CHAPTER 1

The Expanding Role of the Inside Sales Rep

A new terminology is needed to describe a job that has become more complex and important to the business of distribution.

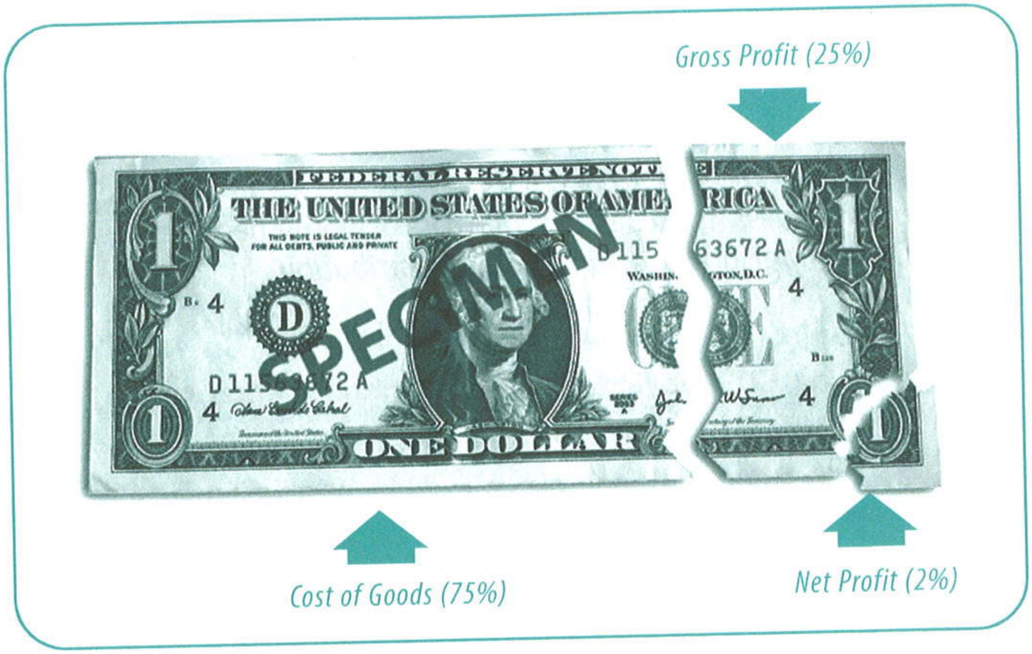
After reading and studying the material in this chapter you will be able to:

1. **Identify the traditional roles played by outside and inside sales in a distribution business.**
2. **Explain why inside sales roles and responsibilities are expanding.**
3. **Define the role of the Distributor Sales Specialist.**
4. **Describe the typical job duties of today's Distributor Sales Specialist.**
5. **Identify the common job requirements of the Distributor Sales Specialist.**

CHAPTER 1

The Expanding Role

of the Inside Sales Rep



Wholesaler profit margins are just a few cents on the dollar.

Wholesale Distribution is Driven by Sales

Wholesale distribution is a sales-driven business. Distributors must continuously grow their revenues and profits to support the enormous investment they have made in the product inventory, facilities, and equipment that are required to service their customers. Yet competition has never been tougher than in today's world. Most customers are able to buy not only from other supply houses, but also through numerous other sales channels. This includes sales anywhere in the country via online Websites.

To compete in this environment, distributors must constantly search for ways to convince customers to buy from their supply house instead of from somewhere else. The race to prosperity also requires the continuous recruitment of new customers who are buying elsewhere. All this must be accomplished with ruthless efficiency since the distributor makes only a few cents on every dollar worth of sales. As a result, the typical distributor employs a professional sales force who are dedicated to the job of selling.

CHAPTER 1

The Expanding Role

of the Inside Sales Rep

Traditional Roles of Inside and Outside Sales are Changing

Outside and inside sales personnel collaborate to reach company goals

Traditionally, the distributor sales team has revolved around a mixture of "outside" sales personnel and so-called "inside" salespeople.

The outside salespeople call on customers at their place of business or at jobsites. The inside sales staff operates almost entirely over the phone. Inside sales representatives often work hand-in-hand with the outside salespeople to ensure customers get what they order in a timely fashion. The inside sales staff may also develop new business by handling customers that are too small to justify a visit by an outside salesperson.

Inside salespeople also fulfill a crucial customer service role. Because they stay in the office, they generally can be reached more readily than outside salespeople. So, when a customer requires immediate attention, the inside salesperson is in the best position to initiate a prompt response. Frequently outside and inside salespeople work as a team that shares accounts. The outside salesperson typically is in charge of generating sales, while the inside partner follows up to make sure the orders are handled correctly.

What customers usually need from an inside salesperson is information

Customers want to know which products they can use for a particular application. Or they might want to know if there are other products that can be substituted. Sometimes, they ask about product performance characteristics or technical data. They may be calling to place an order or to check the status of an order, to inquire when delivery can be expected, or if delivery can be expedited. Customers may call the inside sales representative about anything under the sun. That's because to many customers, the inside sales person assigned to their account is the person on whom customers rely. The inside salesperson is the company as far as these customers are concerned.

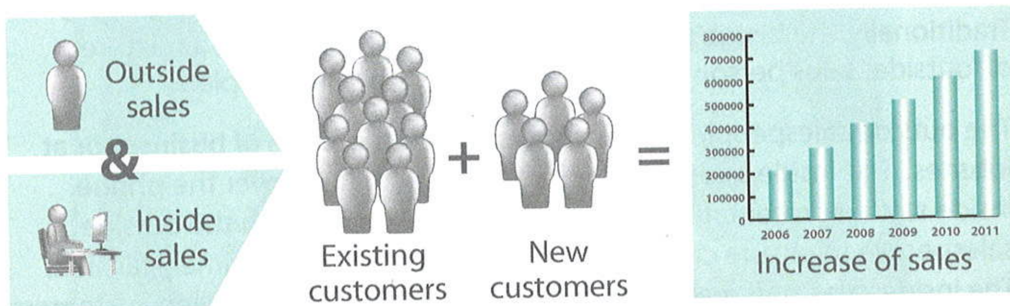
Customers may call the inside sales representative about anything under the sun.

The Expanding Role

of the Inside Sales Rep

Inside Sales Roles and Responsibilities are Expanding

Outside and inside sales work as a team to increase sales to existing customers and find new customers.



Inside sales are becoming a primary customer contact

What have been described thus far are the "traditional" roles of outside and inside sales personnel in the distribution industry. But those traditional roles are changing rapidly.

Historically, the outside sales position has been more prestigious within the typical supply house. Outside sales personnel generally were more experienced and got paid more than their associates working on the inside. Frequently, the inside sales position served as a stepping stone to an outside sales job—an apprenticeship of sorts. The inside sales rep was viewed as an assistant to the outside salesperson.

Inside salespeople are more accessible to customers and cost effective for the distributor.

More and more, some distribution companies are replacing the outside sales staff with inside salespeople as the main customer contacts. This requires an added degree of professionalism from the inside sales staff. Pay and prestige for inside sales are rising accordingly.

Distributors are relying more on the inside sales staff in response to their faster-paced, more pressure-packed business world.

This also stems from advances in communications technology, as well as a growing array of increasingly complex new products.

Furthermore, distributors are under relentless pressure to reduce their costs of doing business. Various studies have shown that each sales call made by an outside salesperson typically costs distributors hundreds of dollars.

These dollars add up quickly when you consider sales compensation, transportation, customer entertainment, and all the other costs of supporting someone on the road. An inside sales specialist can contact many more customers in the same amount of time at a small fraction of the cost per contact.

This doesn't mean that outside salespeople are an endangered species. They are still viewed as valuable contributors to most distribution companies. However, their roles are also changing.

Customers have less time to meet with salespeople

Customers have less time to meet with salespeople.

Face-to-face selling has some obvious advantages. Most important, it provides the opportunity to build lasting personal relationships. The outside sales rep also gains an edge by reading body language and viewing the customer's business operations. An outside sales rep with a winning personality and dedication to customer service has a definite advantage over the inside salesperson in this regard. Also, in earlier days before cell phones, fax machines, and the Internet, customers often relied upon distributor sales reps as a major source of information about new products and industry news. For these reasons, most distributors traditionally considered their outside salespeople to be the company's primary interface with customers.

Customers have many sources of product information

Customers have many sources of product information.

Today, customers have instantaneous access via the Internet to product and industry information. They don't need the outside salesperson to keep them informed. Moreover, the number and complexity of products have increased so much that it's almost impossible for any sales rep to memorize the important details of all the product lines carried by a given distributor. Sales reps instead must refer to Websites, catalogs, and technical data sheets to answer customer inquiries. It is easier for an inside salesperson to access this information than it is for someone who spends hours each day traveling by car and/or plane to numerous customer locations.

Perhaps most significant, the hectic pace of today's business world means that many distributor customers have less time to meet with sales reps face-to-face. In particular, they hate spending time with sales personnel who drop by without an appointment, indulge in a lot of small talk, and do little more than take orders for routine product replenishment. Distributors are more often hearing their best customers say, "Don't waste my time."

The Expanding Role

of the Inside Sales Rep

Outside sales emphasize

- *prospecting,*
- *high volume,*
- *high potential, and*
- *problem solving.*

Outside sales emphasize prospecting, high volume, high potential, and problem solving

Top-notch outside salespeople most assuredly do not waste their customers' time. In fact, true sales professionals understand that their own time is too valuable to waste. They do not want to spend it in small talk, order taking, or calling on customers and prospects that offer little sales potential. Instead, they focus their attention where it will do the most good.

Increasingly, top outside salespeople devote their time to high-volume or potential high-volume customers, and those with special needs that can only be addressed in the field. Outside sales reps often are called upon to troubleshoot situations where products or services may not meet customer expectations.

Some outside salespeople have built rock-solid personal relationships with certain clients, who may be more loyal to these sales reps than to the companies that employ them.

Also, in some companies, outside sales personnel will spend considerable time meeting with people who may not buy products directly, but who are important buying influences. For instance, engineers specify which products will go into commercial construction projects. In situations like these, it may be important for distributor salespeople to get to know the engineers responsible and try to convince them to specify products carried by their distributor.

Similarly, outside salespeople also may call on building owners, maintenance staff, public housing officials, and many others who don't buy products but who have a large say about which products get used. Identifying these purchasing influences is an important part of an outside salesperson's job.

Inside salespeople are accessible to customers and cost effective for the distributor.

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For most situations, however, a distributor's inside sales staff serves as a welcome alternative to time-consuming, and sometimes pointless, meetings in the field. Phone calls usually take less time than face-to-face meetings, and inside salespeople can make many more contacts in a day than their sales teammates who travel.

While an outside salesperson might do well to meet with six customers or prospects in a day, an inside sales rep can speak with dozens.

The Expanding Role

of the Inside Sales Rep

We have just reviewed a few of the reasons inside salespeople are increasingly replacing outside sales reps as the primary contact for many distributor customers. Their accessibility and cost-effectiveness also have led to an expansion of inside sales duties in many distribution companies.

Today's inside sales professionals are more proactive than in the past. Inside salespeople sometimes meet with key clients in conjunction with specific sales situations.

Today's inside sales professionals are more proactive than in the past

In earlier days, inside sales was considered a mostly passive job. The inside salesperson would handle incoming phone calls and respond to the customers' requests. What passed for selling was mostly order taking. The inside salesperson would be expected to look up information the customers needed, but not necessarily to take charge by suggesting things the customers might need but had not called to request.

This situation has changed dramatically. Inside sales duties have expanded and become more complicated. Today's inside salespeople are expected to originate conversations and promote the sale of profitable products. They are expected to understand their customers' businesses and educate them about products and services that can benefit them. These functions require more technical knowledge and salesmanship savvy than ever before.

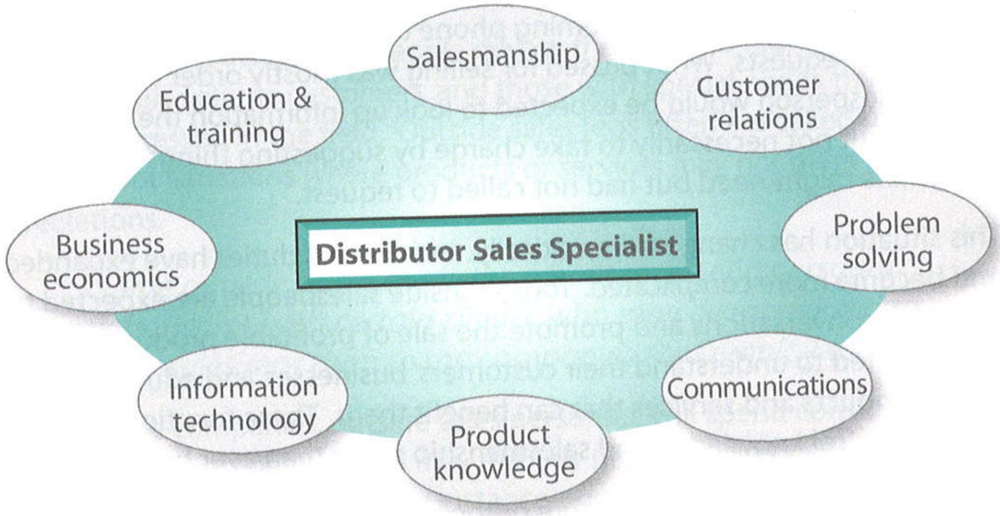
Today's inside sales reps place more outgoing phone calls to existing customers and prospective new ones. Most important, today's inside salespeople play a crucial role in protecting the profit margins distributors need in order to survive.

Inside salespeople, on occasion, may even be asked to accompany outside sales reps or company managers to meet with key clients in conjunction with specific sales situations, or simply to get acquainted. The get-acquainted visit can be used to migrate mature accounts that no longer require face-to-face contact from outside sales reps to inside salespeople. Many customers deal with inside salespeople regularly for years over the phone without ever getting a chance to connect a face with the voice. Top inside salespeople eagerly participate in open houses and social events where they have a chance to meet many of the customers they deal with regularly over the phone.

Inside Sales Reps Are Now Distributor Sales Specialists

The inside sales role in a distribution business has become much more complex than it used to be. It requires advanced skills in a number of disciplines, including:

Skills of a Distributor Sales Specialist (DSS)



Many duties that were once handled primarily by outside sales reps, or even by managerial personnel, are now handled by an inside sales team. The inside sales job in today's distribution businesses generally requires higher levels of education and expertise than it did years ago. Many distributors prefer to hire college graduates for inside sales positions. Strong computer skills are essential, as is the ability to efficiently manage one's time. A "can-do" attitude is necessary to help solve customer problems. Distributors' inside salespeople must convey a professional image, including superior listening and presentation skills. They must have a congenial personality and be intelligent and articulate when speaking with customers who are, in many cases, top-notch professionals in their own fields. Inside salespeople don't have managers looking over their shoulders telling them what to do at every step. So they must be organized and self-motivated to fulfill their job functions.

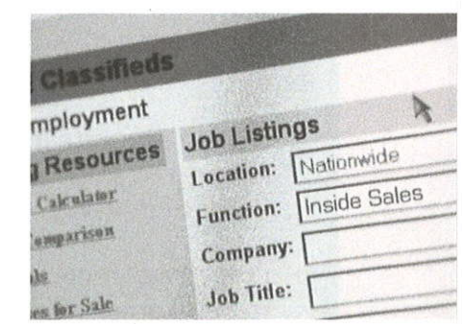
Changes have been so profound that the term "inside sales" now belongs to a bygone era when the job was of lesser importance and prestige. The role of a distributor's inside salesperson has evolved so dramatically that a new terminology is needed. Those who work in inside sales need to be recognized for the crucial role they play in distribution businesses and the enhanced abilities they require.

As a result, throughout the rest of this book we will dispense with the old terminology of "inside sales" and its derivatives. From now on, we will use a term that equates better with the level of professionalism required: Distributor Sales Specialist, sometimes abbreviated as DSS.

