net profit.

RESULTS OF A 1% IMPROVEMENT IN A WHOLESALE DISTRIBUTION BUSINESS

Improvement area	***Profit increase***
Pricing	47.5%
Cost of Goods Sold	37.5%
Operating Expense	11.5%

Let's look at how those numbers were calculated.

Pricing increases pay big returns

When a wholesaler is able to increase prices—or at least can resist decreasing prices—the impact is tremendous. That's because almost all the additional money goes right to the bottom line. The cost of goods sold stays the same. Some variable expenses like commissions may go up, but only by a small amount. Your operating expenses rise slightly—from $2,300,000 to $2,305,000—because of increased commissions, while your net profit increases by $95,000, or 47.5%. Sounds hard to believe—but here is the proof.

IMPACT OF A 1% IMPROVEMENT IN PRICING

Income Statement	***Current***	***1% Improved***
Net Sales	$10,000,000	$10,100,000
Cost of Goods Sold	- $7,500,000	- $7,500,000
Gross Profit	$2,500,000	$2,600,000
Operating Expenses	-$2,300,000	-$2,305,000
Net Profit	**$200,000**	**$295,000**

$$\frac{\$\,95{,}000 \ \text{Profit Increase}}{\$200{,}000 \ \text{Profit}} = 47.5\%\ \text{Increase}$$

Reducing cost of goods sold also pays big

Earlier you learned that sales revenue minus the cost of goods sold equals gross margin dollars. You also saw that a healthy amount of gross margin dollars are needed to pay operating expenses and generate a profit.

Following the current scenario, if you reduce COGS of $7.5 million by 1% (or $75,000) the result is $7,425,000. All other expenses remain the same. Therefore, you increase net profit by a significant 37.5%—from $200,000 to $275,000.

Here is what the income statement would look like:

IMPACT OF A 1% IMPROVEMENT IN COST OF GOODS SOLD

Income Statement	*Current*	*1% Improved*
Net Sales	$10,000,000	$10,000,000
Cost of Goods Sold	- $7,500,000	- $7,425,000
Gross Profit	$2,500,000	$2,575,000
Operating Expenses	-$2,300,000	-$2,300,000
Net Profit	**$200,000**	**$275,000**

$ 75,000 Profit Increase / ***$200,000 Profit*** = ***37.5% Increase***

Reducing operating expenses pays bigger dividends

In the previous examples, we assumed operating expenses of 23% of sales. In a $10 million company, that would equate to $2,300,000.

Industry research shows that the higher profit firms tend to generate lower operating expenses as a percent of sales than the typical firm. Given all the competitive pressure at the pricing end of distribution, it seems logical that increasing your operating efficiencies would yield more attainable results.

So let's see what might happen if we reduce operating expenses by merely 1%. Instead of $2,300,000, efforts by employees would reduce operating expenses by $23,000, to $2,277,000. Operating expenses as a percentage of sales has dropped slightly from 23% to 22.77%. The difference falls right to the bottom line, resulting in an annual net profit of $223,000—or 2.23% of sales. That minor 1% decrease in expenses allowed this company to increase its net profit by 11.5% as shown in the following income statement.

IMPACT OF A 1% IMPROVEMENT IN OPERATING EXPENSES

Income Statement	***Current***	***1% Improved***
Net Sales	$10,000,000	$10,000,000
Cost of Goods Sold	- $7,500,000	- $7,500,000
Gross Profit	$2,500,000	$2,500,000
Operating Expenses	-$2,300,000	-$2,277,000
Net Profit	**$200,000**	**$223,000**

$$\frac{\$\ 23{,}000 \quad \textit{Profit Increase}}{\$200{,}000 \quad \textit{Profit}} = \textit{11.5\% Increase}$$

In this chapter we examined several of the components of distribution profitability and the key role of the counter sales team. In the next chapter, we will look at the area with the greatest impact on profits: pricing.

CHAPTER 2

Quiz

How Wholesaler-Distributors Generate Sales and Profits

1. All of the following are terms used to describe the total amount of money taken in by a wholesaler-distributor EXCEPT

A. Revenue

B. Volume

C. Income

D. Overhead

2. How do wholesaler-distributors make most of their money?

A. Accounts receivable

B. Sales

C. Interest

D. Investments

3. Which of the following statements BEST describes the term "cash flow"?

A. Money sent out versus money taken in

B. Difference between sales and cost of goods sold

C. The movement of inventory through the business

D. Sales minus inventory plus expenses

4. The main direct cost for wholesaler-distributors is

A. warehouse facilities.

B. sales and delivery.

C. cost of goods sold.

D. accounts receivable.

5. When is mark-up applied to the price of an item?

A. Before the sale of an item

B. After the sale of an item

C. During the purchase of an item from the vendor

D. At the year-end account closings

Quiz

How Wholesaler-Distributors Generate Sales and Profits

6. In relation to gross margin percentage, the mark-up percentage will always be

A. lower.

B. equal.

C. higher.

D. lower or higher depending on quantity.

7. If a wholesaler-distributor with a 2% net profit mistakenly marks up product cost by 25% instead of 33.3% on an item, what is the impact on profit?

A. Profit will be higher

B. Profit will not change

C. A loss on that sale is likely

D. The sale will break even

8. The term "suggestive selling" is defined as a way to

A. reduce expenses.

B. work smarter.

C. draw counter traffic.

D. help the customer.

9. All of the following items lead to shrinkage EXCEPT

A. returns.

B. theft.

C. mistakes.

D. damage.

10. Which of the following customers should take priority at the counter?

A. Repeat customers

B. First come, first served

C. Everyone should be treated equally

D. Consumers

(Answers below)

Answers: 1.D; 2.B; 3.A; 4.C; 5.A; 6.C; 7.C; 8.D; 9.A; 10.A.

CHAPTER 3

How Effective Pricing Drives Profitability

Pricing decisions can make or break a wholesale distribution business.

After reading and studying the material in this chapter, you will be able to:

1. **Identify three marketplace factors that influence prices.**
2. **Identify seven internal business factors that also influence prices.**
3. **Explain why goods sold at the counter tend to be priced higher than for most other order formats.**
4. **Demonstrate how prices impact gross margin percentage and gross profit dollars.**
5. **Define the difference between commodity and brand name products.**

How Effective Pricing
Drives Profitability

We've all heard the phrase, "what the market will bear." It pertains to setting prices for goods or services at the maximum level possible. Prices set above what the market is willing to pay will drive people to do business with lower-priced competitors, or to seek out substitute products. Setting prices too low can be harmful to a business as well. That business will not make enough to cover all its costs and earn a reasonable profit.

In the last chapter, you saw the tremendous impact that a 1% change in pricing can make on the profits of a business. That impact can be positive in increasing profits or negative in destroying them. Wholesaler-distributors know that setting prices is both an art and a science. They work very hard to determine the right pricing for their products, services and customers. Counter salespeople who develop a basic understanding of how pricing impacts profits can better support and follow their supply houses pricing policy.

Marketplace Factors That Influence Prices

With such a low margin for error, pricing is one of the trickiest but most important skills of a wholesaler-distributor. Most supply houses sell thousands or even tens of thousands of SKUs. They must decide what to charge for every one of those products in a way that maximizes income and profit potential. Everyone would like to "sell high," but this is not always possible. What a wholesaler-distributor can charge for any given product is influenced by three important marketplace factors.

Supply, Demand and Competition Influence Prices	
When supply goes up ...	... prices go down.
When supply goes down ...	... prices go up.
When demand goes up ...	... prices go up.
When demand goes down ...	... prices go down.
Competition drives prices down.	

Supply influences prices

The availability of a product and of realistic substitutes, referred to as "supply," influences the prices a wholesaler-distributor charges. For example, sometimes when construction is booming in a market area, shortages may develop of certain materials, such as copper tubing for plumbing supply lines. When that happens, the price of copper tubing is likely to rise. At some point the price may get so high many plumbing contractors may decide to substitute less expensive plastic pipe (if code allows) instead of copper for their jobs.

Demand influences prices

Demand goes hand-in-hand with supply. If enough contractors decide to substitute plastic pipe for copper, copper might no longer be in short supply. But plastic pipe may be harder to come by. Then the price of plastic pipe may increase while that of copper may drop.

Another aspect of demand is urgency. How quickly is something needed and are reasonable substitutes readily available? Customers aren't likely to fuss about the price they are asked to pay for a replacement part at a critical time, such as avoiding a factory shutdown or for a medical device in a life-threatening situation.

Supply and demand go hand-in-hand to determine pricing.

Competition also influences prices

All else being equal, customers will tend to buy from the supply houses where they can find the best prices. If one wholesaler-distributor sells a certain product for significantly less than a competitor, the more expensive distributor may have to lower its price in order to sell its inventory in a reasonable time.

Think of how these three factors influence personal buying decisions you make every day. For instance, when buying gasoline, most people tend to seek out the cheapest price in an area, but other factors come into play as well. Foremost among them is how far you are from another gas station (supply), and how low your tank might be (demand). If a gas station across the street from another station charges a few cents less, most motorists will go there. This probably will force the competing gas station to lower its price in order to generate business. However, if you're in a remote area and running on fumes, you would likely stop at the first station you see and not be too concerned about the pump price.

Low price is a compelling reason to buy but not the only reason.

Customers consider similar factors when buying from wholesaler-distributors. Price is certainly one of the most compelling factors in determining where customers buy products. But it is not the only factor. Location, service, reputation, and personal relationships are among other reasons why a customer might choose one supply house over another.

Internal Business Factors Also Influence Prices

Supply, demand, and competition are outside forces that influence prices. They are largely beyond the control of an individual wholesaler-distributor.

Prices are also influenced by internal business considerations. These internal factors are very much within the control of a wholesaler-distributor.

Buyers who place larger orders can get lower prices

Probably the most common business factor influencing prices is how much a customer buys from a wholesaler-distributor. Almost all wholesaler-distributors offer volume purchase discounts at various levels. The more a customer buys, the lower the unit price the customer will pay. For example, a customer who buys a carton of 100 items or several cartons in a single order will get a lower per-unit price than the customer who needs just a few items. The wholesaler-distributor is happy to sell a carton. It performs all the transaction activities for the carton once rather than for the 100 items individually. That saves money. This usually turns out to be a win-win for the larger buyer, the smaller buyer, and the seller.

Wholesale distribution is a volume intensive business.

Wholesaler-distributors work hard to build order size and sales volume. Although it is vitally important to keep up profit margins, in some cases it can make sense to sacrifice a little bit of gross margin for considerably more sales volume. One key point to keep in mind is that the expenses in servicing a sale must be paid by the gross margin dollars generated by that sale.

Gross margin dollars of a sale must pay the costs of servicing that sale.

Increasing order size at an acceptable gross margin is a way to generate greater gross margin dollars. This is why almost all wholesaler-distributors grant volume discounts to encourage larger orders. They know that customers who place a few large orders are almost always more profitable than customers who generate the same volume with very frequent small orders. The counter sales professional who helps customers consolidate orders and get everything they need in fewer trips reduces costs for both the customer and the wholesaler-distributor.

Certain types of customers pay more than others

A wholesaler-distributor may also establish different prices for the same item for different categories of customers. For instance, it's common for wholesaler-distributors to have different pricing tiers for professional trade customers or business clientele than for retail consumers or other non-professionals.

Some customers pay more than others for valid reasons.

This may hold true even if a professional and non-professional place an order for the same quantity of a particular item. A trade discount is based on the expectation that over time trade and business professionals will buy much more merchandise from a wholesaler-distributor than individual consumers and non-professionals.

Some prices are negotiated ahead of time

Negotiated pricing involves another internal business decision. Sometimes wholesaler-distributors bid against one another to supply goods for a specific purpose, such as a construction project or to maintain a steady stream of repair parts to an industrial plant. The winning bidder will be obligated to provide the goods at the agreed upon price for the duration of the agreement, which may involve a legally binding written contract.

Special pricing helps to move inventory, gain market share

Wholesaler-distributors frequently will offer special (lower) prices on certain items for promotional reasons. It may be to generate interest in a new product they want to introduce into a market, or to move inventory that is getting stale before it becomes outdated or obsolete.

Hard-to-find items command premium prices

At the other end of the pricing spectrum are unusual, hard-to-find products. Hard-to-find items are usually not available from the competition, few people know the going price, the customer's customer may be insistent on getting special products, and those odd items usually require special attention and handling.

Wholesaler-distributors who choose to track down such products or even stock them knowing they will not sell very many are providing significant extra value. They are also taking on extra costs and risk of not selling out their inventory. Therefore, they deserve a premium price for their efforts.

Cost to service the sale must be covered by price

Yet another business factor influencing prices is the amount of cost and effort that goes into making and servicing a sale. For instance, orders delivered to a customer directly from a factory on that manufacturer's own truck entail less expense for a wholesaler-distributor than an order delivered from its own warehouse for a product it had to buy, store, pick, pack, and deliver using its own vehicles. Often a wholesaler-distributor will price factory-direct shipments below normal pricing.