The title "Distributor Sales Specialist (DSS)" reflects the fact that people who work in inside sales occupy one of the most critical jobs in a distribution company. A DSS serves as the primary interface with customers, and there is no more important duty than that in a sales-oriented business.

In this book, we will examine in greater detail the duties of a DSS. We will also explain what the men and women who hold this position need to do to perform at the highest levels of their profession.

Outcomes and Duties of a Distributor Sales Specialist



What follows is a sample job description defining the objective, duties, and common job requirements for the Distributor Sales Specialist position in a progressive distribution company.

DISTRIBUTOR SALES SPECIALIST OBJECTIVE

The Distributor Sales Specialist works cooperatively with outside sales and other members of the distribution team to grow existing customers, create new customers, and meet or exceed monthly sales quotas at the appropriate gross margin while increasing customer satisfaction.

As you can see, there's more than enough required of this position to fill a day with productive work! Not just anyone can do this work or generate the results demanded of a top rate DSS. Distributors looking to recruit, train, and develop Distributor Sales Specialists have a shopping list of qualifications and requirements for this most important position. Here are some of the qualities and qualifications distributors commonly seek.

Job duties:

- Generate new and repeat sales by providing product and technical information in a timely manner
- Determine customer requirements and expectations in order to recommend specific products and solutions
- Recommend alternative products based on cost, availability or specifications
- Present price, credit and terms in accordance with standard procedures and customers' profitability profiles
- Accurately process customer transactions such as orders, quotes or returns
- Provide accurate information regarding availability of in-stock items
- Obtain accurate information from vendors relating to shipment dates and expected dates of delivery
- Proactively recommend items needed by the customer to increase customer satisfaction and improve transaction profitability
- Increase sales and average order size by means of cross-selling, up-selling, add-on sales and offering promotional sale items
- Educate customers about terminology, features and benefits of products to improve product-related sales and customer satisfaction
- Monitor scheduled shipment dates to ensure timely delivery and expedite as needed
- Contact customers following sales to ensure ongoing customer satisfaction and resolve any complaints
- Fill requests for catalogs, information or samples
- Remain current on consumer preferences, changes in local codes and product developments by attending sales meetings, vendor training, trade shows or reading trade journals
- Setup and maintain customer files
- Identify trends in customer satisfaction or dissatisfaction
- Manage time effectively, meet personal goals and work effectively with other members of the distribution team
- Communicate to the purchasing department unexpected increases or decreases in demand for products
- Assist in scheduled physical inventory counts
- Maintain proficiency in using personal computer, data entry terminal and other common office equipment and software
- Follow company policies and procedures
- Present a professional image at all times to customers and vendors
- Perform other duties as assigned

** Source: Employee Performance Improvement Tool Kit, ASA Education Foundation*

Common Requirements/Qualifications for Distributor Sales Specialist

- Demonstrated success in growing sales
- Outgoing and eager to make outside customer calls
- Delivers superior customer service
- Handles difficult customers with diplomacy and tact
- Positive attitude and professional image
- High energy
- Works productively with a wide range of people—a team player
- Technical expertise and knowledge of company products
- Excellent organizational skills
- Superior listening and presentation skills
- Knowledge of office, Internet, and distribution software
- Ability to multi-task
- Motivated and self-directed
- Problem-solving and analytical ability
- Accuracy and attention to detail
- Demonstrates a desire to succeed—learns quickly
- High level of integrity
- Bachelor's degree or equivalent experience

The DSS needs to be analytical and have a positive attitude and a professional image.

Your company's inside sales job description and requirements may vary somewhat from the model presented here, but probably not by much. Some companies may not issue formal job descriptions, but it's a good bet that the job expected of the Distributor Sales Specialist will encompass most of the duties described here.

Your journey through the rest of this course will take you through the critical components of a profitable distribution business. It will help teach you the skills required to help a distribution business prosper. We will start our journey in Chapter 2 with an in-depth look at the lifeblood of our business—the customer.

Quiz

The Expanding Role of the Inside Sales Rep

1. **The MAIN reason wholesale distributors need a well-trained, professional sales force is to**
   A. reduce the overall cost of doing business.
   B. find new customers.
   C. successfully compete with other companies.
   D. reduce the amount of employee turnover.

2. **Which of the following is part of the TRADITIONAL role of a distributor's inside salesperson?**
   A. Call on customers at their place of business
   B. Collect payments from customers
   C. Develop large accounts
   D. Answer customer questions promptly

3. **An inside salesperson is often in a better position than an outside salesperson to**
   A. retrieve information about new products.
   B. build personal relationships.
   C. stay in touch with non-buyers who influence the sale.
   D. troubleshoot product failures.

4. **The biggest complaint customers have about outside distributor sales personnel is that they**
   A. have inadequate inventory.
   B. waste time with small talk.
   C. seldom arrive for appointments on time.
   D. fail to make promised delivery deadlines.

5. **Successful outside sales professionals routinely concentrate on all of the following tasks EXCEPT**
   A. Prospecting for new customers
   B. Handling the needs of high-volume customers
   C. Training inside sales reps to handle difficult customers
   D. Building solid relationships with customers

Quiz

The Expanding Role of the Inside Sales Rep

6. **Inside salespeople or Distributor Sales Specialists are gaining prestige in the distribution industry because they FREQUENTLY**
   A. meet outside the office with key customers.
   B. are better team players than other regular employees.
   C. possess high levels of education and expertise.
   D. have managers advising them about every part of their job.

7. **Which of the following is NOT a typical responsibility of a Distributor Sales Specialist?**
   A. Providing product and technical information
   B. Responding to customer requests
   C. Selling upgrades and add-ons
   D. Restocking inventory

8. **Of the following skills, which is the MOST important for a Distributor Sales Specialist to master?**
   A. Verbal and written communications
   B. Advanced mathematics
   C. Foreign languages
   D. Manual dexterity

9. **A successful outside salesperson is most likely to call on a customer who**
   A. orders a large amount of the same products each month.
   B. has special needs that can only be met in the field.
   C. needs new product information before making a purchase.
   D. places several small orders on a regular basis.

10. **A typical job description for a Distributor Sales Specialist will include all of the following requirements EXCEPT**
    A. Accuracy and attention to detail
    B. Ability to multi-task and problem solve
    C. Positive attitude and professional attitude
    D. Willing to travel 30-40% of the time

(Answers below)

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

CHAPTER 2

Customer Service is Defined by the Customer

The key to giving top-notch customer service is understanding the business concerns of your customers.

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

1. **Explain how distributors' customers' needs have changed.**
2. **Compare the different priorities of contractor, MRO, and OEM customers.**
3. **Explain the connection between flawless transactions and satisfied customers.**
4. **List the nine steps common to recording and fulfilling an order.**
5. **Discuss how internal customers are critical to superb service.**
6. **State the components of a culture of customer care.**

Customer Service

is Defined by the Customer

Do all you can to make customers think of your company as the most desirable supply house to buy from.

Customers Want to Deal with Distributors that Understand Their Business

Customers are the lifeblood of any business. Your goal as a Distribution Sales Specialist (DSS) is to do all you can to make customers think of your company as the most desirable supply house to buy from. The distributor with the best reputation among customers in a given market usually is the one that delivers the best customer service.

Distributors have various ways to measure customer service. Capturing data on fill rates (the percentage of orders or line items filled completely), errors, and on-time deliveries are among the ways companies gauge how they perform with transactions.

Yet customer service is a matter of perception more than statistics. Your company can rank high in all the measurable areas, but still be back in the pack in the eyes of customers. That's because reputations are forged through relationships. Customers want to do business with distributors whose employees are knowledgeable. They want to be treated with respect. They want to deal with people who solve their problems quickly and inexpensively. They want to give their business to people who are friendly, cheerful, and helpful. Most of all, they want to deal with people who understand their business.

Distributors' Customers' Needs Have Changed

Most distributors claim they give great customer service. However, it's easy to be fooled when you try to evaluate your own performance. A reputation for great customer service is not an exercise in self-congratulations. Only the customers can bestow it.

Imagine yourself in the following real-world situation. You are a DSS working for Supply House A. You answer a phone call from a customer who wants to know if you have a certain product in stock, how much it costs, and if it meets certain technical criteria. Within seconds, you retrieve the information, read it to the customer, and exchange pleasantries before hanging up. It's tempting to pat yourself on the back for a job well done.

Customer Service

is Defined by the Customer

Superb customer service goes beyond "what they need, when they need it"

But suppose that customer made a second phone call to Supply House B, maybe to compare prices. Its DSS did everything you did, except this DSS also informed the caller of a similar product that can do the job just as well. The DSS even told the customer that although the other product is slightly more expensive, it offers labor savings that more than make up for the additional purchase price. This DSS also volunteered, "If you need this right away, I can get it on a truck that will get to your place by late afternoon."

Which distributor do you think will be perceived as offering better service?

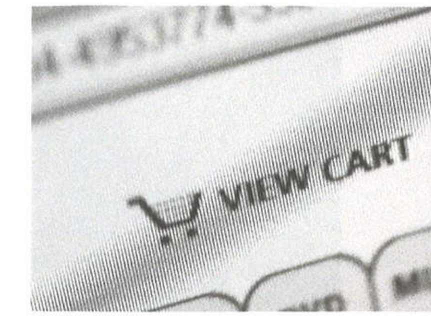
The DSS at Supply House A did not do anything wrong. Everything the customer asked for and expected was delivered. Unfortunately, when you simply meet customer expectations, it's likely they won't even notice. That's what customers expect. They'll only notice if you fail to meet expectations—or if you exceed them.

Superb service exceeds the customer's expectations

The DSS at Supply House B exceeded expectations. This DSS offered additional valuable services to the customer, and was able to do so because of an understanding of the customer's business. This DSS knew that labor savings would be more important to the customer than paying a little more for an upgraded product, and also knew that when customers take time to call a DSS, they usually need something right away. That's why the DSS volunteered to have the item shipped immediately. Furthermore, this DSS was aware of the company's delivery capabilities.

Learn your customers' businesses and know your company inside out. That's the recipe for becoming a top-rated DSS.

The DSS at Supply House A had an antiquated way of thinking about customer service. There was a time when superb customer service could be defined as supplying customers what they asked for when they asked for it. In the past, only the best firms were able to accomplish that because it typically took days or weeks to ship goods from one part of the country to another. Information also was more difficult to come by. Those who possessed it had something of exceptional value to offer.



Due to the Internet, customers can have products shipped from anywhere in the country overnight.

Moreover, it used to require special expertise to identify and find certain products. Customers relied on distributors to do that for them. Times have changed because most products can now be obtained overnight if necessary. The Internet has made it easy for anyone to locate almost anything. Customers not only can locate products and product information online, often they can buy it with a few mouse clicks and have it shipped from anywhere in the country overnight.

This means it's no longer good enough to have what customers need when they need it. Distributors that want to stand above the competition in today's world must provide services that most customers wouldn't even think of asking for. You can only do that if you understand customers' businesses and how they make money.

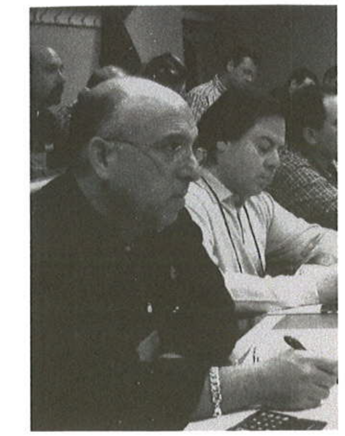
Contractor, MRO, and OEM Customers Have Different Priorities

Understanding a customer's business takes time and effort on the part of any DSS. As much as anything it requires a commitment to continuous learning. Fortunately, learning opportunities will help you relate to customers and the issues they face. They include:

- **Educational opportunities by your association**
- **Information from your customers' associations**
- **Training sponsored by your employer or vendor**
- **Websites of vendors and suppliers**
- **Formal and informal conversations with customers and vendors**
- **Newsletters and online e-letters on industry issues**
- **Industry trade publications**

Complicating the task is that most distributors have multiple types of customers with different concerns. For instance, many distributors deal with both construction contractors and industrial customers. Contractors tend to place a high value on things like next-day delivery to a jobsite and convenient pickup service. Contractors also tend to have specific brand preferences for many items.

Industrial customers, on the other hand, usually don't place the same value on next-day delivery, pickup service, or brand names. To them, it's very important that goods arrive within an agreed-upon schedule, but seldom do they need things shipped on an emergency basis. Industrial customers also value technical services such as bar-coded inventory and computer integration for purchases and billing, which are of lesser concern to most contractors.



Take advantage of the educational opportunities at your professional or trade association.

Variations exist within customer groups

Even within those customer groups, there will be different priorities depending on the types of work and product applications. Contractors that do primarily residential work face some different issues than those who pursue commercial building. Likewise, service contractors have different needs than those who operate in the new construction market.

MRO refers to maintenance repair operations

Industrial customers also may have different needs, depending on whether they are MRO or OEM users. MRO stands for maintenance, repair, and operations, and refers to goods used to sustain the factory and keep production lines running. MRO customers typically keep a stock of critical repair and replacement parts in an on-site storeroom. Then the maintenance staff can quickly make repairs or perform preventive maintenance at specified intervals.

*MRO refers to **M**aintenance, **R**epair, and **O**perations*

Distributors help factories keep the production lines running

For industrial customers, the most important consideration is to keep production lines running. Anything that causes a slowdown or stoppage in production can be devastating to manufacturers. So their top priority is to make sure they have items constantly on hand to minimize this possibility.

Some distributors offer inventory management programs to their industrial customers. This is a value-added program whereby distributors take responsibility for making sure their customers' storerooms have all the spare parts needed to prevent downtime. Inventory management programs can be a great service to offer. Customers may not know how to manage their inventory as well as their distributors do. So distributors with inventory management expertise can lock in this very profitable business with a client.

CHAPTER 2

Customer Service

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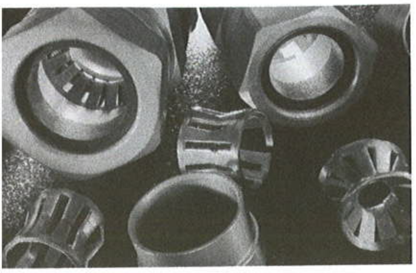


Repair and replacement parts

The price of repair and replacement parts is not as important to industrial customers as making sure they have what's needed to avoid downtime.

Distributors often use sophisticated formulas to help industrial customers reduce the amount of inventory they carry, while ensuring that they don't run out. Inventory management agreements entail a great deal of responsibility on the part of distributors. If the right materials aren't available when needed, it will not be the fault of a factory's plant manager or maintenance staff. The blame will lay with the distributor.

OEM refers to original equipment manufacturing

OEM refers to ***O****riginal* ***E****quipment* ***M****anufacturing*

OEM pertains to products sold for original equipment manufacturing, such as a valve or fitting used as a component of an engine. OEM accounts typically use large quantities of materials for a given production run, and then they may not need any of those materials until the next production run for that assembly. Usually factories do not have a lot of room to store all of the components needed to assemble their products, so they prefer to have distributors hold on to the components for as long as possible. OEM clients frequently request "just-in-time" delivery. This means they ask the distributor to deliver the needed components as close as possible to the start of a production run—even the same day.

To stand above the competition, a distributor must be knowledgeable about these different needs among customers and tailor services to meet them. A DSS usually is in the thick of the effort to deliver valued services, no matter what they may be.

What OEM/MRO customers value

Again, any downtime by the customer is wasted expense. The wholesale distributor who can ensure that a production line is never shut down due to lack of needed assembly products, or never breaks down for extended periods due to lack of repair parts, is targeting their service at the customers' business model.

Customer Service

is Defined by the Customer

Here is what the OEM/MRO customers want:*

- ✔ **Technical and applications support for the items we buy**
- ✔ **On time, accurate deliveries—product in good shape**
- ✔ **Value-added service like VMI, bar-coding, special reporting**
- ✔ **Competitive, stable pricing but not necessarily the lowest price**
- ✔ **Availability for computer integration systems for purchases and billing**
- ✔ **One-stop shopping to ease ordering and documentation**

Here's where contractor and OEM/MRO customers usually differ:

- ✔ **Technical support is often more important to OEM/MRO**
- ✔ **Value-added service requests are more common with OEM/MRO**
- ✔ **Pick up service is not as common with OEM/MRO**
- ✔ **Next-day delivery service is not as common with OEM/MRO**

** Excerpted from "Customer Service: The Path to Higher Profits," copyright 2004, ASA Education Foundation, Chicago, IL.*

Time is money for contractors

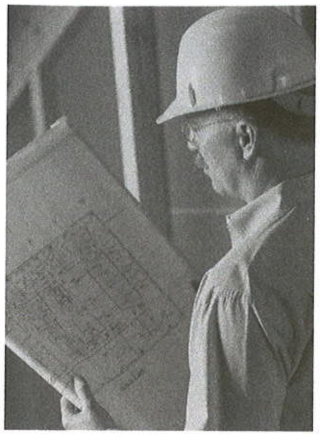
One thing all of these customers have in common is the need to make profits. In construction work, labor is the biggest cost factor. Anything you can do to help contractors reduce their labor cost is a valuable customer service.

Contractors cannot afford to have their workers stand around idle while waiting for materials to be delivered. Even worse is when they waste time dealing with mistakes, such as when the wrong products are delivered or the paperwork doesn't make sense. Mistakes are especially costly. Not only do they delay productive work, but customers waste even more time getting the problems straightened out. Sometimes a mistake requires customers to dismantle and rework an installation. That frequently wipes out any profit on the job.

As a DSS, always be mindful that "time is money."

Customer Service

is Defined by the Customer



"It's important for me, that inside sales is immediately available when I call and that they're eager to help."

As a DSS, always be mindful that "time is money." Strive to get the job done efficiently and accurately. Make it a point to immediately fulfill requests for catalogs, samples, or information. Delays in obtaining these items can be just as costly as the late delivery of job materials.

So, too, are delays in waiting for phone calls to be returned. Make it a practice to return phone calls promptly, and with any requested information already in hand. Take a look at the list of what contractors want and note how many priorities relate to **"not wasting my time."**

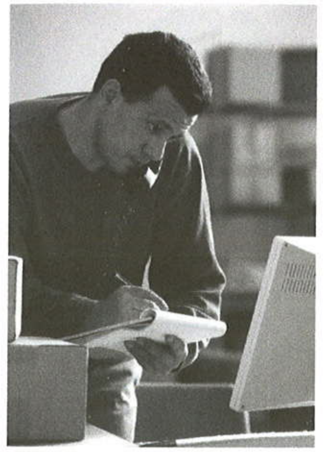
Here is what one wholesale distributor learned from its contractor customers:

What contractors value*

- **Inside sales is immediately available when I call**
- **Inside sales is eager to help**
- **Ship our orders complete**
- **Next day delivery service**
- **Proactively follow up on orders and requests**
- **Have a wide range of products (one-stop shopping)**
- **Carry specific brands that I prefer**
- **Have the lowest price**
- **Pickup service is fast—I get in and out quickly**
- **Make jobsite deliveries before 9:00 a.m.**

* *Excerpted from "Customer Service: The Path to Higher Profits," copyright 2004, ASA Education Foundation, Chicago, IL.*

Flawless Transactions Mean Satisfied Customers



The DSS needs to expedite the delivery process.

Order tracking is an important DSS responsibility

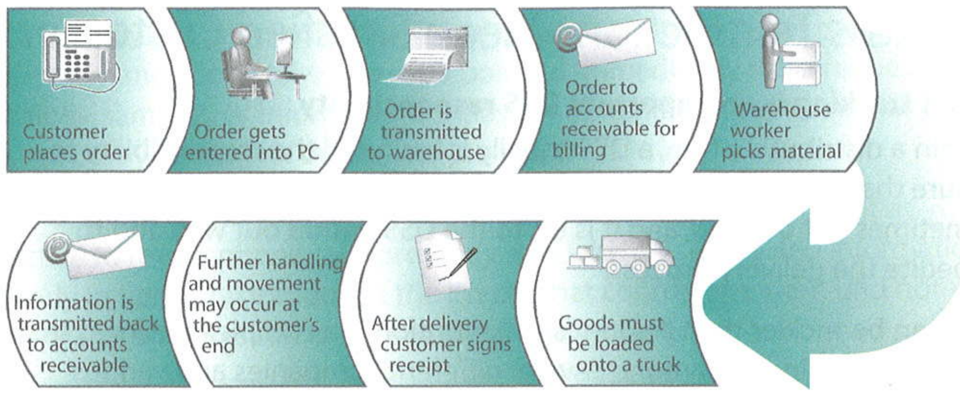
Within a distribution firm, a DSS usually is assigned the responsibility to ensure that the correct materials are supplied in a timely manner. Orders sometimes get delayed, and it is up to the DSS to find out why and to expedite the delivery process.

This can be trickier than it sounds. Distribution is a complex business that requires coordination among several different companies and various individuals to satisfy customer needs. The materials and information processing—whether by computer or paperwork—for a typical order passes through multiple parties, all of whom are susceptible to human error.

Fulfillment process has several steps

As an example, for a relatively simple order that can be filled with goods that are stored in the distributor's warehouse, the process typically goes something like this:

1. Customer places order with a DSS, an outside salesperson, or counter worker
2. That salesperson enters the order into a computer (in some companies, a separate person may be responsible for order entry, adding one more possibility of miscommunication)
3. The order is transmitted to the warehouse for picking
4. A copy of the order gets transmitted to accounts receivable for billing
5. A warehouse worker picks the materials and transfers them to the shipping area for delivery, or to the counter area for pickup
6. The goods must be loaded onto a truck for delivery, or a counter worker must correctly identify the order and hold it for the right customer
7. The truck driver delivers the goods, and the customer's representative signs a delivery receipt; or the goods are picked up and signed for at the distributor's counter
8. Further handling and movement may occur at the customer's end
9. Information is transmitted back to the distributor's accounting department for billing and posting as accounts receivable



As you can see, just filling a simple order from your warehouse shelves involves a lengthy chain of custody. The process becomes even more complex if all of the items are not available. Then the order may be partially filled, while the rest must come from a vendor's factory, a manufacturers' rep's warehouse, or a master distributor's facility. This means more parties get involved in the transaction, which creates more opportunities for mistakes to be made.

When any type of mistake happens, the impact on the customer—whether the customer is a contractor, MRO or OEM—can be very costly.

A mistake can happen during any step along the way. Paperwork might contain wrong information or get lost or misdirected. The wrong materials could be picked. The materials might get sidetracked and sit unnoticed in the corner of someone's warehouse or shipping dock. The goods could be loaded onto the wrong delivery truck, or the truck driver could drop them at the wrong location. When any type of mistake happens, the impact on the customer—whether the customer is a contractor, MRO, or OEM—can be very costly.

A DSS must understand the distribution process

When you think about how many people must do their jobs correctly just to fill a simple order, it's no surprise that mistakes occur. More surprising is that they don't happen more frequently. It's a tribute to the skills of the American distribution industry that the vast majority of orders do get filled and delivered correctly.

When something does go wrong, the DSS must understand all these different links in the chain of distribution to track down the cause and fix the problem. It requires thorough understanding all of the steps in a distributor's operations, and the paperwork that accompanies each step.

Expediting means springing into action

It is useful for the DSS to figure out what went wrong when a mistake occurs, because that can identify steps to prevent it from happening again. It's important to keep in mind that the customer doesn't care why mistakes happen. Excuses don't help the customer. The only thing that matters to the customer is obtaining what's needed as soon as possible.

This requires being armed with extensive knowledge about your company's operations. It also requires being familiar with vendors' operations, as well as those of manufacturers' reps, master distributors, and transport companies.

A problem may not even involve a mistake on anyone's part. Occasionally, customers decide they need something quicker than they originally indicated. When these situations arise, the DSS may be asked to speed up the process. Consider it a great opportunity to surpass customer expectations.

If an unanticipated need arises, the DSS may have to act on an emergency basis to locate and purchase critical materials. This may require obtaining them from a master distributor or even a competitor—sometimes at a premium price. A DSS needs to exercise good judgment in deciding when a situation calls for emergency tactics.

A DSS needs to exercise good judgment in deciding when a situation calls for emergency tactics.

Your Internal Customers Are Critical to Superb Service

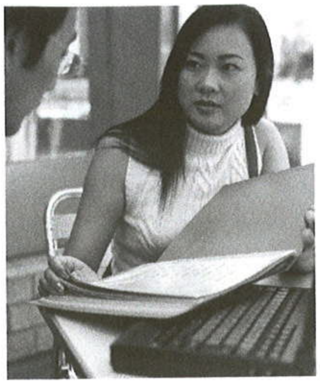
Another type of customer exists for every distribution firm. That's your internal customer. These are the colleagues who work with you to provide services to your external customers who buy products. Almost any service a customer receives is the result of the work of several people.

A customer may call you about a billing issue, or for engineering expertise, or to check inventory or order status, or for a myriad of other reasons. To satisfy these requests, the DSS will need assistance from outside salespeople, the quotations department, warehouse order pickers, shipping dock workers, or office staffers who work in purchasing or accounts receivable. At various times, a DSS will interact with almost everyone in a distribution firm.

As a DSS, you also will work closely with vendor and manufacturers' rep personnel, as well as master distributors. Think of them as your internal customers as well.

Customer Service

is Defined by the Customer



Maintaining strong relationships with co-workers will go a long way toward ensuring superb service.

Relationships are built over time

Maintaining strong relationships with co-workers will go a long way toward helping a DSS to be successful. If you don't serve internal customers well, you can't serve your external customers well. If you don't provide accurate information to the warehouse, an order will not be pulled or shipped correctly. If you don't provide accurate and timely information to accounts receivable, billing will be messed up. If you don't obtain accurate information from vendors pertaining to shipment dates and expected dates of delivery, the customer's project be delayed. In all cases, you caused a problem for the customer.

Personal relationships also count with internal customers. The better your relationships, the more inclined they will be to go the extra mile to help you fulfill customers' requests. So it's important to be cheerful and cultivate friendships within the company. Even more important, the best way to build those strong internal relationships is to go the extra mile when they need a favor from you.

The buck stops with you

The opposite of cooperation is "passing the buck." Superb customer service requires taking charge of a situation. For instance, if a customer has a question about an order or an invoice, a good DSS will not merely transfer the phone call to someone in the warehouse or office. They'll take the initiative to get the answers for the customer.

Think of how many times you've gotten passed around to multiple parties when you've called an organization to obtain information or resolve a problem. Don't you get tired of having to explain the problem over and over to each person who answers the phone? Plus, the more people you get transferred to, the more likely it is that you'll encounter one who may not be very responsive. Think of how infuriated you got when someone left you on hold for a long time or cut off your phone call.

Don't let it happen to your customers. YOU take charge of obtaining the correct information from co-workers. If they're slow in providing it, YOU follow up with a reminder. Then YOU call the customer back with the answer as soon as possible.

CHAPTER 2

Customer Service

is Defined by the Customer

Everyone in the distributorship may do his or her job but the customer experiences the entire transaction. When all internal customers take responsibility for the transaction, the outcome of a happy customer is much more certain.

Develop a Culture of Caring for the Customer

Many distributorships work hard to develop a culture of commitment to the customer. Many have codified that commitment into a set of guiding principles for the distributorships in their work with customers. Some post it as a reminder to employees and customers alike of why the distributorship is in business. Here is an example:

Commitment to our customers

- ✔ **You are the reason we are here—not an interruption of our work.**
- ✔ **You are not dependent on us—we are dependent on you.**
- ✔ **You are a key component of our company—not an outsider.**
- ✔ **You bring us wants, and it's our job to fill those wants.**
- ✔ **You deserve our courtesy, respect, and the most attentive treatment we can give.**
- ✔ **You make it possible to pay our salaries, whether we are truck drivers or managers.**
- ✔ **You are the lifeblood of our business.**
- ✔ **You are human, just like us, with the same feelings and emotions.**
- ✔ **You deserve to be listened to—not argued with.**

Some distributorships post their commitment to their customers as a reminder to employees and customers alike of why the distributorship is in business.

In this chapter, you have learned to anticipate customers' needs and exceed their expectations. The job of a DSS requires a take-charge attitude. It is not enough to merely respond to customers' requests. You must be proactive in giving customers more than they expect.

Quiz

Customer Service is Defined by the Customer

1. The most important thing a DSS can do to deliver SUPERB customer service is to

A. return phone calls promptly.
B. satisfy customer basic expectations.
C. understand the customer's business.
D. give the customer the benefit of the doubt.

2. All of the following are good ways to learn about a customer's business EXCEPT

A. Taking advantage of educational opportunities offered by your association
B. Reviewing information from your customers' associations
C. Reading industry trade magazines
D. Calling competitors and asking them questions

3. When serving industrial customers the most important consideration is to

A. provide next-day service.
B. keep production lines running.
C. offer the lowest price.
D. qualify for premiums from the vendor.

4. Contractors usually place a high value on all of the following EXCEPT

A. Technical services
B. Next-day delivery to a job site
C. Convenient pickup service
D. Availability of their favorite brand items

5. All of the following are likely to be important to industrial customers EXCEPT

A. Technical services
B. Goods delivered on schedule
C. Brand name products
D. Purchasing and billing services

CHAPTER 2

Quiz

Customer Service is Defined by the Customer

6. Products sold to be part of a larger assembly are known as

A. MRO.
B. DSS.
C. VMI.
D. OEM.

7. Today's customers can be more demanding for all of the following reasons EXCEPT

A. Customers can buy products from many sources.
B. Fewer products are available.
C. Many products can be obtained overnight.
D. Customers can purchase online.

8. Which of the following is the MOST costly for a customer?

A. Lower discounts
B. Mistakes
C. MRO products
D. Not getting phone calls returned

9. The MOST important reason for treating internal customers well is because they

A. are critical to superb customer service.
B. may be one of your bosses someday.
C. will act the same way toward you.
D. can positively impact your work environment.

10. When a mistake occurs, customers usually don't care about

A. honest mistakes.
B. the reasons for mistakes.
C. mistakes that are not your fault.
D. mistakes that only cost them time.

(Answers below)

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

CHAPTER 3

How to Handle Problem Customers

Dealing with irate customers is the real test of a DSS's professionalism.

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

1. **State the four critical principles for treating customers with care and respect.**
2. **Avoid the six phrases most likely to upset customers.**
3. **Demonstrate knowledge of the eight steps for handling upset customers.**
4. **Explain how avoiding mistakes improves customer service.**
5. **List 11 ways to become a customer service superstar.**

How to Handle

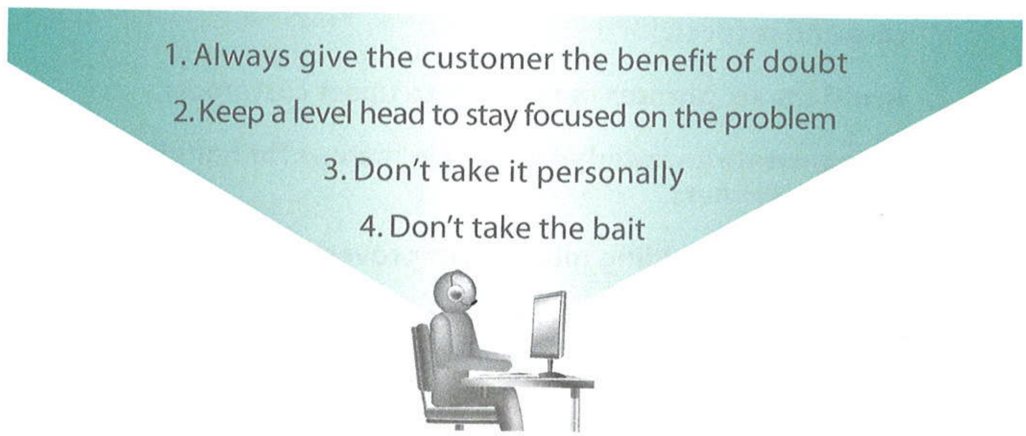
Problem Customers

Always give the customer the benefit of the doubt; when a customer complains about something, assume the complaint is valid.