Some wholesaler-distributors use a sophisticated pricing matrix to determine what prices to charge individual customers. Usually called up on a computer, these tables will advise how much to charge for a given purchase based on a customer's sales history, buying practices, and profitability. Customers with a high rate of returns or who demand delivery of frequent small orders and take extra time to pay should be charged more than others who are easier and less costly to serve.

Customers who cost more to serve need to pay more.

Prices are constantly adjusted

Any combination of these marketplace and internal business factors may come into play in a wholesaler-distributor's pricing decisions. Except for negotiated prices, those decisions are not carved in stone. Wholesaler-distributors constantly adjust prices based on any combination of the factors just cited. If a certain product is not selling as much as a wholesaler-distributor thinks it should, its price might be lowered. If there is more demand than anticipated, the wholesaler-distributor might choose to increase its price. Sometimes a wholesaler-distributor may even experiment with different prices just to see what level results in the most sales volume and gross profit dollars.

Determining the right price for a given product is extremely complex.

Yet it is crucial for a wholesaler-distributor to get it right most of the time.

INTERNAL FACTORS THAT INFLUENCE PRICE

1. **Buyers who place larger orders can get lower prices.**
2. **Certain types of customers pay more than others.**
3. **Special pricing can help move inventory or gain market share.**
4. **Some prices are negotiated ahead of time.**
5. **Hard-to-find items command premium prices.**
6. **Cost to service the sale must be covered by prices.**
7. **Prices are constantly adjusted.**

Counter Prices Tend to be Higher

Based solely on cost to serve, you would think counter sale prices would be lower than other types of sales generated by wholesaler-distributors. However, with most wholesaler-distributors, goods sold at the counter tend to be priced higher than other order formats. That's because several overriding factors come into play.

For one thing, most counter sales do not entail a large volume of goods. Small quantity pickup orders will not benefit from volume discounts. Therefore these sales need a higher price to generate sufficient gross margin dollars to pay the higher cost to serve.

Small orders and urgency help determine counter prices.

Urgency also plays a role. Customers often decide to pick up goods because they need them right away and can't afford to wait for the wholesaler-distributor's delivery schedule. If the lack of a product will cause a $75 per hour trades professional to be idle the customer will gladly pay a bit extra in price. To these customers the price is not as important as the need to keep their trades' workforce busy.

In some cases the wholesaler-distributor's customer adds a mark-up over what they pay to what they charge their own customer. So they may not be very sensitive to a small difference in price.

Competition is less intense for counter sales

Price competition tends to be less of a factor for counter sales than other order formats. Partly that's because of the urgency factor just mentioned, but there are other considerations as well.

Counter customers generally don't have time to visit multiple supply houses looking for the lowest prices. They choose to go to a particular facility because they favor that wholesaler-distributor or because its location is convenient. Driving around town looking for better deals would likely cost more in wages and gasoline than any savings realized. A counter that offers one-stop shopping and competent, friendly counter professionals is especially attractive.

Counter customers don't have time to shop around.

The people factor is all important

One other consideration impacts counter sales and may be the most important of all. That's the people factor, and it's where you come into play.

Customers like to buy from people they like.

The abilities and personalities of the people staffing a wholesaler-distributor's counter is a major reason many customers choose to patronize one supply house over another.

Regular customers frequently develop first-name relationships with counter salespeople, and some even develop friendships. These customers will go out of their way to buy from friendly counter salespeople, even if the prices are a little higher.

You don't have to be extroverted to be an effective salesperson.

Cultivating friendly business relationships with customers is an important goal for every counter salesperson. It helps to have a friendly, outgoing personality, but that is not essential. If you're the quiet type you can still build solid relationships by displaying empathy for the customer and competence in your job. If you are easy to buy from, people will come to you.

Counter customers value salespeople who know their products and know their customers' needs. Demonstrate this knowledge and you will find customers asking for you by name when they visit the counter you work at.

Supply houses are like supermarkets

This doesn't mean that wholesaler-distributors can get away with charging sky-high prices at the counter. Customers typically patronize several supply houses on a regular basis. They develop a keen sense of relative pricing, just as you are able to judge supermarket prices.

The typical consumer will do most of his or her supermarket shopping at the store perceived as offering the best combination of price, merchandise, and service. A store offering superior merchandise and service may be able to charge a little bit more than competitors. But no matter how good the merchandise and service may be, most shoppers would draw the line at paying twice as much for bread and milk than they would pay elsewhere.

So it is with supply houses. Wholesaler-distributors that offer superior merchandise and service can get away with higher prices than the competition, but within limits. Most wholesaler-distributors in a market will be within 10-15% of one another on pricing for most products.

A little higher price goes a long way for wholesaler-distributors.

That may not sound like much, but wholesaler-distributors who can maintain that 10-15% edge in pricing tend to be among the most profitable and successful.

Counter Sales Compensate for Low Margin Sales

The goal of any wholesaler-distributor is to price products at a level that provides enough gross margin dollars to cover expenses and make a decent net profit. Although it varies from industry to industry, a convenient rule of thumb is that most wholesaler-distributors must obtain average gross margins of around 25% to be successful.

Overall gross margin reflects a blend of transactions

This doesn't mean wholesaler-distributors strive to earn that much on all of their product sales, however. The overall percentage reflects a blend of margins on many different types of transactions.

Typically, a wholesaler-distributor will make a smaller profit margin on highly competitive commodity items than on brand name products. A product is considered to be a "commodity" when the brand name doesn't matter much. For instance, almost nobody cares which brand of screws or nails they buy, just that they are of the right size, type, and material. They tend not to vary much in quality from one producer to another. As a result, customers tend to buy screws and nails almost solely on the basis of price. Price competition on commodity items is fierce.

Price is the main factor in buying commodities.

"Brand name" products are those that customers will ask for by name because they feature significant variation in esthetic or performance characteristics. (You would not think of going to the first auto dealer you see and telling the sales rep you want to buy any car that's available!) To compensate for lower commodity margins, a wholesaler-distributor may put larger mark-ups on products whose brand names are important to customers.

Similarly, some types of transactions have smaller margins than others. Orders resulting from competitive bids or entailing factory-direct shipments might be sold at rock bottom gross margins of less than 5%. No wholesaler-distributor can survive on such margins across the board. But the pricing might make sense if compensated by sufficient other sales entailing gross margins much higher than the norm.

High margin sales compensate for all the bargains.

Counter sales offer the opportunity to generate higher gross margins, and wholesaler-distributors must take advantage of it. Never apologize or feel guilty about selling goods at a higher margin. It is needed to compensate for all the sales made at bargain prices.

Discounting can kill profits and the business

The temptation is great for wholesaler-distributors and their salespeople to drop prices as soon as sales start slumping. Yet discounting can become a bad habit and has led to ruin for many wholesaler-distributors. When a low margin industry like wholesale distribution cuts prices, even a little bit, the result can turn an order that generates a small profit into one that generates a loss.

For example, if an order of $1,000 has the industry average of 75% cost-of-goods-sold, 23% operations expense and 2% net profit, the sale would make a small profit of $20.

ORIGINAL SALE OF $1,000	
Original Sale	$ 1,000
– Cost of Goods Sold (75% of Sales)	$ 750
= Gross Margin Dollars (25% of Sales)	$ 250
– Operating Expense (23% of Sales)	$ 230
= Net Profit (2% of Sales)	**$ 20**

Now look what happens when a well-intentioned salesperson grants a 10% discount on the order. The sale drops to $900. The cost-of- goods-sold remains the same; the operating expense goes down a bit (due to decreased commissions) and is now 83.3% of sales ($750 ÷ $950 = 83.3%). Instead of a profit, that order now has a loss of $57.

SALE AFTER CUTTING PRICE TO $900	
$900 Sale (after $100 price cut)	$ 900
– Cost of Goods Sold (same Dollar Amount but 83.3% of Sales)	$ 750
= Gross Margin Dollars (16.6% of Sales)	$ 150
– Operating Expense (23% of Sales)	$ 207
= Net Loss (6.3% of Sales)	**$ (57)**

The "Impact of Discounting" table shows the effect of discounting products at various increments between 2% and 20%. The numbers add up in a frightening way from a wholesaler-distributor's perspective.

THE IMPACT OF DISCOUNTING

COGS = $75 EACH; GM GOAL = $2,500

Discount	Unit Selling Price	Unit Gross Margin Dollars	Gross Margin	Units to Sell to Meet GM Goal
0%	$100	$25	25%	100
2%	$98	$23	23.5%	109
4%	$96	$21	21.9%	120
6%	$94	$19	20.2%	132
8%	$92	$17	18.5%	148
10%	$90	$15	16.7%	167
12%	$88	$13	14.8%	193
14%	$86	$11	12.8%	228
16%	$84	$9	10.7%	278
18%	$82	$7	8.5%	358
20%	$80	$5	6.25%	500

Holding the Line on Prices is Critically Important

As a counter salesperson, you may not have the authority to adjust pricing. In most cases, you will be expected to adhere to prices listed for products sold at the counter.

In case you are granted some leeway to change prices, it is critically important to do everything you can to resist customer requests for a lower price. Once you begin lowering prices for someone, that customer will try to bargain every time he or she buys from you. The customer also is likely to tell associates that your prices are negotiable. Next thing you know they'll be asking for discounts too.

Word gets around when prices are negotiable.

You cannot afford to let gross margin dollars go down the drain.

Customers may be persistent in bargaining

A counter salesperson's job actually becomes easier without authority to discount prices. Then you can honestly tell customers that you simply are not authorized to do so. In most cases, that will end the discussion. But not always.

Some customers may persist in trying to pay less than your listed price for a given product even after you tell them there's nothing you can do about it. They may say that they saw the same product selling for much less at a competitor's counter. They may bring up that they have been a long-time customer of your company and deserve a favor. They may cite delays in service or past mistakes as a reason to charge them less. They may recite a tale of hardship and play on your sympathy. They may threaten to take their business elsewhere.

Sales pros avoid getting ruffled by annoying customers.

Being badgered over price can get annoying. Yet you can't let your personal feelings result in losing the customer. At stake is not just a few dollars for the sale at hand, but potentially many thousands of dollars of future sales a customer is likely to spend at his or her favorite supply house. Making them want to return is of paramount importance. A true sales professional knows how to avoid getting ruffled and even turn the situation to his or her advantage.

CHAPTER 3

How Effective Pricing

Drives Profitability

It's about value and cost, not just price

Whenever a customer's conversation turns to price, it is up to you to steer it toward value. Why did the customer come to your counter in the first place? This might be the first thing to ask. The answer might well reveal some positive statements about the products carried, good service, or other factors that landed the customer there rather than at a competitor's counter. All are statements that reveal a sense of value. Even if the answer is only because yours was the closest supply house, that in itself is a value statement. "The gas you saved driving here is worth more than the price difference between us and our cheaper competitors!" Keep in mind that the lowest price a customer can find is not necessarily his or her lowest cost.

Later in this course you will learn more tactics for dealing with disgruntled customers and how to sell value over price. But first, in the next chapter, let's look at how great counters really work.

Quiz

How Effective Pricing Drives Profitability

1. All of the following are marketplace factors that influence prices EXCEPT

A. Competition

B. Gross profit dollars

C. Demand

D. Supply

2. Competitive bidding is most likely to result in prices that are

A. higher than average.

B. lower than average.

C. about average.

D. variable.

3. Which of the following statements BEST describes hard-to-find items?

A. Wholesaler-distributors should not stock them.

B. Customers are likely to drive hard bargains.

C. They take up too much shelf space.

D. Customers will pay premium prices.

4. Volume buyers get lower prices because

A. more volume results in more gross profit dollars.

B. lower prices result in higher gross margin.

C. the cost of goods sold declines.

D. delivery is not included.

5. All of the following are internal business factors that influence prices EXCEPT

A. Volume purchases

B. Negotiated agreements

C. Cost to serve

D. Competition

Quiz

How Effective Pricing Drives Profitability

6. Certain types of customers may pay less than others for the same items because of

A. greater volume in the long run.
B. friendship with counter salesperson.
C. higher gross margins.
D. discrimination in the marketplace.

7. Goods sold at the counter tend to be priced higher than other order formats because

A. sales are to non-professionals.
B. delivery is not required.
C. higher volume is involved.
D. competition is less intense.

8. Reducing prices to increase volume is a way to

A. reduce expenses.
B. increase gross profit dollars.
C. increase gross margin.
D. help the customer.

9. Holding the line on prices is critically important in order to

A. generate gross profit dollars.
B. make customers want to buy from you.
C. avoid mistakes and returns.
D. obtain 25% gross margins.

10. You "leave money on the table" when you

A. generate high gross margin.
B. generate high gross profit dollars.
C. charge less than the market will bear.
D. sell more volume.

(Answers below)

Answers: 1.B; 2.B; 3.D; 4.A; 5.D; 6.A; 7.D; 8.B; 9.A; 10.C

CHAPTER 4

How the Counter Works for the Customer

Time is money for the customer.