Follow Four Principles to Treat Customers with Care and Respect

"The customer is always right." This is one of the most famous slogans in the business world. It is not literally true. Sometimes customers are wrong. Sometimes a problem arises because of their own mistakes, but they will blame others.

Nonetheless, to become a top-flight DSS, it is necessary to follow four critical principles in working out problems with customers:



1. **Always give the customer the benefit of the doubt**
   Even when evidence conclusively shows customers to be wrong, treat customers with the same respect and courtesy as if they were right. Keep the following rule in mind: Customers may not always be right, but it's always good to conduct your business as if they were. Adopt "the customer is always right" as a bedrock business principle. It sets the stage for turning unpleasant encounters into selling opportunities.

2. **Keep a level head to stay focused on the problem**
   Whether or not a customer's complaint is valid, it is crucial for the DSS to keep a level head at all times. You can never win an argument with a customer. That's because even if you "win" by proving you are right, the customer will lose face and likely react by taking the business elsewhere. So you and your company lose in the end.

The objective is not to prove who made the mistake, but to solve the problem. It's important to stay focused on this goal, even if the customer is heaping abuse on you.

Losing your temper can never be permitted under any circumstances, even if the customer is out of control. If there is verbal abuse, try to ignore it. Pretend you didn't hear it or that it is directed at someone else. Concentrate on solving the problem at hand.

It's not easy to be even-tempered with an unreasonable customer. You have human emotions like everyone else. You may be having a bad day at work or be troubled by personal issues. Then a customer takes something out on you that you had nothing to do with. Normal human behavior is to react indignantly and defend yourself—or even to lash back.

In these situations, a pride in professionalism must take over. The professional DSS cultivates the people skills needed to handle customers who are upset.

3. **Don't take it personally**
Realize that when customers are upset, it's most likely not with you. They are upset by the situation. So don't take it personally.

The customer may address the problem personally, saying something like: "You screwed up my order" or "You gave me the wrong information." The "you" may pertain to anyone in the company, however. It's just that in the customer's mind, you represent the company at that moment.

When you hear "You screwed up my order" or "You gave me the wrong information," the "you" may pertain to anyone in the company.

When this occurs, the first words out of your mouth are critically important. They may determine whether you are able to defuse the situation, or make it worse.

4. **Don't take the bait**
Sometimes when customers call, they are itching for a fight. A mistake may have cost them time and money, and they want to take revenge on the company they perceive as being the cause. Arguing or making excuses plays right into their hands. Before we examine the correct way to handle such a call, let's first review some responses that should be avoided because they are likely to make the customer even more upset.

Avoid the Six Phrases Most Likely to Upset Customers

1. **"It's not my fault"**
   Maybe you weren't at work when this particular problem originated. It doesn't matter. Remember, it's the company that the customer is mad at, and you represent the company. Someone in the company made the customer angry, and you are the only spokesperson available for now.

2. **"That's not my department"**
   It's the same as saying, "It's not my fault." From the customer's perspective, one department is the same as another. It's up to you to set the wheels in motion to find a solution to the customer's problem, and this may include getting other departments involved. That's something for you to pursue after the call ends. However, when the customer is on the line with you, you need to take charge of the situation.

3. **"That's against company policy"**
   This may, in fact, be the case, but the customer doesn't want to hear it.If a customer requests something that conflicts with company policy, say you'll have to check with someone higher up in management to gain approval. Then do so and call the customer back with an answer as soon as possible.

4. **"You'll have to...(call back later, talk to someone else, etc.)"**
   Customers don't HAVE to do anything. Avoid sounding like you are giving orders. Upon hearing this, customers are likely to exercise their freedom to do business with someone else.

5. **"Hang on for a moment"**
   Never abruptly put someone on hold. Say, "May I put you on hold for a short time?" If you think it will take more than a few seconds to return, offer to take a number and call back.

6. **"This is the first time anyone's ever complained about that"**
   This is a not-so-subtle way of putting the blame on the customer. You're saying the company is perfect and the problem doesn't exist. A customer with a problem doesn't want to hear that. Think of how well that will go over with someone who is having a problem.

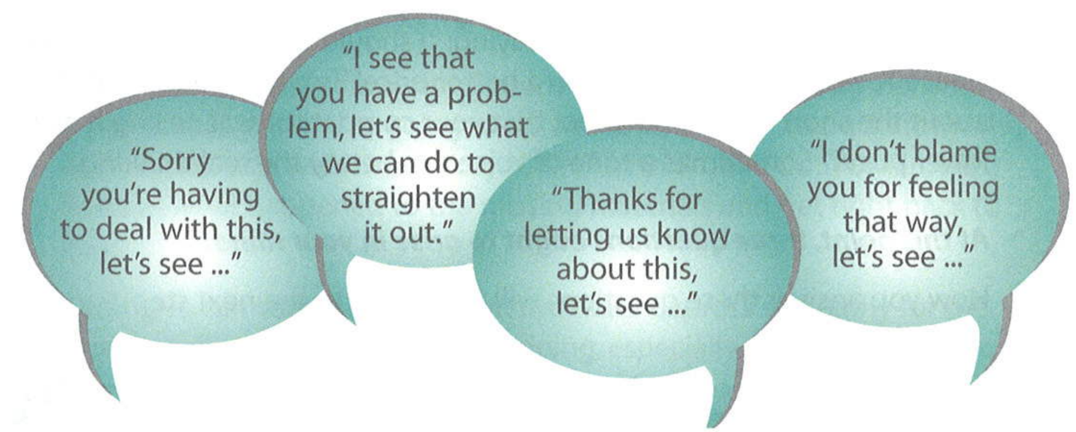
Practice the Eight Steps for Handling Upset Customers

When you field a call from an irate customer, you know that a problem exists. The problem may or may not have been caused by your company, but as long as the customer is unhappy, that's a problem for your company—and for you. Here are eight steps that will help you diffuse—and solve—the situation.

1. **Agree that a problem exists**
   After customers express their frustration, you should acknowledge the situation and agree that a problem exists.

When you field a call from an irate customer, you know that a problem exists.

Use expressions such as:



That's step one for handling an upset customer—agree that there is a problem.

2. **Let them vent**
   Agreeing that a problem exists usually helps calm an irate customer—but not always. Sometimes it is necessary to let the customer vent while you proceed to the next step.

   Listen without comment as the angry customer describes the nature of the problem. Take detailed notes. However, if the customer continues to complain, aggravation builds. When you think you've heard enough, restate the complaint in your own words and ask the customer to confirm that your understanding is correct. It is a good way to break in if the customer gets repetitive.

Continue to take detailed notes and be sure to gather all the facts before rendering any judgments or excuses.

Check for understanding by restating the customer complaint in your own words.

3. **Gather the facts**

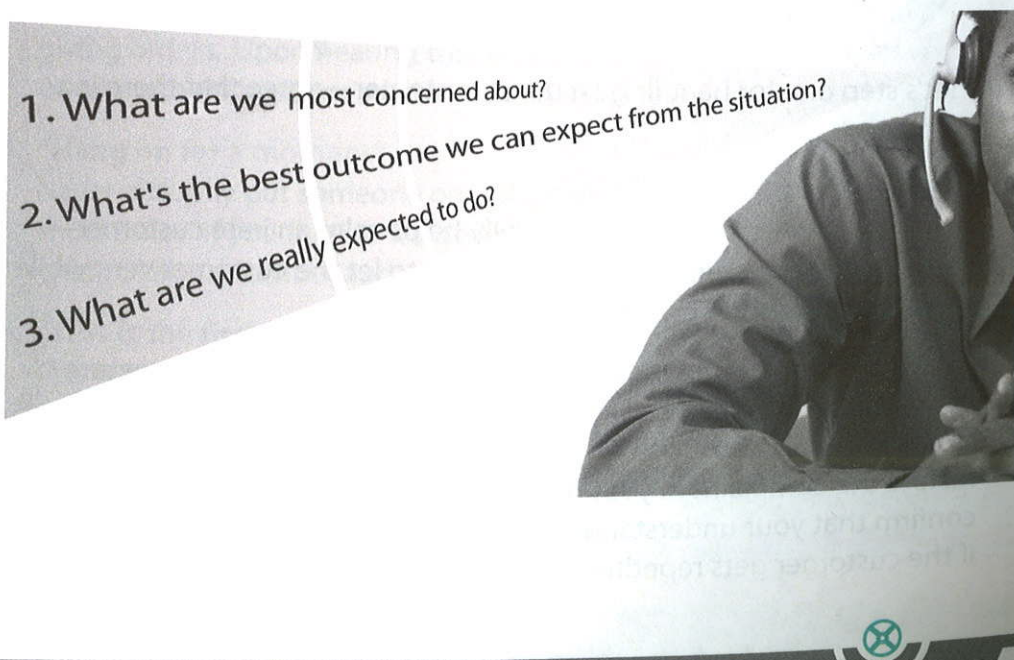
   Then it's time to go to the third step for handling upset customers—fact gathering.

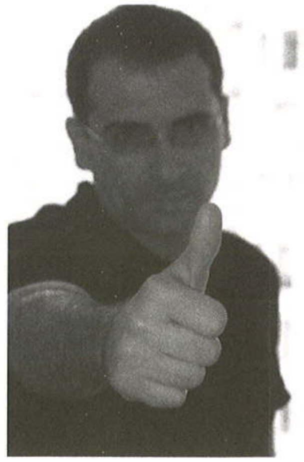
   It's very important to listen carefully to the customer's complaint. Ask questions to gather needed information and clarify anything you don't understand. Continue to take detailed notes. Stay calm and friendly. Your tone should be matter-of-fact, though sympathetic. Don't ignore the complaint—that will just make the customer angrier—but be sure to gather all the facts before rendering any judgments or excuses.

   A customer may complain about one thing while really being angry about something else. Careful listening can uncover these hidden agendas. For instance, a customer may be railing about the fact that an order was shipped incomplete by saying: "I should've bought it at Supply House X, where I could've gotten a better price!" Is this customer upset about the short order, or the fact that your competitor was selling it at a lower price? Sometimes a tone of voice can betray the real thinking.

   At this point, three questions ought to arise in your mind:

   How you answer these questions will guide you to the next step.





4. Suggest the next action

When you are confident you fully understand the customer's complaint and have answered the three questions just posed, it's time to go to step four—suggesting the next action to take. Notice, we do not say suggest a solution. In most cases a solution is not immediately apparent. You have heard the customer's point of view, but the original complaint may be that a delivery never arrived; yet further investigation might reveal that a foreman signed for the delivery and the goods are sitting on the customer's jobsite somewhere.

Several actions might be required before suggesting a solution.

In the previous example tracking down a missing delivery might entail first calling the manufacturer to make sure goods were shipped from the factory, then checking with your warehouse, then with the delivery truck driver and, finally, talking to the customer's foreman.

Whatever the case, you want to inform the disgruntled customer what it is you intend to do. "I'm going to do whatever it takes to track down this delivery, starting with the factory. DON'T WORRY, MR. CUSTOMER, we'll find out what happened to the missing materials and get right back to you."

Apologies can sometimes be effective here. Express sympathy for the situation. But do not admit wrongdoing, especially if you're uncertain your company did anything wrong. Instead, say something like:

"I'm sorry you're having this problem."

"I'm sorry it came to this."

"Someone certainly owes you an apology."

5. Secure the customer's agreement

The fifth step in the process is critical: Get the customer to agree that the next action you propose is satisfactory. If you adhere to the four previous steps for handling upset customers, the customer will usually agree.

But not always. The customer might say something like, "I don't have time for that. I need those items right away."

One technique that's often effective in dealing with these situations is asking the customer how they would like you to resolve the problem. You can simply say,"What would you like us to do?"

Many people in business are afraid to pose this question for fear the customer will ask for something unreasonable, such as a full refund or credit for the items ordered. That risk does exist, but asking the question does not commit you to providing everything the customer might want. Frequently, it disarms the complainer when you solicit advice on resolving the problem. Customers often ask for something very simple, such as an apology.

With the example mentioned above, the customer might suggest an immediate re-delivery from warehouse stock, or having the order ready for pickup at your company's counter. The original order would be returned to your warehouse if and when located. If your company has the goods in stock and you have the authority to approve such a request, this might be a good solution. If you need to check with superiors first, suggest that as the next step and secure the customer's agreement to let you do so.

Thank the customer for bringing the problem to your attention.

6. Thank the customer

The next step in the process is the simplest one of all. It is to thank the customer for bringing the problem to your attention.

Studies have shown that only 4% of disgruntled customers bother to complain to the offending business when something goes wrong. The rest suffer in silence. Of those who do not complain, almost two-thirds will switch suppliers without telling the original firm why.

For that reason, complainers can be a distributor's best friend. They alert you to the fact that a mistake was made and a customer is unhappy. Once alerted, you have a chance to correct the mistake and keep the customer.

If the customer simply leaves and never tells you why, odds are good that the same mistake will be made over and over.

Plus, you have no chance to salvage the customer's business.

"I'm sorry you had to go through this, Mr. Customer. Thank you for bringing it to our attention. I'll get back to you within an hour and see if we can fix this problem to your satisfaction."

7. **Follow through and follow up**
   This is probably the most important step. Do what you said you would do quickly and effectively. Solving customer complaints should be at the top of your priority list. Next is calling them back with promised information within the time frame you indicated.

   A good maxim to live by is "under-promise and over-deliver."

   If you tell someone a delivery will arrive within a week and it takes 10 days, your word is no good to that customer. If you tell that same customer something will arrive within two weeks and it gets there in 10 days, the customer is likely to think you went an extra mile to expedite the order. Same results, but in one case you're a villain; in the other, you're a hero.

   Avoid telling people what they want to hear just to make them feel good when you know it might be beyond your capabilities to deliver. This is one of the most common causes of customer complaints in the business world.

   Broken promises always come back to haunt you.

   Because of circumstances beyond your control, you sometimes fail to keep a promise. In these situations, it's important to notify the customer as soon as possible. Even better, come up with an alternative to satisfy the customer's needs:

   "I know I promised delivery within a week, Mr. Customer, but an unforeseen situation arose and it will be delayed. However, I have similar materials available that I could get to you by that date."

   Follow up also means contacting customers after the problem appears to be resolved to ensure satisfaction and clear up any lingering complaints. Say things like, "I'm going to make sure this never happens again." These "courtesy" calls go a long way toward building lasting relationships.

8. **Update and educate**

   Most people with customer service duties find dealing with disgruntled customers their least favorite part of the job. Yet there's another way to look at it.

   Dissatisfied customers offer some of the best opportunities to build lasting business relationships. One study of customer loyalty found that among customers who complain and receive a satisfactory response, 70% go on to become a company's most loyal customers.

   A problem represents an opportunity to establish long-term bonds. It enables you to talk at length to the person with the complaint, and to learn more about his or her business and personality. If you prove you can solve problems to their satisfaction, you can boost your esteem in customers' eyes much higher than if you merely sell things to them.

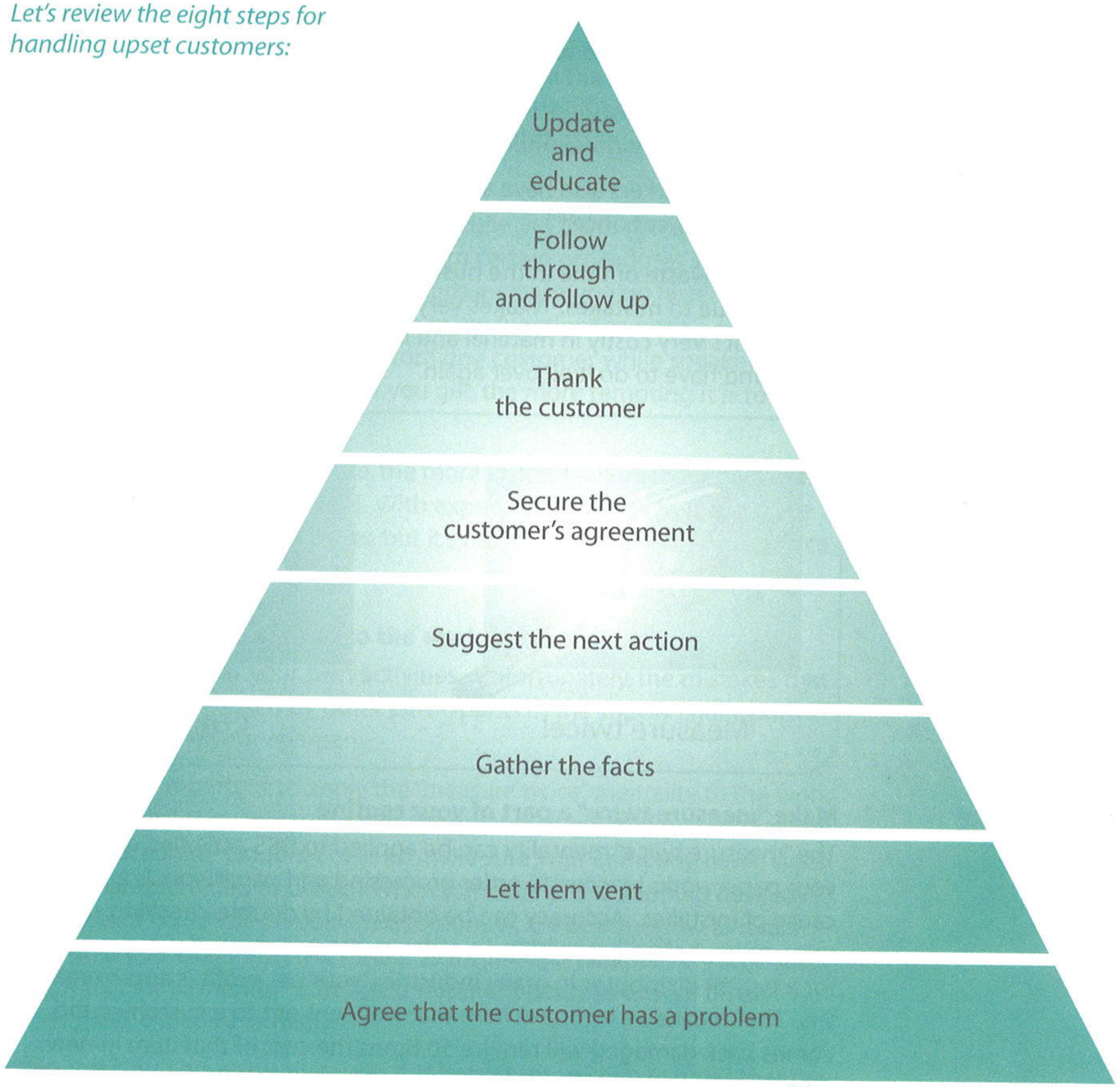
   Complaints also provide an excellent opportunity for us to update and improve our customer service system, as well as enhance our training activities.

   Complaints help us investigate and identify those procedures that need to be changed.

   They help us find products or identify features that we think are important, but which no longer meets the customer's needs. Finally, complaints provide us with important information on how to better align our training with customers' needs.

Problem-Solving Pyramid

Let's review the eight steps for handling upset customers:



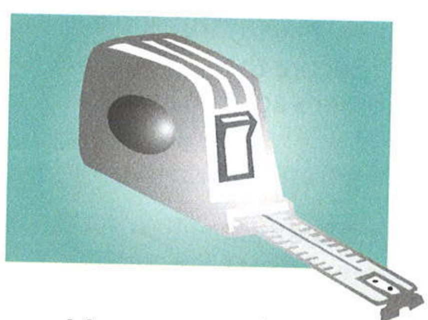
Prevent Mistakes to Reduce Complaints

You've probably heard the expression,"An ounce of prevention is worth a pound of cure." Applied to your job as a DSS, it means that:

The best way to handle customer complaints is to prevent them from happening in the first place.

Construction workers also have an expression worth keeping in mind: "Measure twice, cut once."

The biggest waste of time in the business world is rework and trouble-shooting due to mistakes. It takes very little extra time to measure twice. However, it's very costly in material and labor to cut something to the wrong length and have to do it all over again.



Measure twice!

Cut once!

Make "measure twice" a part of your routine

The "measure twice" mentality can be applied to DSS activities, especially to your paperwork. Inaccurate order processing and paperwork is a leading cause of mistakes. Accuracy can be obtained by double-checking, i.e. measuring twice, before processing an order, quote, or return. If you are working for a typical distributor in many industries, your net profit is approximately 2%. That means an incorrect item that was sent out to a customer and comes back damaged will require 50 times the cost of that item in new sales to replace the profit on that damaged item. More importantly, a poorly processed order that results in a customer's trade worker being idle can cost your customer $75 an hour—or more—in wasted labor expense! That kind of mistake will make anyone irate.

How to Handle

Problem Customers

When discussing an order or quote with customers, get in the habit of repeating all of the product descriptions, quantities, and prices. Make sure the customer verifies all the information before hanging up. Ask the customer to confirm the color and other variables that, in your experience, might have caused trouble in the past. Then double-check all the information you have entered in your computer or on your paperwork before submitting it. If you are hand writing an order, make sure your writing is legible. Finally, make sure the order is routed correctly.

If you are hand writing an order, make sure your writing is legible. Finally, make sure it is routed correctly.

All of these steps become routine after awhile, yet that's precisely the reason mistakes often are made. People perform certain procedures so often that it's easy to become careless. As workloads increase, you go faster and faster. You try to multi-task and perform too many functions at once—such as processing the details of an order from one customer while speaking to another on the phone. The busier you get, the more tempting it is to take such shortcuts.

And the more shortcuts you take, the more mistakes you are likely to make. Concentrate on the task at hand. With experience, you will become more productive by doing things faster, but it's never a good tradeoff to sacrifice accuracy for speed.

"Measure twice" also applies to the work of others

You have control over your own activities. Unfortunately, the mistakes that bite you often are caused by other participants in the supply chain, both inside and outside your company.

This is why it's important to apply the "measure twice" mentality to the work of others as well. Never assume that documents originated or approved by others are accurate. Double-check to make sure your company has in stock what you've committed to deliver. When someone at the shipping desk says an important order will be delivered tomorrow, check tomorrow to make sure it goes out. Don't trust the vendor to meet important delivery schedules. Make it a point to monitor scheduled shipment dates to ensure timely delivery and expedite as needed.

When thinking about the customer, it is important to keep in mind that the customer expects every step of the sales transaction—from the first inquiry until the invoice is paid—to go smoothly. Your customer doesn't—and shouldn't have to—care that all the people on the distribution team are doing their jobs.

Every member of the distribution team must recognize that the input to their part in the process comes from another team member.

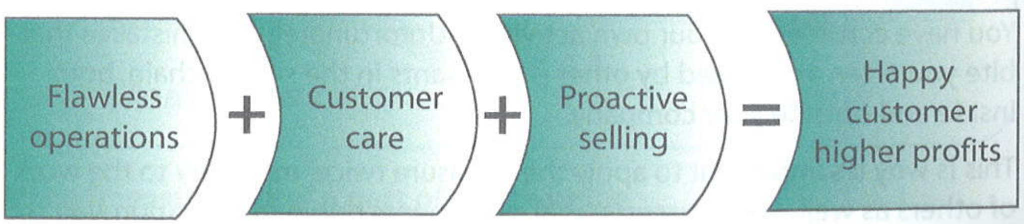
On the other hand, every member of the distribution team must recognize that the input to their part in the process comes from another team member and that the output of their job is the input of another team member further along in the process. Members of the team must be as committed to their fellow team members, their internal customer, and the accuracy of the total transaction as they are to the outside customer that pays all the bills. Without that commitment, the transaction can easily break down, leading to poor service and an unhappy customer.

Go the extra mile for customers. Measure twice to avoid cutting twice.

Customer service goes hand-in-hand with selling

Don't forget that DSS stands for Distribution SALES Specialist. The main function of a DSS is to make profitable sales for a distributor.

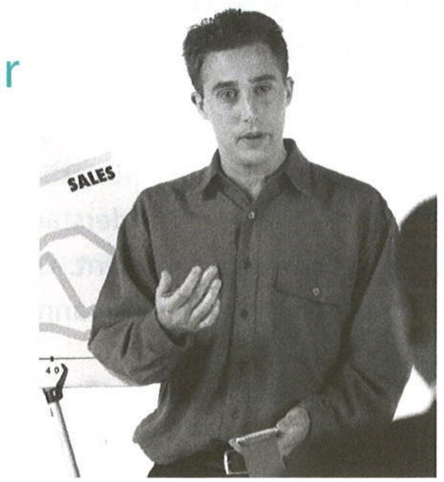
However, it's impossible to separate the sales function from the customer service role played by a DSS. One works hand-in-hand with the other. Distribution is not a business of fast-talking salespeople. You can be shy and soft-spoken, and still be a superb DSS. As long as you dedicate yourself to first-rate customer service, customers will go out of their way to buy from you.



How to Handle

Problem Customers

Eleven Ways to Become a Customer Service Superstar



1. **Respond in a timely manner to all requests**
   Put yourself in the customer's shoes. How do you feel when you request information from a company, but are kept waiting so long that by the time it finally arrives, you have forgotten why you wanted it?

2. **Make each customer feel appreciated**
   Be generous with "thank you" and "you're welcome." Thank them for their understanding if a mistake has been made. Always end a phone conversation on a good note. Be positive in your remarks.

3. **Follow up**
   Make sure that things get done in the manner and timeframe that you promised the customer.

4. **Up-sell and cross-sell at every opportunity**
   Inferior performers are hesitant to make a "sales pitch" to customers who call with inquiries or problems. The superior DSS understands that it would be a disservice to customers not to let them know of opportunities to purchase upgraded and ancillary products.

5. **Treat smaller customers the same as your big ones**
   Customers who give you a tiny amount of business may grow into bigger customers if you make them feel special.

6. **Always have a smile in your voice**
   If you smile when you talk to your customers—even over the phone—you'll sound like you're smiling. Some top customer service pros keep a mirror on their desks as a reminder to keep a cheerful expression when talking to customers.

7. **Treat your customers with respect—ALWAYS**
   This is not easy to do when they don't treat you with respect, but it's a sign of professionalism to rise above abusive people.

8. **Always be patient with customers**
   Make sure you understand what the problem is before attempting to resolve it or comment. Customers sometimes complain about one thing when they are really annoyed about something else.

9. **Make sure the customer is satisfied**
   At the end of the conversation, reiterate what you believe the problem to be and how you intend to correct it.

10. **Keep an open mind**
    Don't prejudge situations. Don't assume you know what will satisfy the customer until you hear it from the customer.

11. **Always be aware of what's happening within your company**
    We're all familiar with the expression,"The right hand doesn't know what the left is doing." Make sure that what you tell customers coincides with what others might be telling them.

In the chapters to come, you will learn in great detail how to become an effective salesperson in the DSS role. You'll examine customer requirements and expectations in more detail, as well as how to balance them against the need to generate profitable sales for your company. You'll also become familiar with ways to determine which sales are more profitable than others.

Quiz

How to Handle Problem Customers

1. The old saying "The customer is always right" means that

A. problems usually result from misunderstandings.
B. customers should be given the benefit of the doubt.
C. employees make more mistakes than customers do.
D. customers are never at fault in a business transaction.

2. As a Distributor Sales Specialist, you can never win an argument with a customer because

A. being "right" may cost you the business.
B. a customer is never wrong.
C. the customer "pays" your salary.
D. a customer doesn't want to lose face.

3. All of the following phrases are likely to upset a customer EXCEPT

A. "The problem originated in another department."
B. "I was absent from work when the mistake was made."
C. "It's against company policy."
D. "Let me see if I understand the problem."

4. When customers who have been satisfied in the past suddenly complain about something, you should

A. ignore their complaint.
B. gather facts and take notes.
C. tell them the problem is not your fault.
D. tell them to wait while you find out more about the situation.

5. Which of the following is NOT one of the eight steps to take in handling upset customers?

A. Follow up
B. Gather facts
C. Propose a solution
D. Suggest the next action

CHAPTER 3

Quiz

How to Handle Problem Customers

6. In which of the following situations should a Distributor Sales Specialist apologize to an angry customer?

A. Only when the company is wrong
B. Only if a customer gets abusive
C. To admit the company's wrongdoing
D. To express sympathy about the issue

7. The first step in handling an upset customer is to

A. acknowledge the company's mistake.
B. propose a solution.
C. correct the mistake.
D. agree that problem exists.

8. When you thank a customer for bringing a problem to your attention, it

A. gives you a chance to build lasting relationships.
B. helps you keep your job.
C. enables the customer to vent.
D. allows the customer to get abusive.

9. A firm's most loyal customers are likely to be those who

A. buy the most often.
B. are the most profitable ones.
C. have their problems solved.
D. pay the lowest prices.

10. Every member of the distribution team has a function; the main function of a Distributor Sales Specialist is to

A. assure that customers are happy.
B. make profitable sales for a distributor.
C. retrieve requested information promptly.
D. make no customer service mistakes.

(Answers below)

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

CHAPTER 4

What Makes a Sale Profitable

All customers are not created equal.

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

1. **Define a profitable sale.**
2. **Explain the connection between gross margin dollars and profitability.**
3. **Calculate the average overhead expense per order and explain its shortcomings.**
4. **Explain why average costs don't tell distributors when transactions are profitable.**
5. **Distinguish between traditional overhead cost accounting and activity-based costing (ABC).**
6. **List several activities that tend to increase or decrease profitability.**

What Makes a Sale Profitable

A joke that has been circulating around the distribution industry for a long time goes like this:

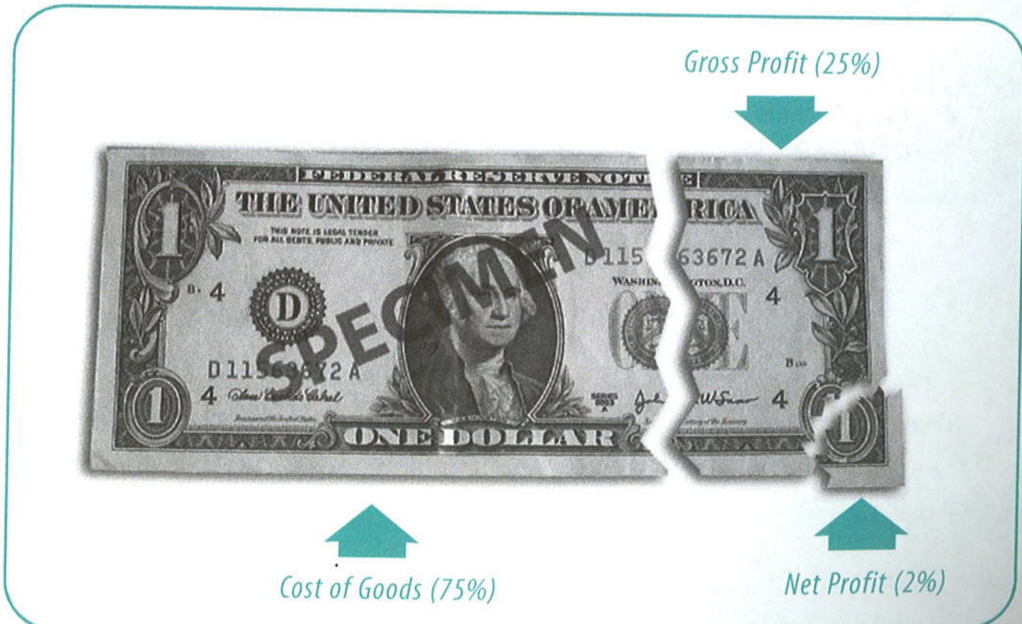
A distributor was complaining that he ends up losing money on every order he sells. "How do you stay in business?" someone asked. The distributor replied, "Well, I make it up in volume."