After reading and studying the material in this chapter you will be able to:

1. **Identify at least five different types of counter customers.**
2. **Explain why trade customers usually take priority over consumers at a wholesaler-distributor's counter.**
3. **Explain why factory maintenance customers often need products in a hurry.**
4. **Identify the single biggest waste of time at the counter.**
5. **Discuss two advantages of self-service areas and at least one disadvantage for a counter salesperson.**
6. **Describe how to deal with multiple customers during peak traffic periods.**

How the Counter Works

for the Customer

So far in this course we have studied the role of the counter in what wholesaler-distributors do, how they generate sales and make profits, and the tremendous impact that pricing makes on the health and profitability of the business.

Now it is time to get out from behind the counter and look from the other side. Imagine that you are in a customer's shoes. How do things look from the customer's perspective? What is it about the counter person's performance and behavior that most affects that customer? How should you apply the Golden Rule: "Do unto others as you would have them do unto you"?

Who are Counter Customers?

The answer to the questions we have asked will vary from industry to industry and company to company, although you will find several common characteristics.

Wholesaler-distributors of construction materials find most of their counter customers coming from the ranks of trade contractors and their employees. This is especially true of the customers that visit the counter. These customers may be short of a key product or certain materials needed for a project they are working on. Alternatively, they may rely upon the pickup counter for all the materials needed for their work day-by-day.

Trade contractors and their employees are the counter's most frequent customers.

Some construction contractors keep an inventory of frequently used products and materials and store them at their shops and/or at a jobsite. In other cases, the contractor and his/her supply house develop an agreement whereby the supplier keeps the contractor's trucks supplied with an inventory of the items most needed on the job. Contractors usually purchase these "orders for inventory" through a wholesaler-distributor's outside or inside sales team. As a counter salesperson, you will not find yourself filling many of these relatively high-volume orders.

Some customers keep inventory; others buy day-by-day.

Fill-in materials are needed right away

However, at any time a contractor's field crew may find itself short of certain products or materials for the job at hand. The crew may have overdrawn its inventory, miscalculated the amount needed, or purchased the wrong merchandise. In some cases, a change in the job requires different materials than originally ordered. Rarely will the crew have time to wait for delivery of the items it really needs. That means a quick trip to the counter of a supply house to pick up the needed items.

Another typical customer at construction supply counters is the small contractor who also works in the field. Sometimes these are so-called "one-person shops" that employ nobody except the owner.

Field crews often run short of materials needed in a hurry.

Such contractors operate out of tiny facilities, often their own basement or garage. They may not have enough space available to store much inventory, or have the money to pay for a great deal of material at once. Therefore, they may decide to visit a wholesaler-distributor's pickup counter almost every working day to obtain that day's supplies.

One-stop shopping benefits customers and your company

A top-notch counter salesperson can be especially helpful to customers by suggesting items they may have overlooked, and making sure customers have enough of everything they need. By working closely with customers, the counter people get to know what the customers need for the kind of projects they work on. They make sure the supply house carries the right product mix for one-stop shopping. This helps customers avoid costly and time-consuming return trips to the counter. If you are out of a certain item, offer to have it transferred from another branch or even from the vendor. There is one other key principle of wholesale distribution to keep in mind:

Never make it necessary for a customer
to visit another supply house.

Perceptive counter people do their best to make sure that their customers purchase all their supplies from them. Without that right product mix available, the customer who runs out of something while on the job may decide to buy it from another wholesaler-distributor.

The right product mix helps ensure
that customers buy all their supplies from you.

How the Counter Works

for the Customer

Many construction contractors also patronize the "big box" home improvement stores as well as wholesaler-distributor counters. Those big boxes are just as much your competitor as other wholesaler-distributors. They often offer expanded business hours the wholesaler-distributor cannot match. However, the big boxes cannot match the wholesaler-distributor's higher quality products, deep inventory, and a superior counter staff that guarantees customers quickly get what they need. It is up to you to ensure that customers have a better experience visiting your counter than they do the big box stores.

WHAT DO CONTRACTORS WANT?

1. **Inside sales immediately available when I call.**
2. **Inside salespeople who are eager to help.**
3. **Ship our orders complete.**
4. **Next-day delivery service.**
5. **Proactive follow-up on orders and requests.**
6. **Have a wide range of products (one-stop shopping).**
7. **Carry preferred specific brands.**
8. **Have the lowest price.**
9. **Pickup service is fast—can get in and out quickly.**
10. **Make deliveries on time.**

Maintenance people may need your help

Another type of customer you will commonly find visiting a wholesaler-distributor's pickup counter is the building maintenance person. Sometimes they have trade backgrounds. Others may be janitors who are also responsible for small repairs and replacements in apartment buildings or commercial facilities. Their technical knowledge may not be as great as that of trade professionals, so they may rely on you for guidance in selecting the right materials.

How the Counter Works

for the Customer

Maintenance people often need help with product selection.

Building maintenance people are apt to come to your counter to pick up products needed in a hurry when something breaks down. They might also purchase additional items to keep on hand for common repairs and replacements, just as most households keep a ready supply of spare batteries and light bulbs.

You, as a counter salesperson, have a great opportunity to boost sales by getting to know the needs of building maintenance personnel and reminding them of items they should store as extras. Once these "property maintenance accounts" become confident that you meet their needs, they will provide a steady stream of income.

Stakes are high for factories to keep running

Wholesaler-distributors of industrial supplies may have a different clientele consisting mainly of factory and maintenance personnel. Industrial customers typically keep an array of products in inventory needed both for building maintenance needs and to keep production lines running. This is critically important because production stops can cost manufacturers thousands of dollars for every hour lost. In emergencies like this, the responsive counter person will work directly with the vendor to send the critical part by next day UPS or other expedited method.

Industrial wholesaler-distributors typically serve MRO (maintenance, repair, operations) and OEM (original equipment manufacturers) customers. OEM customers buy components that go into the assembly of some larger product produced by a factory. Almost all OEM customers purchase products in bulk for delivery by the wholesaler-distributor to the factory. You as a counter salesperson will likely have limited contact with customers responsible for OEM purchases.

MRO customers sometimes visit your counter with utmost urgency.

You will likely encounter plenty of MRO customers, however. Factory maintenance personnel typically keep an inventory of spare parts on hand to assure smoothly running operations. Yet their stores have limited space and they cannot stock parts for every possible contingency. Occasionally something unforeseen arises that requires a run to the pickup counter. If it is a critical component holding up production, you will find they need it with utmost urgency.

How the Counter Works

for the Customer

FIVE CUSTOMER TYPES COME TO THE COUNTER

- **Construction and installation contractors**
- **Building maintenance personnel**
- **Maintenance and Repair Operations (MRO) personnel**
- **Original Equipment Manufacturers (OEM) personnel**
- **Consumers and retail customers**

Some Customers Require Hand Holding

Consumers are another type of customer served by many wholesaler-distributors. Construction supply houses may find the occasional homeowner or other retail customer stopping by to purchase something needed for a repair or replacement around their house or small business. Consumers typically pay more for the goods they buy than trade clientele does. That is because most consumers take longer to serve. They lack the technical knowledge of trade professionals, so often will take up a great deal of the counter salesperson's time who must try to figure out precisely what the consumer needs. They come in infrequently and usually place small orders. Because of the extra time and cost to serve them, these "retail" customers are not entitled to the trade discounts.

Selling to consumers can be a sensitive issue

Selling to consumers is a sensitive issue for many wholesaler-distributors in the construction supplies market. Many trade customers resent seeing homeowners buying from the same supply house they patronize.

The biggest source of trade customer resentment has to do with pricing. Trade professionals who work the residential market frequently buy products from a wholesaler-distributor at the trade discount and then mark them up for their customers. If a wholesaler-distributor charges homeowners the same price or nearly the same that it charges trade customers, contractors lose the opportunity to make a profit selling those products to their customers. By not offering the trade discounting to retail customers, the supply house is "protecting the contractor." That is reasonable since the contractor is the long-term customer.

Other trade customers may send their retail customers to the counter to purchase the needed product. They prefer to avoid the selling side of the business and any warranty issues.

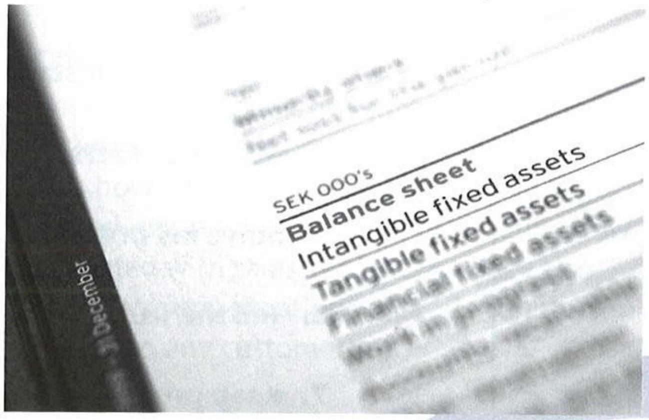
In most cases, trade pros will accept a wholesaler-distributor selling to consumers as long as they know their trade discount results in a price significantly less than what the consumer pays. Even so, they find it very annoying if they have to wait several minutes in line for the counter worker to help a homeowner make a small purchase.

Today, in most markets, the vast majority of wholesaler-distributors will sell to the public at their counter. They can avoid conflicts with their trade customers by:

- **Offering a trade discount to their trade customers only.**
- **Maintaining a separate counter area for retail or consumer sales.**
- **Selling to consumers during hours that do not conflict with the contractors' busiest pickup times.**

Competition compels sales to the public

Wholesaler-distributors who do sell to the public justify it as a competitive necessity. If they do not capture those sales, a competitor will. Big box stores and Internet sellers, which sell to both trade and consumer customers, have increased this competitive challenge dramatically. Many wholesaler-distributors that had a tradition of trade sales only have felt compelled to change that policy over the last few decades.



Another consideration is that some wholesaler-distributors operate consumer-oriented showrooms displaying high-end products for new homes and home improvement projects. These showrooms sell high margin items that can improve the profits of both the wholesaler-distributor and installation contractors.

It does not make sense to alienate potential consumer customers of tens of thousands of dollars worth of merchandise by refusing to sell them a minor household repair item. In addition, most homeowners who visit a supply house counter live in the immediate vicinity. It is simply good business to act like a good neighbor in time of need.

As a counter salesperson, you need to be aware of this conflict between trade and consumer sales. You must understand, explain, and defend your company's policies whatever they might be, with particular emphasis on the price differential between trade sales and purchases by homeowners.

All customers deserve friendly and professional treatment.

When it comes to serving customers, you are obligated to give each one the same high level of service, professionalism, and friendliness without regard to their category.

CUSTOMERS' 10 COMMANDMENTS FOR WHOLESALER-DISTRIBUTORS

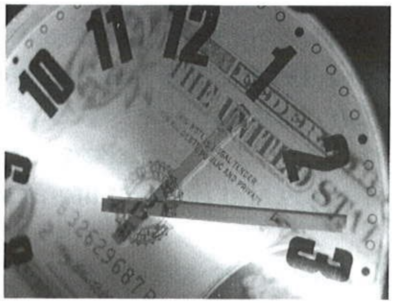
1. **Keep products supplied.**
2. **Provide bid information and assistance.**
3. **Don't make mistakes.**
4. **No back orders.**
5. **Solve my problems.**
6. **Tell the truth.**
7. **Keep promises.**
8. **Be dependable.**
9. **Help with ordering.**
10. **DON'T WASTE MY TIME.**

How the Counter Works

for the Customer

What Customers Value Most

So what do customers value most? In a word: time.



Time is money to a business client or trade professional visiting your counter. Anyone who has had to pay for the services of a plumber, electrician, or HVAC technician knows they do not work cheap.

Labor rates are the single biggest business expense for most trade contractors.

Therefore, contractors cannot afford to have their highly paid workers spending time waiting around a supply house counter. Small contractors who themselves work in the field have even less time to waste. They appreciate anything you can do to save them time on the job or at your counter.

A counter salesperson's goal should be to get workers what they need and back to their productive, billable work as quickly as possible. That can be difficult. The key is to streamline the process where possible and acquire help for some tasks that other team members can provide.

Lack of product knowledge wastes the customers' time

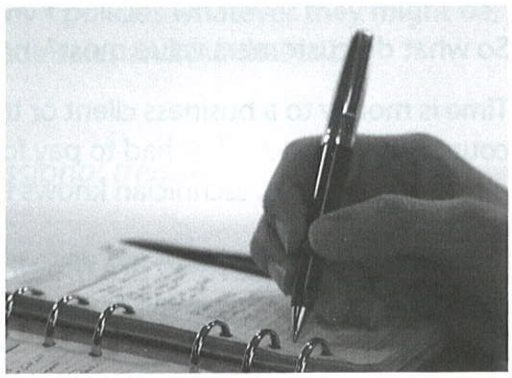
Superior product knowledge is an essential component of a counter salesperson's skill set, but it is just a start. Counter salespeople need to know how their company's products are used and what substitutes might be available. They need to know how to locate products quickly in the warehouse or wherever else they may be stored. Top-notch counter salespeople must know how to complete all electronic forms and/or paperwork associated with sales and returns. They also need to be proficient in all the procedures for dealing with various situations that arise on the job. Lack of knowledge in any of these areas is readily apparent to any customer.

Customers are quick to recognize lack of knowledge.

When customers have to explain and teach the counter person about the products they are trying to buy, they are apt to take their business somewhere else. They are likely to think driving 5-10 minutes out of their way is a better alternative than sitting around for a half-hour because a counter salesperson isn't knowledgeable.

Get organized for quick accurate service

Disorganization also wastes tremendous amounts of time. Counter salespeople can save time by storing popular products in the closest, most accessible locations rather than retrieving them from the warehouse each time they are ordered. They do the same with frequently used catalogs and product literature.



Clutter is the enemy of efficiency

Disorder contributes to wasted time. Perhaps a worker pulls the wrong product and leaves it on the counter rather than returning it to its proper place in the warehouse. Or a customer asks to compare a couple of similar products, leaving one behind after he or she decides. Soon there is a jumble of products lying around with no paperwork to indicate their status. The inventory status report will show these products as being in stock. However, when the order picker tries to retrieve them, these products will be missing from the shelf.

When you pull a product from inventory to show to a customer, make sure you return it to inventory.

Needless business tasks are another waste of time. These tasks include running to the warehouse to check inventory when the computer tells you there is enough available to fill the order. As you just learned, the computer count is sometimes wrong because pulled items were not returned to stock. After this happens a few times, counter salespeople and other employees will not trust the computer. They will start checking the warehouse to see with their own eyes what is available. This is a good example of how disorganization can result in unproductive activities that waste time.

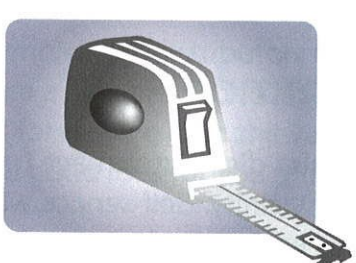
Mistakes are the biggest killers of time and money

Mistakes in order entry multiply throughout the company and cause problems for co-workers in the warehouse, accounts receivable, purchasing and so on. Mistakes in billing, order picking, packing, or shipping lead to angry customers, lost sales and extra effort by employees to fix the problem. Rework and troubleshooting caused by mistakes pretty much guarantee that a profitable transaction will end up a big money loser.

A manufacturer of construction materials once did an internal study that found each mistake triggered an average of *seven* phone calls by staffers trying to fix the problem. Think of how much time completing seven unnecessary phone calls can waste.

"Measure twice, cut once" to avoid mistakes.

Follow the construction industry saying: "Measure twice, cut once." Get in the habit of repeating product descriptions, quantities, and prices for customers to verify. If a box has been opened, make sure the item inside is the same one indicated on the outside of the box. Double-check all of the information on your electronic documents and paperwork before submitting it. Make sure your handwriting is legible.



Measure twice!

Cut once!

Customers appreciate an invitation to check the order before leaving. A simple comment such as "Why don't you take a look and make sure I understood everything correctly while I get the paperwork for a signature?" allows them to look the order over without feeling awkward. Finally, make sure the electronic documents and paperwork follow the correct routing procedure.

Time may not be valuable to some who visit the counter

You should be aware that some employees visiting your counter do not mind wasting time. Typically, their employers pay them regardless of what they are doing. A small minority would prefer to pass time drinking coffee and talking at a supply house counter rather than returning to more difficult duties.

Even though some customers feel the urge to slack off, you can be sure their employer does not approve, and the employer is the one who pays the bills for the goods you sell. When an employee is wasting time at the counter rather than working, an employer cannot bill that time to a customer or project. This dead time kills the contractor's profits.

The most costly time is employees' time that cannot be billed to a job or project.

Excess time spent at the supply house is a major issue for certain contractors. Some have stopped doing business with supply houses where their employees take too long to get their order filled and back to the job. Some even get annoyed with wholesaler-distributors that offer free food and drink to counter customers, because they feel it encourages their work crews to linger.

Although the counterperson should always be friendly and polite, extended conversations are destructive to efficiency and good service. They also are a waste of your employer's time. You can politely cut off a lengthy conversation with, "I've enjoyed the conversation and would like to talk more, but I've got to get back to work." With experience, you will come to recognize the habitual slowpokes and learn not to play their game.

Self-service has Become More Common

To save time and help eliminate mistakes, some wholesaler-distributors have turned to storing popular merchandise in self-service areas in the counter vicinity. Self-service works well for retail hardware stores and the big boxes, and can work just as well for a wholesaler-distributor.

For the most part self-service will make a counter salesperson's job easier. That is because it saves time and takes the burden off you to select the right merchandise. However, self-service comes with a few pitfalls.

Self-service benefits a counter salesperson for the most part.

The biggest drawback is that self-service increases the opportunity for theft. A counter salesperson's duties must expand to include watching over self-service customers to make sure they do not shoplift. Most self-service stores have strategically placed mirrors and sometimes security technology to guard against theft, but a human presence still has to oversee everything.

Develop a "third eye"

The counter salesperson must handle the security function very subtly. You need to keep an eye on customers as they walk through the aisles selecting their materials. Yet honest customers will find it offensive if they feel you are watching them too closely. A counter salesperson needs to develop something resembling a "third eye." This means you keep watch over the store out of a corner of your eye, or with occasional glances, without being overly mistrustful and intrusive.

Another option is to get out from behind the counter and ask the customer "How can I help you today?" For the honest customers this is great service. For the dishonest customers your presence is a deterrent.

Most customers can be trusted, and with experience, you will learn who they are. This will enable you to devote your attention to self-service customers you do not recognize or who have a bad reputation.

You can trust most customers, but you need to verify their honesty!

If you catch someone stealing, you must confront him or her with extreme care. Sometimes customers make honest mistakes and do not mean to walk away without paying but just forget—or at least that is a common excuse when caught. In any case, you are a counter salesperson, not a trained law enforcement official. Some offenders may react violently if confronted.

That is why many wholesaler-distributors will not want you to confront alleged thieves at all, but to report the theft to a supervisor or someone else in charge of security. Be sure you know your employer's policies for dealing with thieves. If the wholesaler-distributor does not have a formal policy, it would be a good idea for you to request guidance.

Counter Salespeople are Frontline Warriors

A prominent consultant to the wholesale distribution industry has written that counter salespeople are the "frontline warriors" of the business, and have one of the hardest jobs in wholesale distribution. This is because of the multitude of roles played and duties required of the counter salesperson.

The counter salesperson is primarily a salesperson whose main responsibility is to generate sales and gross profit dollars for the business. At the same time, your internal and external customers expect you to be primarily a customer service representative. Both perceptions are correct.

Counter sales entails sales, service, and much more.

Be prepared for the hectic times challenge

Most wholesale distribution counters experience peaks and valleys of traffic, with the busiest time typically early in the day. This is when multiple customers will likely line up to be served. At the same time, phone calls orders from will call customers, and/or sales team requests for information will peak. Things can get hectic at these times. There seems to be a rule that the busiest periods always occur when someone calls in sick and you are shorthanded!

It is important to keep cool in stressful situations.

How the Counter Works

for the Customer

A key principle to remember in serving the customer well in hectic periods is that the customer always comes first. Always respect the customer and always respect their time.

Here are a few ways that successful counter operations do that:

- **Promptly greet every customer who arrives at the counter.**
- **Acknowledge waiting customers frequently while you are dealing with another customer. Do this by looking their way and nodding or say, "I'll be with you shortly."**
- **If the customer you are handling has a difficult order that is taking an inordinate time to fill, see if you can get a colleague to take care of other customers who are waiting in line.**
- **Apologize for any delays to everyone waiting in line and inform them the delay is an exceptional situation.**
- **Invite customers to have coffee and a snack if available.**
- **Use a little humor if you are comfortable doing so. Tell them you wish you had been born an octopus with eight arms!**

How to deal with inconvenient phone calls

One of the most challenging situations you will face is when customers are stacked up at the counter and phone calls come in from internal or external customers, or both.

- **Internal calls:**
  The best way to handle most internal phone calls from people within your organization is simply to tell them, "I'm busy waiting on customers right now, so I'll call you back as soon as I'm free." Then keep your promise!
- **External calls:**
  In some cases, you might decide to promise an external call a call back, but this should be a last resort. A customer calling in an order is just as likely to phone another supply house as wait for you to get back to him. Some supply houses have a customer service center that takes all external calls. The customer service people can encourage orders for will call pickup. This takes tremendous pressure off the counter operation.

Use customer callbacks only as a last resort.

- **Calls on hold:**
  Putting the caller on hold may be permissible, but only for a short time. Various studies have shown that most callers put on hold will hang up after 30 seconds of waiting. Try not to keep anyone on hold longer than 10-15 seconds. If you know you are going to be held up, pick up the phone and say, "Sorry for the delay, I'll be with you shortly."

  If you end up doing that more than once, then you may want to ask whether the caller would prefer to continue holding or would like you to call back in a few minutes. Be sure you can keep that promise. Otherwise, you risk losing the business to a competitor—maybe forever.

Become the ultimate multi-tasker

The ultimate test of counter multi-tasking is to both wait on customers at the counter while taking an order over the phone. It is tricky to pull it off, but experienced counter sales professionals know how to jot down a phone order while using friendly facial expressions—smiles, winks and nods to acknowledge the customer's presence at the counter.

Good policies can help set priorities

Some wholesaler-distributors have policies that specify priorities for waiting on customers. For instance, you might be instructed to take care of will call customers ahead of walk-in customers. This makes sense because customers who call ahead do so because they want to avoid waiting time. It benefits you as well because an order phoned in gives you additional time to pick the order, assuming there is a reasonable time interval between the call and the pickup.

Many wholesaler-distributors have a special section of the counter labeled for will call customers. Other wholesaler distributors offer their will call customers the option of ordering online and picking up the order at the closest branch. They can pay with an online account, by credit card, or with cash when they pick up their order. This gives the customer even more control over the time spent at the counter.

Will-call customers usually take precedence over walk-ins.

Your employer may specify other service priorities as well based on customer purchase volume or other factors. In reality, some customers are more important than others are. Yet as a counter salesperson, you should never let your wording make one customer feel less important than another. Saying thank you pays many benefits: "Thank you for coming in! Thank you for your order!"

There will be more demands on your time

Waiting on customers is always your top priority during peak hours. Other times of the day are likely to have little or no customer traffic. You will soon adjust to the rhythms of your typical workday and learn to set aside off-peak time to take care of various other responsibilities besides serving customers.

These typically include picking and packing will call orders, issuing paperwork for returns and credits, replenishing counter area shelves and displays, attending training sessions, helping with warehouse duties, and more.

In this chapter, you learned how the wholesaler-distributor works for the customer, the critical role of time for all customers, and how to become more skillful in dealing with the multiple time and attention demands of the customers.

In Chapter 5, you will see how the key documents involved in the transaction process help us manage transactions for the benefit of customers and the business.

Quiz

How the Counter Works for the Customer

1. **Small contractors are MOST likely to be frequent visitors to your counter because they**
   A cannot get discounts from big box stores.
   B. need components that go into larger products.
   C. seldom maintain a large amount of inventory.
   D. lack the technical knowledge of counter salespeople.

2. **A counter salesperson can be most helpful to a customer by**
   A. offering friendly conversation.
   B. helping them avoid return trips.
   C. explaining warranties in detail.
   D. arranging merchandise displays.

3. **Which of the following statements BEST describes MRO customers?**
   A. They store only a necessary few products.
   B. They always purchase merchandise from a counter.
   C. Their purchases are often critically important to their business.
   D. They are eligible for trade discounts.

4. **Retail customers do not receive the trade discounts given to contractors because trade discounts are needed to**
   A. protect the contractor.
   B. stay competitive with the big boxes.
   C. increase gross margin dollars.
   D. reduce service times.

5. **As a counter salesperson, you can MOST help building maintenance people by**
   A. granting them a trade discount.
   B. eliminating clutter.
   C. asking them to visit at off-peak hours.
   D. suggesting items to keep in inventory.

CHAPTER 4

Quiz

How the Counter Works for the Customer

6. Some wholesaler-distributors have separate counters for consumers because consumers

A. take up more time.

B. contribute less sales volume.

C. live in the neighborhood.

D. like to engage in chit-chat.

7. The greatest value the counter can offer its trade customers is

A. trade discounts.

B. friendly conversation.

C. free parking.

D. time saved.

8. The biggest time waster for wholesaler-distributors and their customers is

A. calculating discounts.

B. clutter.

C. mistakes.

D. conversation.

9. Self-service benefits the counter salesperson because it

A. reduces theft.

B. makes customers want to buy from you.

C. helps avoid returns.

D. saves time.

10. Customers define the chief role of counter salespeople as

A. sales.

B. customer service.

C. friends.

D. order takers.

(Answers below)

Answers: 1.C; 2.B; 3.C; 4.A; 5.D; 6.A; 7.D; 8.C; 9.D; 10.B.

CHAPTER 5

How Key Documents Make the Process Work

Paperwork is your friend, not your enemy.