The best way for a distributor to increase profits is to make all sales profitable.

Profitable Sales Cover All Costs

The harsh truth is that many sales made by distributors are, in fact, unprofitable. It costs them more to make and service the sale than the dollars they bring in from the transaction. Most distributors are profitable overall, of course, or they wouldn't be able to stay in business. This means profits from some sales must be enough to cover the losses from other transactions. It also means that one of the best ways for a distributor to increase profits is to make all sales profitable. The DSS plays a major part in reaching that goal. In this chapter, we'll explain how to do that.

Wholesaler net profit margins are just a few cents on the dollar.



What Makes a Sale Profitable

A profitable sale is one that

A. **Covers the cost of the goods sold (COGS)**

B. **Covers the cost of operations needed to service the sale (also known as *overhead*)**

C. **Generates a net profit to keep the business going and provide a return to the owners who invested in the business**

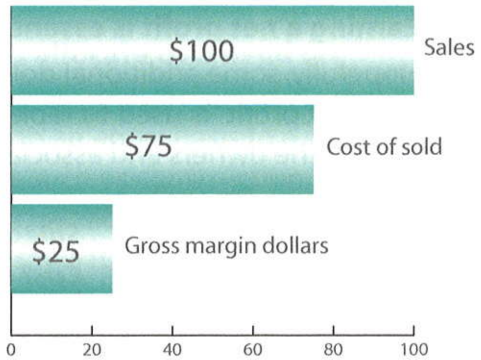
Gross Margin Dollars Must Support Overhead

By now you probably know how important gross margin dollars are to a distributor. Gross margin dollars are the difference between the price the distributor pays for goods and the amount for which they are sold. If a distributor pays $75 for an item and sells it for $100, the company earns $25 gross margin dollars:

	$100	***Sales***
–	***$ 75***	***COGS***
=	***$ 25***	***Gross Margin Dollars***

This transaction results in a 25% gross margin (gross profit as a percent of selling price):

	$ 25	***Gross Margin Dollars***
÷	***$100***	***Sales***
=	***25%***	***Gross Margin***



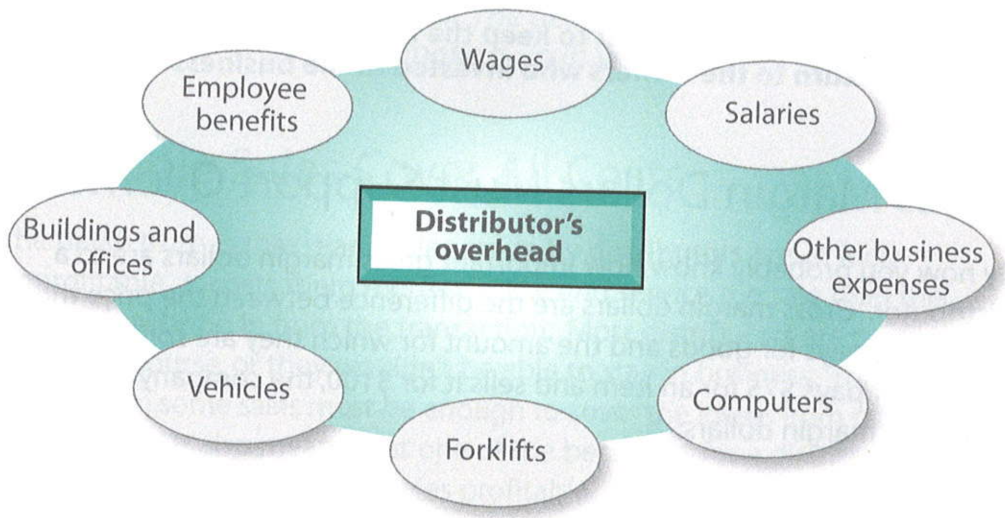
For a sale to be profitable, both the gross margin and the dollar size of the sale must be large enough for the gross margin dollars to exceed the expense of making and servicing the sale.

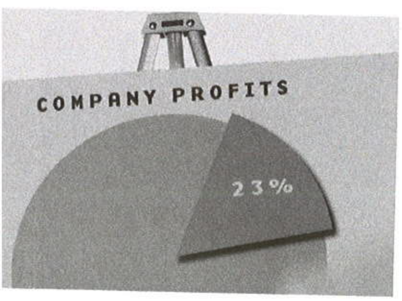
As an example, a $100 sale that generates $25 gross margin dollars but costs $35 to deliver loses at least $10.

CHAPTER 4

What Makes a Sale Profitable

Very few gross margin dollars go into a distributor's pocket. They must support all the costs of doing business, i.e., overhead. This includes wages and salaries, employee benefits, buildings and offices, vehicles, forklifts, computers, and everything else that is necessary to run the business.





Earning a net profit is essential for staying in business

Hopefully, some additional dollars remain after all the overhead is paid. This "net profit" is used to replace items needed to run the business, and to reward the owners and associates for investing in the company.

Sales
− ***Cost of Goods Sold + Overhead***
= ***Net Profit***

Any company that does not generate a net profit will eventually go out of business. This is important to understand. The general public and news media sometimes equate "profit" with greed. In reality, profits are needed to conduct business activities that create jobs, renew capital, and continuously boost our standard of living. Profits reward people for hard work and innovations that make for a better society. Profits also help fund our government through taxes, and enable businesses and individuals to make charitable contributions.

Profits are not simply desirable. They are essential for any business to keep operating and for our economy to stay healthy.

What Makes a Sale Profitable

Net profits are generated when gross margin dollars exceed overhead.

Almost all distributors keep track of their overall gross margin dollars. That is, a distributor that sells $10 million of goods with an average gross margin of 25% would generate $2.5 million in gross margin dollars. This would probably be enough to support overhead with a small portion remaining as net profit.

	$10 Million	***Sales***
x	***25%***	***Gross Margin***
=	***$2,500,000***	***Gross Margin Dollars***

In labor-intensive businesses such as construction, labor hours are the selected unit of measure. Such contractors add overhead costs to labor hours.

Distributors also should break down gross margin dollars and overhead expenses into smaller chunks. This allows them to gauge and manage the profitability of different types of sales transactions. It is important to note that different types of businesses use different methods to allocate expenses against sales. As an example, contractors often allocate overhead based on labor hours.

Contractors and labor intensive businesses allocate overhead on labor hours

Traditional cost accounting assigns overhead on an equal basis to a selected unit of measure. In labor-intensive businesses such as construction, labor hours are the selected unit of measure. Such contractors add overhead costs to labor hours. If overhead amounts to, say, $100,000 per worker per year and a worker puts in 2,000 hours of work in a year, the overhead burden would be $50 for every hour worked.

In other words, a worker's wages might be $20 an hour, but when benefits and other overhead are added, that worker actually costs the company $70 an hour. So, to cover all a contractor's costs, $70 in expenses for each man hour of labor must be calculated when estimating and bidding jobs. But the contractor needs to do better than merely breaking even on each job. As a result, an additional amount for net profit is likely to be built into the estimate. Clearly, a contractor must be very accurate in estimating the job. A contractor also must be very good at managing a workforce to complete the contract on schedule and make a profit. The term "time is money" is especially true in the contracting business.

Homeowners might see labor billed at rates of $65 an hour or more, and think the person doing the work is making all that money.

As you can see, the true cost of a trade worker is much higher than the amount paid in wages. That is a big reason contractors need wholesalers to provide the right product at the right time. Otherwise, trade workers might stand around waiting for work to do. An idle tradesman costs the contractor not only the wages paid to the worker, but the added overhead burden as well. In many markets, $75 or more per hour comes right off the contractor's bottom line. It doesn't take many idle hours to turn a profitable job into an unprofitable one.

This also explains the seemingly high hourly rates charged by home repair firms. Homeowners might see labor billed at rates of $65 an hour or more, and think the person doing the work is making all that money. Actually, the plumber, electrician, or HVAC technician is making far less than the amount charged. The rest is overhead allocation.

Some Wholesalers Use Average Overhead Expense Per Order

Wholesalers often average overhead expense based on their number of orders

For distributors, labor and benefits are also a significant cost. The productivity of their labor force can be measured in many ways. Distributors use measures like average sales per employee, gross margin per employee, net profit per employee, and several others. By regularly analyzing how certain functions are performing, distributors can develop strategies and policies to improve profitability.

However, when calculating a transaction's profitability, labor costs are often included in selling, warehousing, delivery, administration, and property expense. Those overhead expenses are often allocated based on the number of orders booked and related measures.

For instance, if a distributor has $5 million in sales spread over 10,000 orders, the average amount of sales per order is $500. If that distributor's overhead amounts to 20% of sales revenues, it would total $1 million. Thus, it would cost this distributor an average of $100 in overhead to fill each order.

The calculations would look like this:

	$5 Million	***Sales***
÷	***10,000***	***Orders***
=	***$ 500***	***Average Sales per Order***

	$5 Million	***Sales***
x	***20%***	***Overhead***
=	***$1 Million***	***Overhead***

	$1 Million	***Overhead***
÷	***10,000***	***Orders***
=	***$ 100***	***Average Overhead per Order***

Most distributors also break down the number of line items billed per order. This way, it is possible for a distributor to narrow down the overhead allocation by assigning it to each line item. Using our example above, if a distributor averages five line items per order, each would chew up $20 in overhead:

	10,000	***Orders***
x	***5***	***Line Items per Order***
=	***50,000***	***Line Items***

	$1 Million	***Overhead***
÷	***50,000***	***Line Items***
=	***$ 20***	***Overhead per Line Item***

Most distributors break down overhead by assigning it to each line item.

What Makes a Sale Profitable

Costs and activities involved in servicing individual sales transactions vary widely.

There is a shortcoming of this traditional way of allocating overhead. Expenses are averaged out without regard to the number of cost-generating activities actually involved in a particular transaction. Using our example (5 line items of $20 each = $100), on *average* it costs this distributor $100 to fill each order and $20 per line item. While averages are acceptable for general accounting purposes, they don't really help a distributor pinpoint how much it costs to make any given transaction.

Averages Don't Really Tell the DSS if a Transaction is Profitable

Traditional overhead accounting does not help the DSS to improve the profitability of a sales transaction.

Using averages suggests, for instance, that any sale yielding less than $100 in gross margin dollars would automatically lose money for this distributor. However, that's probably not true if you look more closely at the number and costs of services actually required for each individual sale.

For instance, it obviously costs a distributor more to deliver products to a customer than for that customer to pick up the order at the distributor's counter. Extra costs also accrue from visiting customers in the field as opposed to making contact by phone or e-mail. Accepting return goods also would mean additional expense. The traditional method of averaging overhead does not help the DSS improve the profitability of sales transactions.

ABC refers to ***A****ctivity-* ***B****ased* ***C****osting*

Tracking the Cost of Activities Can Help Improve Profitability

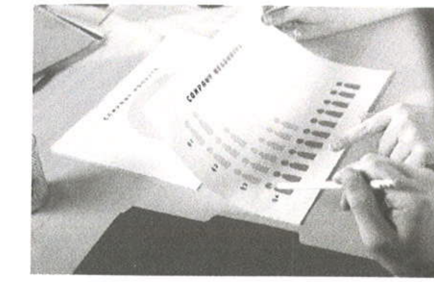
Accurately allocating costs per transaction can be done using activity-based costing (ABC). This is an advanced method of calculating overhead. ABC is based on the rationale that all distributor activities that add value for the customer use resources that cost money—labor, material, tools, equipment, office supplies, etc. By making sales that generate enough gross margin dollars to pay for such value-added activities, the DSS can improve the profitability of the sale.

What Makes a Sale Profitable

The objectives of activity-based costing (ABC) are to:

- **Define the number of measurable activities that go into making each transaction**
- **Pinpoint the overhead allocation for each measurable activity**
- **Use that information to help generate more profitable transactions**

ABC gives distributors a much more accurate assessment of profitability for many different types of transactions.



Define the number of measurable activities that go into making each transaction.

Define the measurable activities

To begin we need to define all the measurable activities that go into making a given sale. For our example, the activities involved in a typical distributor transaction might include:

1. **Making an outside sales call**
2. **Engaging inside sales (DSS) assistance**
3. **Processing the order**
4. **Handling warehouse materials including picking the materials, moving them within the warehouse, and then loading them onto a truck**
5. **Delivering them to the customer**
6. **Billing/accounts receivable**
7. **Carrying cost of inventory**

Transactions differ in the activities and costs involved

Some transactions might require more than the seven activities in the example above; some require less. Some orders are delivered to a customer directly from a vendor's factory, for instance. This would mean less overhead than goods shipped from a distributor's warehouse. A reduced cost factor also could be applied if a customer did not require a visit by an outside salesperson. On the other hand, if the customer returned some of the goods ordered, that would add cost.

A key point to keep in mind is that activities add value for the customer but costs for the distributor.

By being aware of an activity's costs, as well as the value delivered, we can do a better job of ensuring that we include these costs in a sales transaction.

Transaction Activity Can Enhance or Decrease Profitability

Here are a few activities that tend to either enhance or decrease profitability:

Enhance profitability

- Order picked up
- Order shipped direct from someone else
- Many line items per order
- Large sales volume
- Infrequent ordering
- Handled entirely by inside sales
- Invoices paid promptly
- Minimal phone calls to check on order
- Electronic ordering

Decrease profitability

- Order requires delivery
- Order stored in distributors' warehouse
- Few line items per order
- Small sales volume
- Frequent orders
- Requires outside sales visits
- Payments delayed
- Return goods

How to Pinpoint or Quantify the Overhead Allocation for each Activity

Let's take a look at how the cost of each activity can impact the profitability of a transaction.

Pinpoint or quantify the overhead allocation for each activity

Once the activities are defined, the ABC methods help determine how much each activity costs.

Let's examine a hypothetical sale for BLT Wholesale Distribution Company using the seven activities. The order is for $1,000 worth of materials in five line items. These goods cost BLT $750.

This leaves the distributor with $250 gross margin dollars on the sale.

	$1,000	***Sales***
–	***$ 750***	***COGS***
=	***$ 250***	***Gross Margin Dollars***

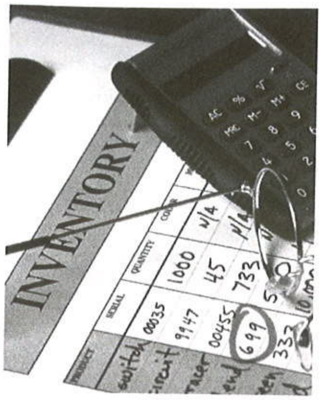
An analysis of the activities in this transaction might look something like this:

1. **Outside sales** expense would include the costs of a salesperson's salary, benefits and commissions, plus automobile, gasoline, entertainment, and other expenses. The total would then be divided by the number of sales calls made for a given time period. This includes calls that did not yield any sales. For our hypothetical transaction, let's assume the cost to be $115 per sales call. Various studies have shown this to be a realistic number, maybe even a little on the low side.

2. **Inside sales** assistance might include sending sales literature and handling a phone call or two from the customer inquiring about technical information, order status or anything else. Inside sales cost would include DSS compensation (including commissions) and office cost allocations, divided by the total number of orders generated by a distributor. For this order, we'll assign $11 of inside sales cost, which again is realistic. Since each item ordered has the potential to occupy inside sales time, it makes sense to further break down this allocation by line item. We assume this order contains five line items. So inside sales expense would be $2.20 per line item.

3. **Order processing** would include the labor and office expenses incurred by order entry, accounting, inventory, and other recordkeeping. A realistic cost to process a single $1,000 order would be around $2.00. This, too, typically is broken down by line item, which would equate to 40 cents each.

4. **Warehouse handling** expense includes all costs associated with storing, picking, and transporting the goods within the warehouse. This involves the cost of employees, material handling and other equipment, supplies, utilities, insurance, taxes, maintenance, etc. That total is then divided by the number of orders and line items. For this function, $10 ($2.00 per line item) would be a reasonable ballpark amount for a $1,000 order with five line items.



Inventory carrying costs typically amount to 25% to 30% of the merchandise value at the distributor's cost.

5. **Delivery service** tends to be fairly expensive for distributors. In addition to the wages and benefits paid to the driver, there are vehicle maintenance, insurance and depreciation charges, plus fuel costs to consider. A common way to assign delivery overhead is to calculate it per stop. A realistic distributor delivery cost would be in the range of $25.

6. **Billing** and processing an invoice adds between $1.00 and $2.00 to the typical order. Much of that expense is due to the time lag between billing and payment, measured in accounts receivable days. Distributor customers typically average more than 30 days to pay their bills. In the meantime, the distributor has money tied up in the goods purchased. These funds could otherwise be used to buy more goods or earn interest. We'll assign $2.00 for billing/accounts receivable to our sample order.

7. Finally, we need to factor in **inventory carrying cost**. We noted this typically amounts to 25% to 30% of the merchandise value at the distributor's cost, which in this case was $750. If we assume the material purchased by this customer turned (was purchased and depleted) an average of four times a year, the carrying costs would be figured on the basis of only one-third of the 12 months. If carrying costs for this distributor are 30%, then one-third of 30% = 10%. Then multiply .10 by $750 (COGS) to determine the inventory carrying cost value of this order ($75).

Now let's review how BLT Wholesale Distribution allocated costs against this transaction:

	$1,000	***Sales***
–	***$ 750***	***COGS***
=	***$ 250***	***Gross Margin Dollars***

However, you must then consider BLT's activity overhead outlined above:

	$ 115	***Outside Sales***
+	***$ 11***	***Inside Sales***
+	***$ 2***	***Order Processing***
+	***$ 10***	***Warehouse Expense***
+	***$ 25***	***Delivery Service***
+	***$ 2***	***Billing***
+	***$ 75***	***Inventory Carrying Cost***
=	***$ 240***	***Total Activity Costs (Overhead)***

This allows you to truly determine the net profit:

	$ 250	***Gross Margin Dollars***
–	***$ 240***	***Overhead***
=	***$ 10***	***Net Profit***

After subtracting the activity costs from the gross profit, we see that BLT Wholesale Distribution realized a $10 net profit on this $1,000 order. A profitable sale, but barely. It amounts to 1% net income, which is well below average for most distribution companies.

The DSS needs to understand how to take advantage of numerous ways to increase the profitability of a sales transaction.

Changing the activities in a transaction can enhance or reduce profit. Now, go back and take a second look at the list of activities that enhance or reduce profitability. You should be able to see how changing several of these activities can improve the bottom line on this transaction.

BLT Wholesale Distribution probably would lose money if this customer needed additional services, such as a troubleshooting visit in the field. Suppose the customer ordered too many items and decided to return a few for account credit. Or suppose someone at BLT Wholesale Distribution made a mistake in processing the order and some items had to be returned. Any of these events could tip the balance in the transaction, meaning the cost of service activity is higher than the revenue generated by the sale.

Some distributors have highly sophisticated programs for allocating costs against sales while others have very simple systems.

The key point is that the DSS needs to understand the role of gross margin dollars in profitability and the cost factors that enhance or reduce profitability.

Those who do are in a good position to take advantage of the numerous opportunities to protect or increase the profitability of their sales transactions.

In the next chapter we will examine some of those opportunities to enhance profitability and their impact on the distributor's bottom line.

Quiz

What Makes a Sale Profitable

1. A distributor that traditionally loses money on every order sold can earn a profit by increasing the

A. total volume.
B. number of sales calls.
C. gross margin.
D. number of customers.

2. Which of the following are likely to result in increased profits if gross margin stays the same?

A. Decreased volume
B. Increased inventory
C. Increased overhead
D. Improved volume

3. Many distributors use activity-based costing (ABC) because, unlike traditional cost accounting, ABC

A. estimates profitability for many different types of transactions.
B. uses averages to estimate costs.
C. averages overhead among many activities.
D. uses estimated average costs.

4. Which of the following is the primary reason for a distributor's unprofitable sales?

A. Cost of goods sold is too great
B. Inexperienced salespeople do not sell enough products
C. Gross margin dollars do not support overhead
D. Not enough sales volume

5. A profitable sale is one that covers all of the following EXCEPT

A. Covers the cost of goods sold
B. Generates more income than originally thought
C. Covers the cost of operations needed to service the sale
D. Generates a net profit

Quiz

What Makes a Sale Profitable

6. The term "gross margin" is defined as the

A. percentage of markup on a product.
B. dollar size of the sale divided by its cost of goods sold.
C. sale price of the transaction minus the cost of goods sold.
D. gross income divided by net sales, expressed as a percentage.

7. Unlike companies with low gross margins, companies with higher gross margins will have

A. more money to spend on business operations.
B. less money to spend on business operations.
C. higher cost of goods sold and higher cost of operations.
D. lower cost of goods sold and higher cost of operations.

8. If your company records $15 million in annual sales with a gross margin of 25%, what amount of gross margin dollars would it generate?

A. $600,000
B. $3.75 million
C. $11.25 million
D. $2.5 million

9. Some distributors average their overhead costs based on the

A. number of order transactions conducted.
B. average cost of employee benefits.
C. number of customers serviced by outside reps.
D. average total labor cost per year.

10. Among the activities that can enhance a distributor's profitability are

A. contractors who require outside sales visits.
B. sales done entirely through an inside sales rep.
C. frequent small orders by a customer.
D. customers who pay their invoices late.

CHAPTER 4

Quiz

What Makes a Sale Profitable

11. Assume a distributor has $5,000 in sales, $3,000 cost of goods sold, $500 in outside sales costs plus $1,000 in other overhead. What is the distributor's net profit?

A. $2,500
B. $2,000
C. $1,000
D. $500

12. The MAIN function of a Distributor Sales Specialist is to

A. apply activity-based costing to all sales.
B. make profitable sales for a distributor.
C. advise customers about how to save money.
D. avoid making mistakes when taking orders.

(Answers below)

Answers: 1-C; 2-D; 3-A; 4-C; 5-B; 6-D; 7-A; 8-B; 9-A; 10-B; 11-D; 12-B

CHAPTER 5

How to Increase the Profitability of Your Sales

There are numerous ways to increase the profitability of a given transaction.

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

1. **List several ways to turn an unprofitable sale into a profitable one.**
2. **Explain the importance of holding the line on price.**
3. **Describe eight strategies that decrease overhead.**
4. **Explain how mistakes kill profits.**
5. **List eight characteristics of unprofitable customers.**

How to Increase the Profitability of Your Sales

Remember what causes unprofitable sales?

Unprofitable sales are caused when customers require more services than they pay for in gross margin dollars.

The next question from a DSS perspective ought to be: "How can I help turn an unprofitable sale into a profitable one or turn a low-profit sale into a higher-profit one?"

To find out the answers, let's further analyze the order with BLT Wholesale Distribution Company. Note that "answers" is plural. That's because:

BLT Wholesale Distribution Company

	$1,000	***Sales***
–	***$ 750***	***COGS***
=	***$ 250***	***Gross Margin Dollars***
–	***$ 240***	***Activity Costs***
	$ 10	***Net Profit***

Numerous Ways Exist to Increase the Profitability of a Given Transaction

Adding line items at acceptable margins will increase gross margin dollars and the profitability of the sale

Increasing volume may help boost profitability in many cases. The key factor is to increase revenue without eroding gross margin.

Let's examine what would happen to this order if **BLT Wholesale Distribution's** $1,000 sale in the previous chapter was increased by one $300 line item, with gross margin remaining at 25%. The new arithmetic would be:

	$1300	***Sales Volume***
x	***25%***	***Gross Margin***
=	***$ 325***	***Gross Margin Dollars***

1. Outside sales expense would remain at $115 because no additional sales call was involved. Remember, outside sales calls are itemized based on the number of calls made, not per order or line items generated.
2. Inside sales expense tends to be allocated per line item, which we determined earlier to assign at $2.20 each. Since this order was increased from five line items to six, we must add $2.20 in inside sales expense for the additional line item.

3. Order processing expense would increase a little, as well. We assigned $2.00 to the original order of five line items, so let's add 40 cents to cover this added item.
4. Warehouse handling also would increase for a separate line item. We charged $10 for the original order of five lines items, so add another $2.00 for handling this extra line item.
5. Delivery costs typically are measured on a per-stop basis. Delivering six items instead of five would not require an extra stop. As a result, extra delivery cost would be negligible for adding one line item to the order.
6. As for billing/accounts receivable, let's add 40 cents, just as we did for the order processing activity.
7. Inventory carrying cost also would be charged per line item. The original order tallied $75 in carrying costs, or $15 per line item. So add $15 to cover the new item.

A quick review shows that when the BLT Wholesale Distribution's DSS sells an additional line item for $300, the additional activity costs are:

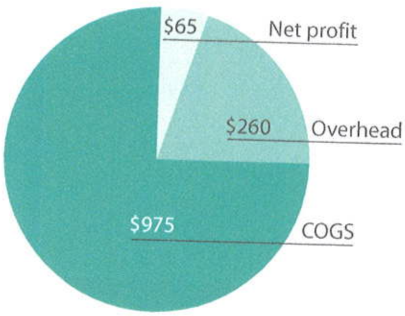
	$ 2.20	***Inside Sales***
+	***$ 0.40***	***Order Processing***
+	***$ 2.00***	***Warehouse Handling***
+	***$ 0.40***	***Billing/Accounts Receivable***
+	***$15.00***	***Inventory Carrying Cost***
=	***$20.00***	***Total Additional Overhead***

Remember, this order generated $325 gross profit dollars as opposed to $250 for the original order. That's $75 in additional gross profit. Subtracting the $20 in extra ABC expense leaves the distributor with $55 added to the bottom line for just this one line item, or a total of $65 net profit dollars for the entire $1,300 sale.

By spreading the larger one-time-per-order ABC expenses over more line items, the profitability of the sale usually improves.

Adding line items to a sale almost always results in higher gross margin dollars than additional expenses needed to service those extra line items.

New BLT Sale



$1300 Sales

	$1300	***Sales***
–	***$ 975***	***COGS***
=	***$ 325***	***Gross Margin Dollars***
–	***$ 260***	***Overhead***
=	***$ 65***	***Net Profit Dollars***

	$ 65	***Net Profit Dollars***
÷	***$1300***	***Sales***
=	***5%***	***Net Profit Percentage***

Adding that single $300 line item to this order has increased the net profit from 1% to 5%, which is above average in most distribution industries. By increasing sales by one $300 line item, or 30%, the DSS has increased the net profit on the transaction by 500%!

Adding a line item to a sale is one of the most effective profit-building activities that a DSS can perform.

Increasing gross margin has a huge impact on the bottom line

In setting up the BLT Wholesale Distribution example, we assumed gross margin of 25% on a $1,000 sale. This is about average in some distribution industries.

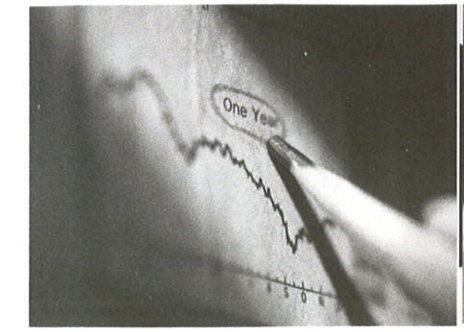
Suppose we changed that assumption. Let's leave all other cost factors the same. We're still dealing with BLT Wholesale Distribution's $1,000 sale on an order with five line items. The seven ABC activities remain the same. However, let's assume the DSS does some up selling and this order now provides an overall gross margin of 30% instead of 25%. Unlike selling an additional product, increasing margin does not result in added expense—with the possible exception of a commission the salesperson might earn on the extra margin dollars. Since commission practices vary widely, let's assume for the sake of simplicity that this added margin entailed no extra commission.

A 30%, rather than a 25%, gross margin would generate $300 gross margin dollars, rather than $250. With the overhead burden remaining at $240 for this order, the result is $60 net profit, rather than $10. So instead of a 1% net profit margin, the distributor realizes 6% net profit on this sale. That profit is considerably above average in most distribution industries.

By increasing gross margin by 5 percentage points, we increased net profit on the individual sale by 600%!

	30%	***New Gross Margin***
–	***25%***	***Original Gross Margin***
=	***5%***	***Gross Margin Improvement***

	$60	***New Net Profit***
÷	***$10***	***Original Net Profit***
=	***600%***	***Improved Profit Margin***



The DSS who thinks he or she "saved the sale" actually turned a bare-bones net profit of 1% into a 4% loss.

Holding the line on price protects gross margin dollars and net profits

Day after day, a DSS may get pressured by customers to lower the price on various items or on entire orders. Some distributors give their DSS personnel the authority to lower prices under certain conditions. It is hard to resist the temptation to give in when it seems necessary to salvage a sale.

Think of what it means to grant a customer request for an "extra five"—a common expression when asking for a 5% discount. This would mean, for example, that instead of charging the customer $1,000 for an order, the DSS lets it go for $950. The distributor's cost of goods didn't change. It remains $750. That means your gross margin dollars just shrank from $250 to $200.

All of the ABC cost activities defined earlier remain the same. They still add up to $240. Suddenly, an order that barely squeezed out a $10 profit becomes a losing sale. You're now $40 in the red. The DSS who thinks he/she "saved the sale" actually turned a bare-bones net profit of 1% into a 4% loss. An illustration of the effect of giving away an "extra five" follows on page 70.

Effect of giving away the "extra five"

	Original order	After a 5% discount
Selling Price	$1000	$ 950
Cost of Goods Sold	$ 750	$ 750
Gross Margin Dollars	$ 250	$ 200
Overhead	$ 240	$ 240
Net Profit	$ 10	(-$40)

"Aw, but it's only 5%!" That's the way a customer looks at a request for a price break. A professional DSS understands the profound damage that cutting prices will do to the company's bottom line.

Decreasing Overhead Can be a Key Strategy to Increase Profits

Now let's look at the situation from a different perspective. Assume you strike out at all attempts to increase the sales volume of the order, and gross margin is stuck at 25%. Still, there are chances left to boost the order's profitability.

✔ ***Eliminate Outside Sales Call***	✔ ***Improve Warehouse Operations***
✔ ***Increase DSS Efficiency***	✔ ***Request Counter Pickup***
✔ ***Process Order Electronically***	✔ ***Shorten Billing / Accounts Receivable***
✔ ***Reduce Paperwork***	✔ ***Reduce Inventory Carrying Cost***

Let's take a look at these items in a bit more detail.

CHAPTER 5

How to Increase

the Profitability of Your Sales

With every one of the seven activities measured in our BLT example on page 60, opportunities exist to increase profitability. For example:

1. **Eliminate the outside sales call**
   Does this customer really require a visit from an outside salesperson? An analysis of buying habits over time usually will provide an answer. If the customer is in the habit of placing $1,000 delivery orders that result in 1% net profit, it might be time to turn this into a DSS-only account. With the average price of a sales call averaging well over $100 for most distributors, outside salespeople cannot afford to waste time with routine order taking. As accounts mature, it often makes sense to transition order handling from outside to inside sales. Progressive distributors are redefining the role of the outside salesperson into that of a prospector and builder of new accounts, troubleshooter, and key account specialist.

2. **Increase inside sales (DSS) efficiency**
   An efficient DSS can trim inside sales expense. Instead of taking two phone calls from customers checking on technical information and order status, perhaps one would be sufficient if the DSS took time to ask, "Is there anything else I can help you with?" before hanging up. Studies of the distribution industry have shown that the single biggest factor in improved distributor profitability is increasing the number of line items per order. Although additional line items will be a little more expensive to process, the added gross margin dollars typically increase more dramatically. The DSS staff holds the key to boosting line item sales. All else being equal, the distributor with the best DSS staff will out-perform competitors.

3. **Process the order electronically**
   Many distributors are turning to EDI (Electronic Data Interchange), e-mail, and other forms of Web-based Internet tools to streamline order processing.