After reading and studying the material in this chapter, you will be able to:

1. **Explain why paperwork is the link to a coherent organization.**
2. **Identify the "five Ws" and explain what each "W" means.**
3. **Differentiate between purchase orders and sales orders.**
4. **Explain the purpose of a credit memo.**
5. **Describe why credit limits are important to a wholesaler-distributor.**

How Key Documents

Make the Process Work

Most people hate paperwork. They complain that it is boring, time consuming, and confusing. At best, paperwork is a necessary evil.

As a counter salesperson, you will find paperwork an essential component of your job. It may not be the most exciting part, but when looked at from the proper perspective, you will find the paperwork not so much a burden as an asset. That is because the documents you deal with make your job easier and offer proof of outstanding performance.

Why Documents Are Essential

Without paperwork, a counter salesperson's job would be chaotic. How could you prove that you provided the exact quantity of the exact items ordered by your customers, or that the items they returned for credit are the same ones they bought from you?

No business can operate as a successful organization without documents detailing all of its transactions. For a wholesaler-distributor, these documents link all the different departments. Your colleagues working in accounting, accounts payable and receivable, inside and outside sales, purchasing, quotations, shipping and receiving, and warehousing will access the documents you prepare at the counter. If these documents are incomplete, illegible, or contain mistakes, this wrong information will impact everyone in the company.

Well-prepared documents serve to avoid and resolve disputes.

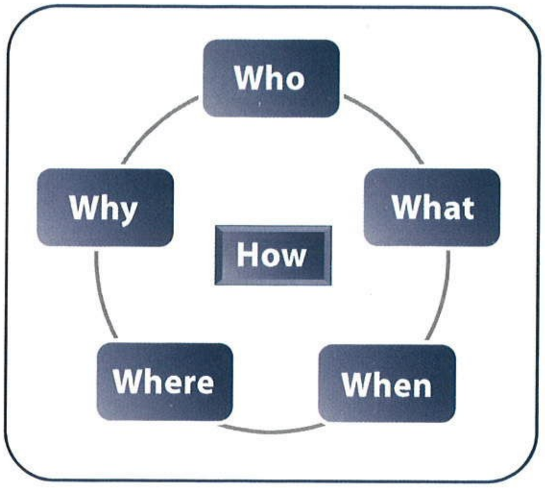
The documents you deal with sometimes serve to resolve disputes. They offer proof of purchases, returns, who owes how much to whom, and how problems were or were not resolved. Counter sales documents offer tangible proof of how much you sold, when, and to whom. If a customer claims you did not provide the right merchandise or shipped an incomplete order, you respond by showing the appropriate document with the customer's signature. This also works on the receiving end if a vendor claims to have shipped you something that never arrived.

The Five Ws (and One H)

The forms you use to capture information may seem mysterious to someone not used to working with them. They may contain numerous sections with notations and abbreviations not readily apparent to an outsider, such as U/M (unit of measure), B/O (back ordered), PO # (purchase order number), ETA (estimated time of arrival), and so on. It will not take long to learn all the terms. Even more important is to understand why all of this information gets collected.

How Key Documents

Make the Process Work



The "Five Ws (and One H)" is a concept that news reporters, researchers, and police use when gathering information. "Five Ws and One H" stand for who, what, where, when and why (along with "how.") The same guidelines apply to information needed by a wholesaler-distributor to track transactions.

Who refers to the customer, or the vendor. *Who* defines the buyer and seller in any given transaction. This information is crucial for billing purposes. *Who* may also identify which salesperson handled the transaction, which is critical for commission payments and tracing responsibility for the order.

What details the products bought/sold, with precise descriptions and product codes.

Where documents the location where the original transaction occurred.

When refers to the date of the transaction and delivery.

Why offers explanatory information, such as the reason a product was returned.

How reveals in what way a transaction took place. *How* may distinguish between items delivered or picked up at the counter versus those shipped direct from a factory.

If any of this information is skipped, illegible, or mistaken, the order may not be correct which can lead to confusion—and worse.

Poorly prepared documents can have costly legal consequences.

Mistakes lose time and money and kill trust

For your customers, paperwork or data entry mistakes cause frustration as well as lost time and money. Repeated mistakes will drive them to do business with competitors. That is why accuracy, completeness, and legibility are the only reasonable standards in preparing documents.

Mistakes cost every business and its customers' time and money.

How Key Documents

Make the Process Work

Zero defects in document preparation are not easy to accomplish. At busy times, you may find your counter bustling with customers, the phone ringing, and many people talking at once. When so many things are happening, it is easy to slip up in filling out a form. Nonetheless, it is crucial for you to muster the mental discipline needed to produce your documents accurately, completely, and legibly even under duress.

Whenever possible, you should go over the order with the customer to assure everything is correct before he or she signs it.

Double-check sales orders with the customer.

In some companies, documentation may be paperless. Rather than using printed forms, you may fill out the forms on a computer screen and route them electronically to different departments. One advantage of electronic documentation is that it eliminates mistakes from sloppy handwriting. Accuracy and completeness are still essential, however. A counter salesperson needs to develop sharp computer and keyboard skills.

Some wholesaler-distributors handle paperwork electronically but still want printed copies of documents for company recordkeeping. You are obliged to follow whatever your company's policies may be.

Documents Common to Counter Transactions

Different companies may use somewhat different forms, but counter salespeople working for any wholesaler-distributor will likely encounter the following documents on the job.

Purchase orders are buyer-generated

A ***purchase order*** (often abbreviated as PO) is a buyer's written authorization to a supplier asking to purchase products or services at a specified price. Typically, the PO contains supplier's product code numbers, descriptions, quantities, prices, discounts, payment terms, date of product shipment or performance of a service, and any other terms and conditions that may apply. When the supplier accepts a PO, it becomes a legally binding contract between both parties.

POs are legally binding contracts.

Counter salespeople are usually on the receiving end of purchase orders submitted by a customer either electronically, over the phone, or at the counter. Not every customer will use a PO. Many will simply show up at the counter and order what they need verbally. Others will use POs for their own internal recordkeeping. Most counter salespeople find it necessary to be proficient in accommodating different ordering procedures for different customers.

EXCEPTIONAL PLUMBING AND HEATING SERVICES

PURCHASE ORDER

Bill to:
Accounts Payable
Exceptional Plumbing and Heating Services
2222 Normal Drive
Greenlawn, ME 55555

Phone: 000-555-0989
Fax: 000-666-0987
email: acctg@EPHSVCS.com

PO # ____________________

PO date: ____________________

Ordered by: ____________________

Vendor:
TOTAL FILL SUPPLY (TFS)
Address: 8998 Industrial Park Blvd.
Middletown, TX 55555

Phone: 111-111-1111
Fax: 111-111-1112
email: info@tfs.com

Send to:

Ship Date: ______________ Ship Terms: ______________ Ship VIA: ______________

PO Line	Quantity	Vendor Product Number	Product Description	Unit (each, case etc.)	Price	Line total
1					$	$
2					$	$
3					$	$
4					$	$
5					$	$
6					$	$
7					$	$

Page Total: $__________ Discount: %______ Grand Total: $____________

* No UPS delivery to job site.

Approved by (Print name) ______________________

Approved by (Signature) ______________________ Page # _____

Depending on the preprinted form that is used, a PO may have more than a dozen different boxes or columns for different types of information. Different customers may use different forms, which can lead to confusion. This is why it is important to pay attention to documents and make sure you understand all of their content.

Purchase orders are always numbered. Numbers identify every individual transaction and differentiate it from similar orders that occurred at a different time and/or place.

Purchase orders are always numbered.

Sales orders/invoices are seller-generated

The ***sales order*** is the most common type of paperwork handled by a counter salesperson. As the name suggests, a sales order details all the items a customer wishes to purchase along with associated information necessary to a complete an accurate sale.

Sales order information will include product code numbers, product descriptions, quantities, pricing (unit price, discount, total amount), type of payment and terms, shipping method and more.

If a customer's purchase order (PO) generated the sale, the sales order/invoice will include the PO number. Usually there are two address boxes listed for the customer. One reflects the billing address, the other a "ship to" address, which may or may not be different.

Sales orders turn into invoices for billing purposes.

The counter salesperson typically will write the sales orders in multiple copies. He/she will then route the copies to:

- The customer for verification of the order
- The sales person for verification of the sale
- Accounts receivable for preparation of the invoice and billing
- The warehouse for picking, packing and shipping or delivery to the counter
- Purchasing/inventory control for inventory control and replenishment.

The counter sales professional knows the path that paperwork follows within the company and all the team members that receive copies. This enables rapid tracing of transactions when a problem or question arises.

DATE 6/12/12 TIME 9:48:16

Page No 1

REMIT TO
Exceptional Plumbing and
Heating Services
2222 Normal Drive
Greenlawn, ME 55555

WAREHOUSE
Exceptional Plumbing and
Heating Supply
1234 Main Street
Greenlawn, ME 55555
Phone: 555-555-1111

SALES ORDER ACKNOWLEDGEMENT

Payment Type	CASH
Docment No.	3466104
Document Date	6/12/12
Customer no.	076430
Warehouse	010

SOLD TO
Mr. William Homeowner
847 North State Street
Greenlawn, ME 55555

SHIP TO

SPECIAL INSTRUCTIONS

Customer P.O. Number	Job Name	Job No.	Sls	Sales	Order Date	Shipping Method
	Mr. Homeowner		001	213	6/12/12	PICKUP

Ln	Product No. / Description		U/M	Ordered	Shipped	B/O	Unit Price	Disc	Ext Amount
001	RH22V50F1 036419 09 06 FLR	RHEEM 22V50-F1 (42V50) NECA 2	EA	1	1	0			1 EA
002	B1224FLEXCON 013243 01 07 02	1/2 x 24 FLEXIBLE CONNECTOR	EA	1	1	0			1 EA
003	WAPLT5 020229 09 02 FLR	WATTS PLT-5 EXPANSION TANK	EA	1	1	0			1 EA
004	PC12C 037593 SID WAL 00D	1/2 COUPLING PUSH CONNECT	EA	1	1	0			1 EA
005	PC12T 037793 BIN 01 150	1/2 TEE PUSH CONNECT	EA	1	1	0			1 EA

( ) Prepaid ( ) Collect ( ) Pick Up	CTNS	Wt.	Shipped Via	Ship Date	Pick By	Fill By	Pack By	Chk By	Amount Tax % Frght	
MERCHANDISE CANNOT BE RETURNED WITHOUT PERMISSION Any discrepancies must be reported within 24 hours.				Received By X______		END OF ORDER	Date Received		Total Due	

A sales order eventually turns into an ***invoice***, which is the bill sent to the customer for payment. The sales order may be the same document as the invoice, or your company may use slightly different forms. An invoice will include all the information needed for billing purposes.

Sometimes a wholesaler-distributor will not have all the items available that a customer has ordered. The sales order will then indicate the items or quantities "back ordered" for later shipment when they become available.

The packing list details the items shipped

A ***packing list*** (or "slip") details exactly which items were shipped to the customer. Some wholesaler-distributors may use the sales order as a packing slip, while others use a separate form.

A packing slip tells how many packages are in the delivery and details the contents of the packages.

The shipping department attaches the packing slip or inserts it into the package or carton. The slip itemizes:

- **the total number of packages (1 of 3, 2 of 3, 3 of 3)**
- **all the goods contained in the packages**
- **anything on back order for later delivery**
- **the date of shipment and shipping method.**

Packages sent to the counter are likely to be labeled as "pick up."

When receiving goods from a vendor, it is important always to check the packing list against the actual contents. Shipping personnel sometimes make mistakes. Nobody wants to pay for goods that were never received.

Always check a packing list against actual contents.

XYZ Supply House
222 Michigan Avenue
Chicago, IL 60645
Telephone: 555-555-5555
Fax: 555-555-5556
Email: info@supply.net

PACKING SLIP

Date Shipped	Order Number

BILL TO

Company Name:
Address:
City, State Zip:
Telephone:
Fax:
Email:

SHIP TO

Company Name:
Address:
City, State Zip:
Telephone:
Fax:
Email:

Order Number	Sales Rep	Ship Via	Tracking Number

X	Product Number	Quantity Ordered	Quantity Shipped	Quantity Back Ordered	Description of Products

Shipped By	Received By

Number of Packages	Order Complete

Total Weight

Comments:

When you fill out a packing slip, double check to make sure:

- **everything listed on the form is present inside the box or carton, and**
- **the material is exactly as ordered.**

Shortages and mistakes lead to arguments and ill will.

Credit memos document returns

Counter personnel commonly use the ***credit memo*** to record credits or authorize refunds when customers return goods. They also use credit memos to correct mistakes in pricing or other documents. Similar to purchase and sales orders, credit memos require precise product descriptions of the product(s) coming back as well as a reason for the return.

CREDIT MEMO

Everything you'll ever need...and more!

Date: 6/29/2012
CREDIT # 1278

The Complete Supply Store
123 Main Street
Strong, MI 55555

Phone 555-555-5555
Fax 555-111-1111

TO William Homeowner
222 Railroad Street
Strong, MI 55555

Phone 555-526-5222
Customer ID 12368

Item: Left-Handed twisted widget

Quantity	Item #	Description	Unit Price	Line Total
1	7336-40	Left-handed twisted widget	$78.35	$78.35
			Subtotal	$78.35
			Sales Tax	$2.35
			Total	**$80.70**

Return authorizations document the reason for a return

The ***return authorization*** is another document that counter salespeople sometimes complete when accepting a return from a customer. The return authorization explains the reason the counter accepted a customer's return. Vendors often require a return authorization from the wholesaler-distributor before granting credit for the product returned. In Chapter 6, you will learn in more detail how to handle returns and exchanges.

In some cases, a product may not be resalable. In many cases, where a product is not resalable return authorization be denied. Products must be returned in the original packaging, with all accessories, including manuals, power supplies, software discs, etc.

Proper credit policies and procedures protect profits

Most customers buy from a wholesaler-distributor on credit. They will have a charge account on file with the wholesaler-distributor that enables them to purchase whatever they need immediately, sign for billing, and pay the bills later, usually on a monthly basis. The customers' credit file should name all employees authorized to charge purchases and pick up merchandise.

Your customers will have credit limits.

Like banks, credit card companies or any other creditor, a wholesaler-distributor will do a background check of credit worthiness before granting any customer a charge account. When a customer proves to be credit worthy, the wholesaler-distributor will authorize credit purchases up to an assigned credit limit based on the customer's credit history and perceived ability to pay.

Providing credit is risky business

Providing credit is an integral part of a wholesaler-distributor's business and one of the biggest values they provide. It is also an expense and a risk. Wholesaler-distributors frequently write off 1-2% of their total sales as losses due to customers who never pay what they owe. That typically is the equivalent of half or more of the company's pre-tax net profit.

Many wholesaler-distributors could double their profits
if all their customers would pay all their bills.

This is why it is so important to adhere to proper credit policies and procedures. Even if they do not default completely, many customers tend to be slower than normal with their payments during market downturns. Slow payments add to a wholesaler-distributor's carrying costs for inventory and accounts receivable and diminishes profits.

TOTAL FILL SUPPLY (TFS)
8998 Industrial Park Blvd.
Middletown, TX 55555

RETURN AUTHORIZATION FORM

RA#:________________ **Today's Date:**________________

Returns over 30 days may be charged a 15% restocking fee. Please fill out completely!

Customer Number: ________________ **Department:** ________________

Company:________________

Address:________________

Contact: ________________ **Phone:**________________

Invoice #: ________________ **Invoice Attached?:** ❐ **Yes** ❐ **No**

No returns will be accepted without a Total Fill Supply (TFS) invoice number. Credit will be issued once the merchandise is determined to be in re-saleable condition. Thank you.

Product Code	Stock Number	Qty.	U/M	Description	Reason #

Reasons for Return: *Please list the reason number in the box above*

1. *Pulled error by TFS*
2. *Billing error*
3. *Duplicate order*
4. *Samples*
5. *Customer Service error*
6. *Purchasing error*
7. *Shorted by TFS*
8. *Person error*
9. *Customer did not order*
10. *Customer ordered wrong*
11. *Defective / Damaged*
12. *Merchandise destroyed*
13. *Other (explain in detail on right)*

Please explain in detail here:

Customer Signature:________________ **Picked Up By:** ________ **Returns Clerk:**________

How Key Documents

Make the Process Work

Managing credit risk is a crucial skill required of wholesaler-distributors. If they are too tight in granting credit, they will lose customers to less fussy competitors. If they are overly generous in granting credit to customers who are poor credit risks, they will suffer too many losses.

Part of a counter salesperson's job may be to accept credit applications and forward the information to the credit manager. As with any other documents, accuracy, completeness, and legibility will help protect your company's profits. Make sure credit applicants fill out the credit application properly.

Counter salespeople are credit gatekeepers

Counter salespeople will not be responsible for extending credit or determining credit limits. However you will have access to customer credit information. Your duties will include staying within the credit guidelines established by your employer and explaining those credit policies to customers.

Credit policies vary widely among wholesaler-distributors. Some will insist that all sales personnel adhere strictly to credit limits. If a counter customer places an order that exceeds his credit limit, you will be required to stop the transaction and report this to a manager or credit department. The person with authority will then decide if extending the credit limit is justified.

It is crucial to stay within your company's credit guidelines.

Some wholesaler-distributors do allow their counter salespeople to use discretion in allowing customers to exceed their credit limit by a small amount. If you have this authority, exercise it very cautiously. Base your decision on the customer's credit history and your judgment of the customer's character.

Sometimes a credit hold is necessary

Sometimes customers get too far behind in paying their bills. In cases like this, a wholesaler-distributor may place a ***credit hold*** on their purchases. When they are on credit hold, customers can buy from you only by paying cash for their purchases. This C.O.D. or "collect on delivery" status usually remains in effect until the customer has paid up all the outstanding bills.

Diligent counter salespeople make it standard practice to verify the customers' credit status when they try to purchase goods by signing for them. Usually the customer's credit status is readily available at a computer terminal. In many cases the counter computer will block a credit hold customer's order from being printed or picked without a release Never waste time picking and packing the order before checking the customer's credit status.

Counter staff are the company's best "ears on the street"

Counter salespeople often pick up on a customer's financial troubles before the front office or accounting hears about them. You might hear a plumber or pickup person complain that your competitor "cut them off." You might hear the pickup person complain that they were asked to hold their paycheck for a day before cashing it or that a paycheck bounced. Anytime you hear a comment like this, let your sales manager know. Very often you are the best "ears on the street."

Handle poor credit risks with care and respect

Dealing with customers with revoked credit, or who may be over their credit limit, requires tact and sensitivity. Even your best long-term customers can run into hard times. Sometimes a wholesaler-distributor may extend special payment terms to longtime customers. If not, it is your responsibility to carry out your company's credit policies—whatever they might be.

Discuss credit issues with customers in private.

It is important that you be diplomatic in dealing with customers who have credit issues. Keep any discussion of their credit status discreetly out of earshot of other customers. This is a matter of common courtesy as well as good business practice.

Watch out for credit thieves

Be alert for people trying to make unauthorized credit purchases. A customer's employee may be moonlighting in the same business without the employer's knowledge and charging merchandise to the employer's account. In other cases, the employee may have quit or been fired but tries to place a big order for goods before being removed from an authorized purchaser list.

Be alert for extraordinary purchases that do not seem to make sense.

This could be a regular customer that you have no reason not to trust. Nonetheless, it ought to raise a red flag if someone with a history of modest purchases suddenly places a big order for valuable merchandise. Be especially alert if the person seems nervous or in a hurry. Notify your credit department if you sense something strange about a transaction.

Make Cash Sales Seamless

Cash sales encompass purchases made using currency, checks, vouchers, debit cards, or credit cards. They present some unusual circumstances for a counter salesperson.

Some wholesaler-distributors may designate a single individual as a cashier, while others grant that authority to all counter sales personnel. If you accept cash purchases, you must diligently operate a cash register or cash drawer. This includes following company policies and procedures on accepting checks, vouchers, and debit or credit cards. Always check a customer's identification before accepting these forms of payment. Make sure that you properly document the method of payment on the sales order/invoice.

Have a calculator handy

It can get a little tricky if the cash customer is entitled to a discount. Then you must know how to calculate the proper discount, which may vary on different items. You will also need to know how to apply taxes to the purchase.

It is extremely important that you double-check everything when preparing cash sales orders. Even if you are good at math, use a calculator when figuring quantities, prices, discounts, and extensions (total prices). It is in everyone's interest to make sure the customer is getting the correct products ordered in the right quantities, and that you collect the right amount of money for the transaction.

Cash register funds must be reconciled with receipts.

At the end of the day, it may be your responsibility to reconcile cash register funds with cash register receipts. The currency, checks, vouchers, and debit/credit card payments on hand should balance with the amount of all the sales invoices issued that day, minus the initial register funds and any recorded payouts. Discrepancies are likely to call into question not only your ability but also your honesty.

The good news about cash sales is that it can help boost a wholesaler-distributor's cash flow. That serves to reduce credit losses and enhance profitability which benefits everyone in the organization.

In this chapter, you learned about the critical role of documents in keeping the business well organized and functioning profitably. You have learned about the role of credit policies and cash handling in increasing sales. In Chapter 6 you'll learn about the critical role of returns and exchanges.

Quiz

How Key Documents Make the Process Work

1. Documents will lead to mistakes unless they are accurate, complete, and

A. misrouted.

B. paperless.

C. legible.

D. signed.

2. The "five Ws" are useful to remember when completing an order because they

A. pertain to credit policy.

B. are key to the wholesale distribution business.

C. are needed for purchase orders.

D. define essential information.

3. Which of the following items originate with the buyer?

A. Sales orders

B. Purchase orders

C. Packing slips

D. Credit memos

4. Which of the following items originate with the seller?

A. Invoices

B. Purchase orders

C. Packing slips

D. Credit memos

5. Credit memos are used to document

A. credit worthiness.

B. back orders.

C. returns.

D. packing slips.

CHAPTER 5

Quiz

How Key Documents Make the Process Work

6. Producing accurate, complete, and legible documents under pressure requires

A. a computer terminal.

B. mental discipline.

C. pre-printed forms.

D. supervision.

7. Many wholesaler-distributors could potentially double their profits if only

A. their sales team doubled sales.

B. customers paid their bills on time.

C. gross margins doubled.

D. more time could be saved.

8. All of the following are part of a counter salesperson's job EXCEPT

A. Accepting POs

B. Generating sales orders

C. Reconciling cash payments with receipts

D. Setting credit limits

9. A calculator is handy to have at the counter in order to

A. eliminate theft.

B. increase sales.

C. avoid returns.

D. apply discounts.

10. Customers who have exceed the credit limit established by your supply house should be

A. removed from the authorized purchaser list.

B. made to pay cash.

C. denied service.

D. reported to the credit department.

(Answers below)

Answers: 1.C; 2.D; 3.B; 4.A; 5.C; 6.B; 7.B; 8.D; 9.D; 10.B.

CHAPTER 6

How to Handle Returns and Exchanges

Returns and exchanges eat into profits.

After reading and studying the material in this chapter, you will be able to:

1. **Identify at least six reasons why customers might reasonably try to return or exchange products.**
2. **Discuss two conditions that might lead to denial of a return request.**
3. **Explain why returns are expensive for wholesaler-distributors.**
4. **Explain why warranty claims are not always clear-cut.**
5. **Examine some common standard procedures for processing returns.**

How to Handle
Returns and Exchanges

Customers may return goods purchased from a wholesaler-distributor for any number of reasons. These reasons may include:

1. **Defective product**
2. **Warranty exchange**
3. **Exchange for a different product**
4. **Items left over at the end of a job**
5. **Paperwork mix-up**
6. **Customers changed their minds**

The customer may seek reimbursement either in the form of a product exchange, a credit to his or her account, or a refund. Depending on the product and the particulars of a return, the customer often receives reimbursement with no strings attached. At other times, returns will not be accepted, or accepted but with certain conditions. For instance, some wholesaler-distributors may tack on a ***restocking/handling fee***.

How to Handle Returns and Exchanges

Some customers will try to gain credit or a refund for reasons that are not legitimate. For instance, a customer may claim that a product was defective when the customer actually damaged it himself or herself during handling or installation. Sometimes it is easy to determine who is responsible, sometimes not.

Some wholesaler-distributors prefer that their counter sales staff not confront customers directly if they suspect a customer is trying to return an item he or she broke. When situations like this occur, it is better to call a supervisor.

How to deal with improper returns

Other wholesaler-distributors may leave it up to you to pass judgment on whether or not to accept returned goods. When you have this responsibility, remember to balance good judgment with tact. People do not like to be accused of lying—especially if they really are!

Liars hate to be accused of lying!

You want to avoid causing a scene at the counter which results in angry raised voices. If there is any doubt about how the product damage occurred, give the customer the benefit of the doubt.

If you are sure the product was in good working order when it left your facility, invite the customer into an office or other secluded area to discuss the situation. Avoid being hostile or confrontational. Play on the customer's guilt instead. Look him or her in the eye and ask, "Are you really sure this happened the way you described? You could be mistaken because ..." This kind of statement does not directly accuse the customer of lying. You might even suggest the "mistake" could have happened without the customer's knowledge. Maybe someone else dropped the product, for instance.

Sometimes a customer will try to return product that he/she purchased from another supply house. Deny the return. As discussed in the previous chapter, here is where precise documentation can play a big role in protecting your interests.

Some counter salespeople pass judgment on returns.

Manufacturers often determine policy on returns
Wholesaler-distributor policies vary with regard to returns. Some will allow customers leeway to return goods with few questions asked. Others will stick to more rigid policies.

The manufacturer of a product greatly influences the wholesaler-distributor's return goods policy. Some manufacturers have liberal return policies, while others place restrictions or demand compensation. If a wholesaler-distributor offers more liberal terms than the manufacturer, the wholesaler-distributor will end up absorbing the cost of the product and handling.

Returns are like mistakes but usually not your fault
Returns are extremely costly to a wholesaler-distributor.

Returns are one of the items that reduce your gross sales.

The expense involves not only the cost of the product, but also of all the labor wasted in picking, packing, processing, and delivering the original sales order. Then more labor goes into processing the return and reselling the item, if that is even possible. If the product is defective or broken, you cannot resell it. Even if it is in good working order, all the extra handling will almost surely eliminate any profit on its later sale.

How to Handle

Returns and Exchanges

Extra handling eliminates any profit.

A return has the same impact as a mistake. The main difference is that when customers return products the wholesaler-distributor is not at fault. The wholesaler-distributor nonetheless has to make things right with the customer and pays a price in lost sales and profit dollars.

A counter salesperson may have to fill out a return authorization form for any goods accepted in return. Some manufacturers will not grant a reimbursement without a completed return authorization form.

The return authorization document spells out the reasons the return was accepted.

In many supply houses, returns are everyday occurrences. Besides defects or breakage, there are many other reasons customers might want to return or exchange products they bought.

Warranty claims can be tricky to process

A wholesaler-distributor is obliged to accept returns for goods that break down within their specified warranty period. Most merchandise warranties are good for at least a year. Some warranties extend much farther out. A few products may even come with lifetime warranties. The manufacturer also is obligated to accept these returns.

In practice, things are not so simple. All warranties specify conditions, such as abuse or use of the product in a way not intended, that would void the warranty. Experienced professionals with vast product knowledge may be good at detecting improper usage, but even they cannot tell every time.

Wholesaler-distributors may contest dubious warranty claims.

As with broken items returned by a customer, whether to haggle over a warranty claim is a judgment call. Products that come with warranties tend to be brand names. Some may be quite expensive and worthwhile for a wholesaler-distributor to question if a warranty claim seems in doubt, especially if it seems likely that the manufacturer may not honor the warranty.

How to Handle

Returns and Exchanges

Many arguments and even legal disputes have broken out over warranty claims. When a warranty dispute arises, you most likely will have to bring it to your manager.

Balance cost control with customer service

It is in a wholesaler-distributor's economic interest to minimize costly returns. You as a counter salesperson may receive instruction from your employer to guard against unjustifiable returns and exchanges.

From another perspective, returns and exchanges are a component of customer service. Wholesaler-distributors that put up too many barriers against returns stand to lose business to looser competitors. It is a delicate balancing act between cost control and keeping customers happy.

Competition helps set return policies.

How that balance plays out depends in large measure on the return goods policies of competitors. Just as with pricing, a wholesaler-distributor makes a business decision whether to match or surpass the competition, or hold firm to its own standards. Many wholesaler-distributors would like to institute a restocking charge, for example. However, if most competitors do not, then that places a wholesaler-distributor at a competitive disadvantage.

Some customers are notorious for returning goods. A wholesaler-distributor may have a different policy applying to habitual returners than they do for other customers. For instance, a restocking charge may be optional and applied only to those customers who habitually return goods.

Many wholesaler-distributors have generous exchange terms

Sometimes customers find out that what they bought does not fit their needs. Therefore, they will bring it in to exchange for a different product. Most wholesaler-distributors will allow this, as long as the customer is willing to pay the difference in price, if any.

If the exchanged product costs less than the one returned, a refund or credit for the price difference will be in order. When that happens, you can increase your value as a counter salesperson by trying to persuade the customer to upgrade to a better product rather than to downgrade. It is also a good time to suggest add-on items the customer may have forgotten during his/her last trip to a supply house.

Some customers overbuy to protect themselves.

How to Handle

Returns and Exchanges

Wholesaler-distributors may find some customers buying materials for job needs day-by-day. These customers do not know precisely how much they will need on a particular day, so they tend to estimate on the high side in order not to run out while on the job. At the end of most days, they will find themselves with excess materials. If they have no place to store the extras safely, they may return them to the supply house for credit or refund. This practice is very inefficient and costly for both the contractor and the supply house. Still, many wholesaler-distributors choose to accommodate these customers since they tend to generate steady sales volume.

Sometimes a customer just changes his or her mind about buying something. In that case, a wholesaler-distributor does not have a legal obligation to accept a return or exchange. However, many will do so anyway simply to avoid customer conflict.

How to Avoid Returns and Exchanges

"An ounce of prevention is worth a pound of cure," goes the old saying. It certainly holds true as the single most effective way of avoiding costly returns and exchanges.

"Garbage in, garbage out"

That saying originated with regard to computers. When someone enters the wrong data into a computer, the output will be wrong even though the computer performs its calculations flawlessly.

Likewise, if there are errors in a transaction at any point during the sale, the outcome will be wrong no matter how flawlessly you handle the rest of the transaction. Actions you take at the time of sale have a great deal to do with avoiding returns.

The first line of defense is to make sure nothing is wrong with the products you sell to the customer. You may not be able to foresee all problems that show up during operation, but you should inspect for loose components, discoloration or rust, and any other defects you can find at a glance.

The first line of defense is to make sure to sell the right products.

Make sure you deliver the right products in the right quantity and in good condition. If a package or carton is open, check to make sure the proper item is inside. Double check to assure that the size or color is what the customer ordered.

Make sure everything is properly wrapped or packaged. This includes safeguarding the product for transport in the customer's vehicle. If the product is delicate, advise the customer about ways to protect it from damage if someone drops or jostles it.

Up-sell but do not oversell

For the most part, you will want to respect a customer's preferences when he or she asks for products by brand name. However, there may be times when a customer wants to know about a better product. At other times, the customer's favorite product will be out of stock and you will recommend a comparable substitute.

Overselling creates unrealistic expectations and is likely to lead to returns.

Selling better products and substitutions is an important part of your job. However, be careful not to oversell a product's capabilities and thereby create unrealistic expectations that may lead to returns. If you are unfamiliar with a product's performance capabilities, ask someone with more expertise to speak with the customer about it.

Sales orders must be accurate, complete, and legible

Apply the lessons of the previous chapter. Accurate, complete, and legible paperwork goes a long way toward minimizing returns. Make sure your sales orders contain the right information.

Pay particular attention to product descriptions and code numbers. These can get quite lengthy and it is easy to transpose a digit that leads you to sell a slightly different model than the one a customer specified.

Even when you are in a hurry, take time to double-check product information before turning goods over at the counter.

Your customers must be aware of your returned goods policies

Some customers may assume that all wholesaler-distributors in a market handle returns the same way. Yet policies may be quite different from supply house to supply house.

Some wholesaler-distributors may put a time limit on returns, such as within seven or 30 days of purchase. Some supply houses institute a handling charge for returns. Others may withhold credit for the return until they receive their credit from the manufacturer.

If you sell a product that is on special order from a manufacturer, it may require special handling or packaging for return. This type of return may be the customer's responsibility. They may also have to pay return freight charges.

How to Handle

Returns and Exchanges

It is important that you know all your company's policies and can explain them to customers. Many wholesaler-distributors have signage prominently displayed at the counter detailing their return goods policies. Others may have the policies written in handouts.

If your counter does not have printed information regarding your returned goods policies, suggest to your manager that it may be a good idea to print a supply to give to customers. This will save time and prevent grief.

Know the unwritten rules, too

Even where return policy signage exists, you can count on the fact that some customers will not read it or will ignore the instructions. Inevitably, you will run into some customers trying to return goods after the time limit or violating other policy conditions.

It is easy to say that you should always adhere rigidly to your company's return goods policies, but that may not always be wise. Many wholesaler-distributors will make exceptions for their top customers or for other reasons. They may have so-called "unwritten rules" that apply to certain customers or situations.

Unwritten rules may apply to top customers.

In some cases, the counter sales staff may have some leeway to decide when to overrule a return policy. Other times you may have to seek permission from a higher authority to apply an unwritten rule.

In either case, you will want to be careful when granting an exception to the rules. Customers who see someone else receiving special treatment are likely to demand the same considerations. If a customer is entitled to special treatment, invite that customer into an office or some other private place to discuss the matter out of earshot of other customers.

How to Process Returns and Exchanges

Although you should take actions to minimize returns, you will never eliminate them. Inevitably, you will have to face the situation and process a certain amount of returns and exchanges. Procedures may vary a bit among wholesaler-distributors, but some general measures apply to most companies.

Proof of purchase is mandatory

The first check is to make sure the customer purchased the item from your company. Many wholesaler-distributors require that a customer produce a sales order or invoice proving purchase of the product they want to return. If a customer lost it, your company should be able to look up the sale from its own records, assuming your people properly completed and routed their paperwork.

After you are sure the paperwork is in order, check the product to make sure it is the exact one described by the paperwork. The date of purchase also is important if there is a time limit to returns and exchanges.

Most wholesaler-distributors will allow product exchanges.

Most wholesaler-distributors will allow a return or exchange from a purchase made at a different company branch. Few will agree to accept returns or exchanges for items purchased from a different supplier, although at times there may be an unwritten rule applying to this.

For instance, at times a wholesaler-distributor may agree to accept a return purchased from someone else as a favor to a good customer and if the product is easy to resell. These cases will be rare, and a counter salesperson will almost certainly require special permission to process one of these returns.

Other complications could arise if sale was a special order, as opposed to being a stock order. Then you must determine whether it was the manufacturer's or supplier's mistake in providing the wrong product. If the product shipped is exactly what the customer ordered, then it may be the customer's responsibility to pay for freight and handling charges associated with a return.

Ask the customer why they want to return a product

After you are satisfied that the return request is legitimate, ask questions to determine why the customer wishes to return the product. If it stems from a product failure, obtain details on when and how the product failed. Be sure to use precise language when completing any return authorization document.

If several customers have the same complaint about a product's condition or performance, it may well signal a universal product defect. Immediately notify the product manufacturer.

Customers may choose several types of reimbursement.

Next, you will need to ask the customer which reimbursement method he or she prefers. Some may ask for a product exchange. This offers an ideal opening for you to put on your sales hat and up-sell to a better, more expensive product, as well as selling add-on products. You already know the customer is in need of something and ready to buy. The only decision left is about *what* to buy.

Most customers with a credit account will ask that to receive a credit for the purchase amount, though some may ask for a refund on the spot.

It is essential that you know how to process a credit or refund. Most wholesaler-distributors have credit memo forms to fill out for returned goods. Some may use the same form to reflect a refund, while others may have separate documentation.

If the customer used a credit card, you will need to know how to process a reverse credit card transaction. This transaction will appear as a credit in the customer's credit card statement, and as a negative sale in the wholesaler-distributor's statement.

Be sure to get a signature

Be sure to review all paperwork with a customer before asking him or her to sign anything. This final check helps to eliminate future disputes.

A signature completes the return process for the customer.

Getting the signature completes the return process as far as dealing with the customer is concerned. Without a signature, accounting and other departments may refuse to process the return authorization or credit memo.

Do not delay routing of credit memos

Always make sure to route credit memos and return authorizations to other departments for accurate recordkeeping. Purchasing and inventory control personnel need this information to ensure accurate inventory counts. Sales departments need to be aware of all the products that are available in the warehouse or counter area. Accounting and payroll need the information in case sales commissions need to be adjusted. The warehouse needs the information to return the returned items back to their proper place. (This duty may fall to the counter sales staff.)

Timely routing is especially important for accounts receivable staff so they can quickly issue the proper credit to the customer. Customers get very annoyed when they receive a monthly invoice that includes billing for products they have returned.

Customers get furious over credit delays.

In most cases, the delay occurs simply because accounting processed and mailed the invoice before they received the credit memo. The credit will show up in the following month's bill. Some time lags will be inevitable and not your fault, but you do not want to be responsible for undue delays that spark a customer's fury.

Return paperwork can get lost

Sometimes counter salespeople allow paperwork for credits to be sidetracked or lost at the counter. They process far more sales than returns, so there is a tendency to keep closer track of sales orders.

Most supply house counters have special drawers, trays, or baskets for written sales orders. These are collected at the end of the day or periodically throughout the day. Some wholesaler-distributors might prefer that original return paperwork, or a copy, stay with the products until they are back in inventory.

Set aside a special place for products you need to restock.

Often the counter people will process returns at very busy times. When they do there is a tendency to lay the product down behind the counter or some corner for later restocking. This is a recipe for confusion and mistakes.

A disorderly counter leads to mistakes.

It is likely that nobody except the person who processed the return will know why the product is sitting there. Even the counter salesperson who processed the return may forget about it after several hectic hours of waiting on customers.

Do yourself and your company a favor by setting up a special section of the counter to store items turned in for restocking. An orderly workplace helps to eliminate mistakes.

In the previous chapter, you learn about the role of forms in a profitable operation. In this chapter, you learned about the importance of proper processing of returns and exchanges. In Chapter 7, you will learn how to provide exceptional service to our external and internal customers.

Quiz

How to Handle Returns and Exchanges

1. All of these are legitimate reasons for a product return EXCEPT

A. Defective product

B. Warranty claim

C. Customer breakage

D. Customer overbought

2. You should try to minimize returns because

A. they detract from customer service.

B. wholesaler-distributors lose profits.

C. warranty exchanges are not allowed.

D. they take time.

3. All of the following influence a wholesaler-distributor's return goods policies EXCEPT

A. Manufacturer return policies

B. Customer's credit status

C. Customer service

D. Counter signage

4. A return has the same impact as a/an

A. sales order.

B. mistake.

C. exchange.

D. delivery.

5. Return policies must balance cost control versus

A. time.

B. paperwork.

C. customer service.

D. documentation.

Quiz

How to Handle Returns and Exchanges

6. When used in relation to returns and exchanges, the phrase "Garbage in, garbage out" applies to

A. printed paperwork as opposed to electronic documents.

B. poor sales volume.

C. product selection accuracy.

D. warranty claims.

7. Product exchanges offer a counter salesperson a prime opportunity to

A. up-sell.

B. issue credit memos.

C. order counter signage.

D. save time.

8. A company's unwritten rules usually apply to

A. experienced counter professionals.

B. restocking charges.

C. mistakes.

D. top customers.

9. All of the following are part of return procedures EXCEPT

A. Sales orders

B. Up-selling

C. Credit memos

D. Package inspection

10. Delays in issuing credit memos are likely to make customers think your company

A. has poor return policies.

B. sells products that are inferior.

C. hires counter help that is too slow.

D. is trying to cheat them.

(Answers below)

Answers: 1.C; 2.B; 3.B; 4.B; 5.C; 6.C; 7.A; 8.D; 9.A; 10.D.

GLOSSARY

Common Counter Sales Terms

Accounts Payable —

Money owed for goods/services as shown on the books of the company that purchased those goods or services.

Accounts Receivable —

Money owed for goods/services as shown on the books of the company that sold those goods or services.

Accounts Receivable Days —

Average amount of time in days it takes a distributor (or other business) to collect money owed from customers.

Added Value —

Increase in price of goods to pay for related services that make the goods more valuable or moves them more quickly to point of use. *Also see Value-added services.*

Add-on Selling —

A sales technique which involves adding one or more products to a customer purchase or upgrading a customer to a similar but higher-priced product.

Assumptive Close —

The act of ending the sales negotiation by assuming that the customer has agreed to buy, and then asking further details of payments, delivery, etc.

Asset —

Anything owned that has value. Some assets of a distribution business include inventory, equipment, real estate owned, accounts receivable, owners' equity (money owners invested in the business) and cash on hand.

Back Order —

Order placed for goods not available at time of original sales transaction.

Bar Code —

Electronically readable codes affixed to merchandise, packages, pallets, or shelves for efficient counting and other recordkeeping.

Benefit —

The value experienced by the customer.

Bid —

Price quotation for materials to be provided to a project.

"Big Box" —

Nickname given to warehouse home center mass merchandisers.

Bottom Line —

Term used loosely to mean profit left after expenses. The final bottom line is profit after all expenses are paid, including income taxes.

Branch —

A small warehouse and sales facility set up by a multi-location distributor to serve a local market.

GLOSSARY

Common Counter Sales Terms

Brand —

A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is "trademark." A brand may identify one item, a family of items, or all items of that seller.

Brand Name Products —

Products typically ordered by brand name, which are perceived to have special features or attractive elements that make them different from similar products.

Breakeven Point —

In general, the point at which gains equal losses or when expenses match revenue.

Carrying Costs —

Expenses that accrue when inventory sits on a shelf or money owed goes uncollected.

Cherry Picking —

Buying only the fast moving items of a vendor's product line.

City Counter —

Supply house counter where customers come to order/pick up merchandise.

C.O.D. —

Collect on delivery; status given to customers of unknown or poor credit standing.

Commission —

1. Compensation granted to sales employees based on a percentage of what they sell; 2. Money made by a broker who has negotiated a transaction; 3. Money paid to a contractor for referring a buying consumer/customer to a distributor's showroom.

Commodity —

Product which is usually produced to detailed standards so that it is nearly identical to other such products.

Consumer —

A customer who buys something for personal use rather than for business use or resale.

Contractor —

A person, often in the building trades, who contracts to do specific work for an agreed-upon sum.

Cost of goods sold (COGS) —

A figure representing the cost of buying raw material and producing finished goods. Included are precise factors, i.e. material and factory labor, as well as others that are variable, such as factory overhead.

Counter Days —

An important part of a company's customer retention and marketing strategy that rewards the loyalty and patronage of the clients, as well as a unique opportunity to introduce new products or promote the older ones to their customers. *Also called Customer Appreciation Days.*

Counterfeit Goods —

Inferior items, usually made in foreign countries, illegitimately passed off through labels, markings, etc., as popular brand name goods. *Also called "Knockoffs."*

Counterman/Counterperson —

Distributor employee whose job is to serve customers at the warehouse sales counter (city counter).

Credit —

1. Buying now to pay later; 2. Dollar allowance or rebate given in a distributor customer's account.

Credit Hold —

Upon entering the customer's code, the order desk is prevented from processing the order. No orders can be placed until credit takes the customer off credit hold.

Credit Memo —

A commercial document issued by a seller to a buyer, indicating the products, quantities and agreed prices for products or services that the seller provided the buyer, but buyer returned. It may also be issued in the case of errors or allowances.

Cross-selling —

The practice of suggesting related products or services to a customer who is considering buying something.

Customer Service —

Understanding how customers make money and assisting in those efforts.

Customer Service Representative (CSR) —

Employee whose main duties are to interact with customers and solve problems.

"Deadbeat" —

Slang for a person or company that often owes a past due account.

Dead Stock —

Inventory items that haven't sold in a long time, usually after a year of purchase, and whose sales prospects are dim.

Dealer —

A contractor or other installation/service provider authorized to handle certain products requiring certification.

Demand —

Desire of potential buyers for a given product or group of products.

Direct Costs —

Expenses that can be tracked for sales of specific products.

Distribution —

The process by which goods produced move from producer to end-users.

GLOSSARY

Common Counter Sales Terms

Distribution Center —

Large warehouse used for central distribution.

Distribution Channel —

The path of distribution for a given category of products, usually based on greatest efficiency.

Distributor —

See Wholesaler-Distributor.

Drop Ship —

Manufacturer drops a shipment off at a jobsite or a customer facility, although a wholesaler makes the sale.

DTU —

Selling direct to (end) user, usually in the context of bypassing the wholesaler or contractor in the supply chain.

Economic Order Quantity (EOQ) —

The amount of orders that minimizes total variable costs required to order and hold inventory.

End-user —

The final customer for whom a product or service is intended. An end-user may be a consumer or customer using the product for a non-personal use.

Exchange —

The substituting of one thing for another.

Expense —

1. A charge incurred in order to generate revenue or maintain business operations; 2. A charge, such as travel or lodging cost, generated by an employee doing business outside the office.

External Customer —

An outside organization or individual that receives a product or service from the company.

Fill Rate —

The percentage of orders or line items filled completely.

Gross Margin —

The ratio of gross profit to sales revenue; sometimes used as a synonym for gross profit. For a manufacturer, gross margin is a measure of a company's efficiency in turning raw materials into income; for a retailer it measures their mark up over wholesale. Gross margin is gross income divided by net sales, expressed as a percentage.

Gross Profit —

The difference between the cost of merchandise and net sales, usually expressed in dollars *[Net sales minus COGS]*. The dollar amount of gross profit is the same as the gross margin expressed in dollars.

Gross Sales —

Sales revenue prior to subtracting discounts, allowances, and returns.

Income —

See Revenue.

Income Statement —

See Profit and Loss (P&L) Statement.

Indirect Costs —

Expenses, often operating costs, that cannot be tracked for specific product sales. *Also see Operating Expenses.*

Internal Customer —

Anyone in the organization—a co-worker, another department, or a distributor—who depends upon someone else in the organization to provide products or services which in turn are utilized to create another deliverable for the external customer.

Inventory —

Items stocked in a warehouse for sale or redistribution.

Invoice —

Bill of sale.

Line Item —

Line on an invoice pertaining to a single SKU.

Manufacturer —

1. A company that makes goods;
2. An individual employed by a manufacturing company.

Margin —

The minimum profit that a business must make in order to remain viable.

Mark-up —

Amount added to the cost of goods sold to determine the selling price, usually expressed as a percentage of the COGS. *Example: An item purchased for $75 and sold for $100 was marked up 33.3% [$100 minus $75 = $25 markup]; [$75 divided by $25 = 33.3% markup].*

Master Distributor —

A distributor that specializes in stocking complete inventories, including less popular items, of a limited number of vendors, usually for sale to other distributors.

Merchandising —

Marketing activities designed to attract the interest of the customer, including selection, packaging, pricing, promotion and display of goods.

MRO —

Maintenance/Repair/Operations; a customer that buys PHCP goods for those purposes.

Net Earnings —

See Net Income.

Net Income —

Revenue left after subtracting all expenses, including income taxes and interest. *Also called Net Earnings or Profit.*

Net Income Before Taxes —

Revenue left (profit) after paying COGS and operating expenses but before paying income taxes Operating Income or Earnings Before Interest and Taxes. *Sometimes referred to as Net Profit.*

Net Operating Income —

See Net Income Before Taxes.

Net Profit —

The company's total earning, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses.

Net Sales —

Sales revenue minus discounts, returns, and allowances.

Objection —

A statement of challenge or rejection by a prospect or customer of a feature, benefit, product or service which can be helpful to the sales process in that it can indicate about what a prospect or customer is concerned.

OEM —

Original Equipment Manufacturer; a customer that buys PHCP goods for assembly into larger products.

Operating Expenses —

Administrative expenses resulting from general costs of doing business, not including cost of goods sold, income taxes, or interest payments. Operating expenses generally are indirect costs such as rent, utilities, salaries, etc. *Also referred to as Overhead.*

Opportunity Cost —

The cost associated with having money tied up elsewhere (in inventory on-shelf or debt) so that it is not available to take advantage of some other business opportunity.

Overhead —

Costs associated with providing and maintaining a manufacturing or working environment, such as renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Overhead also includes indirect labor and indirect material.

Packing List —

A document prepared by a shipper and included with a shipment that indicates the number and items being shipped, along with any information needed by the transportation company.

Past Due —

An account overdue on payment.

P&L Statement —

Profit and Loss Statement.

Point-of-sale material —

Marketing display material used to advertise a product where it is being sold.

Power of One —

An individual's ability to make a huge difference in a company's profitability and one's own status through tiny improvements in job performance.

Private Label —

Product sold under a brand name of a supply chain customer rather than the actual manufacturer, with the permission of the manufacturer.

Product Line —

Single category of goods provided by a vendor.

Productivity (Personnel) —

A measure of how much each employee adds to the company's sales or profits. In PHCP distribution, employee productivity is usually calculated as the average sales per employee (even for employees who are not salespeople).

Profit —

See Net Income.

Profit and Loss Statement —

A concise financial statement that reports a company's revenues, expenses, and final profit or loss. *Also called an Income Statement or P&L.*

Rebate —

Form of payment granted to parties in a supply chain at given times of a year based on level of purchases or other defined activities.

Receivables —

See Accounts Receivable.

Receivables Days —

See Accounts Receivable Days.

Restocking / Handling Fee —

Amount charged by a seller for accepting returned merchandise and paying a refund.

Retailer —

A business that sells primarily to consumers.

Return Authorization —

A transaction whereby the recipient of a product arranges to return goods to the supplier to have the product repaired or replaced or in order to receive a refund or credit for another product from the same retailer or corporation within the product's warranty period.

Revenue —

Total amount of money taken in by a business through sales and other earning activities. *Also referred to as Volume or Income.*

Sales Order / Invoice —

A seller-generated document that authorizes sale of the specified item(s), issued after receipt of a customer's purchase order. A sales order usually implies that there will be no additional labor or material cost incurred for the sale, except where it is used to initiate a production process.

Shelf Talkers —

Printed card or other sign attached to a store shelf to call buyers' attention to a particular product displayed in that shelf. *Also called Shelf Screamers.*

Shrinkage —

Inventory that gets lost, stolen, or broken.

SKU —

Stock-Keeping Unit.

Stock-Keeping Unit (SKU) —

An identification symbol, often alpha numeric (containing both letters and numbers) which can be used to track a particular item for inventory purposes. SKUs are often printed on product bar codes.

Stock-out —

A situation in which the demand or requirement for an item cannot be fulfilled from the current inventory

Suggestive Selling —

A sales technique in which an employee asks customers whether they would like to include an additional purchase or recommends a product which might suit the customers.

Supply —

Amount of goods available for sale.

Supply Chain —

All participants in a channel of distribution.

Trade Discount —

Discount provided by distributors to licensed or otherwise qualified contractor customers.

Transaction —

A completed sale, agreement, or business deal.

Up-sell —

To sell a prospect or customer a product or service of higher value.

Value-Added Services —

Services provided by the distributor which add to the value (and the cost) of products by making products more readily available or more useful to the end user. Some value-added services include Just-in-Time delivery, job bidding, customer credit, and product training.

Vendor —

A company that sells goods or services to another company.

Volume —

See Revenue.

Warranty —

A written guarantee given to the purchaser of a new appliance, automobile, or other item by the manufacturer or dealer, usually specifying that the manufacturer will make any repairs or replace defective parts free of charge for a stated period of time.

Wholesaler —

A business that sells to retailers, contractors, or other types of businesses, but NOT to end users, at least not in significant amounts.

Wholesaler-Distributor —

A wholesaler that buys and owns the products prior to reselling them to its customers.