4. **Reduce paperwork**
   Even without EDI, order processing expense often can be reduced by a close analysis of paperwork flow. Does everyone who gets copied on an order really need to be copied? Can two forms be consolidated into one?

Inside sales expense can be trimmed by a DSS who operates efficiently. Instead of taking two phone calls from customers checking on technical information and order status, perhaps one would be sufficient.

5. **Improve warehouse operations**
Many opportunities exist for greater efficiencies in warehouse operations. Some distributors have turned to automated warehouse management systems that speed up operations and improve accuracy. Rather than paper order sheets, workers can use radio frequency electronic devices that direct them to the most efficient picking routes. The devices also have a bar code scanner that records items picked and automatically updates inventory. Even without automated systems, it's possible to shave warehouse expense through better organization.

6. **Request counter pickup**
A DSS sometimes can shave expense by asking customers to pick up goods at the supply house rather than waiting for delivery. Some distributors enact separate delivery charges to help cover this expense. This is a good practice where market conditions allow it. However, in markets where competing distributors offer free delivery, it's hard to buck that trend without losing business. (In reality, it's an illusion that delivery ever is free. If not billed separately, the cost is captured as overhead and built into selling prices.)

7. **Shorten billing/accounts receivable times**
The biggest savings opportunity here is to convince the customer to pay on time or early. Mindful of those inventory carrying costs, many distributors offer discounts of 1% to 2% on invoices paid within a short time, usually 10 days. Some technologically advanced distributors also save money with paperless billing systems using EDI or Internet-based networks with customers. When customers can access their invoices over a secure Website, calls to inside sales just to get a price off a recent order are reduced. That saves the DSS time—time that could be spent selling.

8. **Reduce carrying cost of inventory**
This cost can be entirely eliminated by arranging for certain orders to be delivered direct from a manufacturer, rep warehouse, or master distributor. This can be an effective way to maintain profitability on large orders with low margins.

Eliminate the Mistakes that Kill Profits

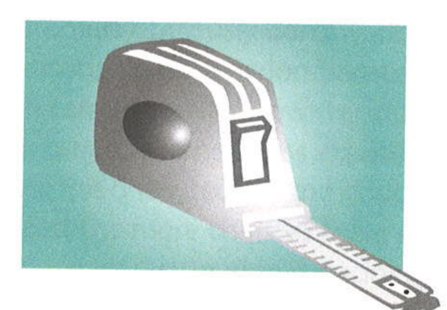
Let's not forget this message from Chapter 3. Mistakes are to profitability what a plane crash is to on-time arrival. Think of all those activity costs involved in reordering, repicking, and reshipping goods—often on an emergency basis. Then remember to add the cost of taking back the materials previously delivered by mistake. Think of how unproductive the DSS's time becomes when coordinating these activities, plus dealing with disappointed and angry customers. Shouldn't the DSS be spending more time selling and facilitating orders? Even the healthiest gross margins can be rendered unprofitable by the cost of activities needed to correct mistakes.

Think of how unproductive the DSS's time becomes when dealing with disappointed and angry customers.

Consider this stark reality: If a distributor is making 2% net profit on sales and the mistake wipes out that profit, it takes 50 times the cost of the mistake in new sales to pay for the mistake! Here's the math on a $20 mistake:

	$1000	***Original Sale***
x	***2%***	***Net Profit Margin***
=	***$ 20***	***Cost of Original Mistake***

	$20	***Cost of Original Mistake***
x	***50***	***New Sales***
=	***$1000***	***Original Sale***



Measure twice!

Cut once!

Remember, "Measure twice, and cut once."

Some customers are profitable—many are unprofitable

So far in this chapter, we have focused on understanding the factors that determine the profitability of an individual transaction. As a practical matter, it's unlikely that any distributor could make every transaction profitable. Unforeseen circumstances make it inevitable that an occasional sale will result in a loss.

The purpose of using ABC to assess individual transactions is to develop and study customer purchasing patterns. If a customer repeatedly makes purchases that are unprofitable for the distributor, it may be possible to change that purchasing behavior. Computers and specialized distribution software programs now enable distributors to apply ABC to every transaction, every line item, every customer, and every group of customers.

Using such data, some distributors have "fired" certain customers who cost more in direct expense to service than they contribute in gross profit dollars. That is, the distributors stop selling to these customers unless they change their buying habits. Other distributors simply refuse to make any price concessions or provide extra services until the problem customers just go elsewhere. These are management decisions and should not be taken lightly.

A better solution is to encourage unprofitable or low-profit customers to change the way they do business with you. Frequently, customer practices that lead to unprofitable sales for a distributor also cost the customer needless time and money. A DSS who can identify unprofitable orders is in a prime position to suggest better business practices that will be win-win for both the distributor and the customer.

Unprofitable Customers are Easily Identified

Even without detailed data, a sharp DSS shouldn't have much trouble identifying the least profitable—or even unprofitable—customers. In general, the least profitable customers will exhibit one or more of the following characteristics:

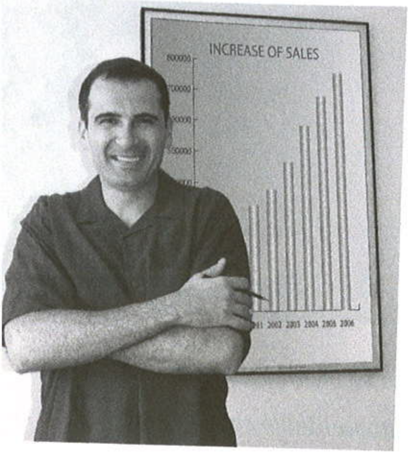
1. **Ordering too little, too often**
2. **Demanding too many sales or troubleshooting visits in relation to purchase volume**
3. **Demanding delivery of small orders or small margin orders**
4. **Tying up distributor personnel with excessive phone calls and requests**
5. **Habitually returning goods and/or canceling orders**
6. **Price shopping, cherry picking, and haggling over price**
7. **Constant complaining**
8. **Slow payment of invoices greater than 45 days**

A DSS who notices one or more of these patterns in customers has the responsibility of nudging them toward more profitable behavior. This situation should be discussed with management. As an example, let's take the first warning sign—ordering too little, too often.

A DSS who notices an unprofitable customer has the responsibility of nudging him/her toward more profitable behavior. This situation should be discussed with management.

Economic order quantity (EOQ) assessments can facilitate effective ordering

Customers obviously don't want to order more material than they can use in a reasonable time period because they, just like distributors, get penalized with carrying costs. However, many fail to realize that too many acquisitions also can lead to needless expense. It takes time to evaluate what's needed, to place the order, receive the goods and so on. Plus, the more separate orders placed, the more chances there are for mistakes to be made. Central to the business of distribution is deciding how many of which products to order and when. Most distributors follow inventory management guidelines known as economic order quantities (EOQ). These mathematical formulas are used to determine the quantity and purchasing frequency for any given product line.



It takes no special talent to generate a large amount of sales volume simply by cutting prices and giving in to every customer demand.

The formulas take into consideration factors such as historical usage, cost of the product, acquisition and ownership costs, turnover rates, and lead times.

EOQs advise distributors of ideal minimum and maximum stock quantities. Minimums pertain to the fewest number a distributor should have on hand to fulfill anticipated demand for a given product. When inventory reaches that level, EOQs signal that it's time to order more. The maximum guideline tells the distributor an optimal quantity to order. Its goal is ensuring that the distributor doesn't tie up money with more goods in stock than necessary.

MRO clientele, in particular, could benefit from an EOQ analysis. Many MRO customers are fearful of running out of items needed to avoid production shutdowns. As a result, they place frequent orders for a small amount of goods every time they use a few. In doing so, their acquisition costs go through the roof. An EOQ assessment could show them that it would be more economical for both of you if they would order, say, 20 items once a month rather than five items to be delivered each week.

Much money also can be saved if large-volume orders are shipped directly from a vendor's factory to the customer, rather than passing through a distributor's warehouse. Distributors frequently use this tactic to fill sales orders that are highly competitive and offer low gross margins. When you eliminate the costs of physical handling of the goods and delivery, some sales can be reasonably profitable for a distributor—even at single-digit gross margins.

Your primary job is to make profitable sales

You learned in Chapter 1 that the DSS's job entails myriad responsibilities. In Chapters 2 and 3, you learned a great deal about the customer service aspect of the job. In Chapters 4 and 5, you learned about the factors that determine profitable sales.

Something to keep in mind is that the single most important duty of a DSS is to make profitable sales for the distributor that employs you. It takes no special talent to generate a large amount of sales volume simply by cutting prices and giving in to every customer demand. To rise to the top of the field, a DSS must become an astute business person who can sell products that may be priced higher than the exact same products sold by competitors.

Beginning with the next chapter, we will turn our attention to the techniques of salesmanship that will enable you to generate profitable sales.

CHAPTER 6

Pricing Tactics

How much to charge at any given time is both an art and a science in the distribution business.

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

1. **Explain the flaws in competitive pricing.**
2. **Differentiate between fixed price, cost-plus, and list-less pricing.**
3. **Avoid confusing margin and markup.**
4. **Explain or define velocity, matrix, and unbundled pricing.**
5. **Avoid the "Stockholm Syndrome."**

CHAPTER 6

Pricing Tactics

In the last chapter, you learned that generating a profitable sale depends upon whether the gross profit for the transaction is sufficient to cover the costs of making that transaction—the cost of goods, overhead, and a reasonable profit. However, distributors do not have unlimited leeway to charge whatever is needed to cover their costs and then add some for profit. In the real world, competition and other factors restrict how much a distributor can charge for any given product at any given time.

In the real world, competition and other factors restrict how much a distributor can charge for any given product at any given time.

Pricing is one of the most critical skills needed in running a successful distribution business.

If selling prices are set too low, there won't be enough money to cover costs and earn a reasonable return on investment. At the same time, prices that are set higher than the market is willing to bear will result in lost sales. To be successful, distributors must develop a knack for maximizing gross margins by selling product at the highest possible price that the market will bear at any given time.

Pricing is both an art and a science. The scientific element refers to various mathematical formulas used by distributors to determine selling prices. Formulas, however, do not take into account all marketplace variables.

Many pricing decisions stem from the market knowledge of experienced distribution personnel. Reps are often an underutilized and overlooked source of competitive pricing information. Market-savvy inside salespeople are aware of their customers' bidding history and where else those customers might buy a particular product. They study their competitors until they know their tendencies and habits like they know their customers'. They consult with the customers' salespeople to get feedback. They keep an ear to the ground by developing relationships with manufacturers' reps. These factors comprise the art of pricing.

In this chapter, we'll examine various methods distributors use to determine selling prices.

Pricing Tactics

Competition weighs heavily on distributor pricing decisions

Distributors are gripped in a vise when it comes to pricing. One end of the vise is the cost of goods. Distributors obviously must sell their wares for more than they pay for them. The other vise grip is competition. Competitors' prices sometimes squeeze and compress the prices distributors can charge into a fairly narrow range.

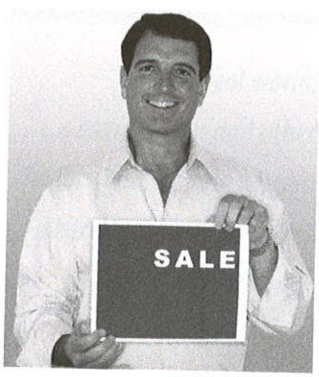
The size of the gap varies, depending on the type of product involved and marketplace conditions. Commodity products, which tend to be fairly simple items with little difference in performance characteristics, usually generate small profit margins—often single-digit percentages. This is based on the perception that one manufacturer's pipe fitting or fastener is just about as good as another's. When customers make this judgment, price becomes a major factor in where they will buy the commodity.

Brand name products, such as those involving complex machinery, are a different story. Customers tend to favor one brand over another based on past experience or reputation. They are not as price sensitive as commodities, mainly because there is less competition and more brand loyalty. Virtually all distributors in a given market will sell the same or comparable commodities, but brand names tend to have more selective distribution.

Although brand name products generally provide higher margins than commodities, competitive pricing may still be fierce—just at a higher level.

Pricing Tactics

Competition is a fact of life for distributors. Some distributors make it a policy to match the competition. These distributors constantly monitor what competitors are charging for the same or comparable products, and adjust their prices accordingly. Competitive pricing is the first of several methodologies we'll examine.



The distributor may identify a handful of highly competitive items and price them with little or no markup to attract customers whom they expect to buy additional goods at normal or enhanced price markups.

Competitive Pricing has Serious Flaws

One of the flaws in a strictly competitive view of pricing is that it is simply impossible to monitor all prices from all competitors. Distributors sell tens of thousands of SKUs, and there are usually many competitors in a given market. So, most distributors keep an eye on a few top-selling items and try to remain competitive on those products.

Often, a distributor may resort to a "loss leader" strategy on certain staples. The distributor may identify a handful of highly competitive items and price them with little or no markup to attract customers whom they expect to buy additional goods at normal or enhanced price markups.

The most serious drawback to competitive pricing is that it leads to the erosion of gross margins. Someone will always have the lowest price in town on any given item. Distributors who try to match or undercut the low-price provider will drive down market pricing for everyone by lowering customer expectations of what a given item "should" cost—i.e., its perceived value. This often leads to a vicious cycle of price cutting—a so-called "price war"—and all distributors end up suffering.

An even bigger problem results when a distributor sets prices based solely on what competitors charge. Let's not forget the lessons of the last few chapters. A distributor's selling price must cover the cost of goods, overhead, and a reasonable profit if a distributor is to survive. A distributor that is too intent on competitive pricing likely will end up boosting sales volume but destroying profitability.

The low price leaders are not always profitable

The distributor with the lowest price for any given product may be offering the lowest price for a number of reasons. The distributor may enjoy a buying advantage that results in a lower cost of goods sold, which can then be passed on to the customer. Or, the distributor may operate more efficiently, resulting in lower unit overhead than competing distributors. As noted, the low price may also be the result of a loss leader strategy.

Or, maybe the distributor just doesn't know what he/she is doing when setting prices. Unfortunately, the distribution industry is filled with examples of illogical pricing. Distributors frequently will find it wise to leave it to someone else to offer the lowest price in town.

Distributors typically charge different prices to different categories of customers.

Distributors Commonly Use Fixed Price, Cost Plus, and List-Less Pricing

Distributors have many pricing methodologies and customer segments

Distributor pricing is a complex subject, with entire books written about it. Complicating the situation even more, distributors typically charge different prices to different categories of customers. For example, professional trade customers commonly receive a better price than non-trade customers due to greater volume of purchases. Industrial clientele may have preferred pricing based on contractual agreements.

In general, the prices charged for products sold to most customer groups follow a certain methodology. Various terminologies have been used to describe different pricing methods. For the sake of simplicity, we'll take a close look at three of the most common pricing methods used by distributors:

Fixed pricing is the most commonly used method

As the name suggests, fixed pricing means setting a constant price for a given product and rigidly adhering to that price. Because of its simplicity, it is probably the most commonly used form of pricing among distributors. Many distributors rely on pricing committees made up of experienced sales and marketing personnel to periodically set fixed selling prices. Fixed pricing also applies to commercial job bids, where specific prices are quoted for items to be supplied to a project.

Fixed pricing is popular because it is simple to understand and administer. Essentially, it says "This is how much we charge for a given product, period."

A drawback to fixed pricing is that it reduces margins when costs go up. A product sold for $100 provides a 25% gross margin if the distributor paid only $75 for the item. But if the distributor's cost for that product goes up to $80 and it is still sold for $100, the sale only generates $20 in gross profit dollars and 20% gross margin.

Remember our formula for gross margin:

	$ 20	***Gross Margin Dollars***
÷	***$ 100***	***Selling Price***
=	***20%***	***Gross Margin***

If we are going to maintain our 25% gross margin, we need to mark up the price when our costs go up.

When you confuse margin with markup, you kill profits!

Distributor team members often confuse margin and markup

They are not the same! Anyone who confuses margin and markup is going to charge less mark-up than they need and kill their profit! If you want a gross margin of 25%, you have to mark up the item 33-1/3%—not 25%—above your cost.

Here's one way to get the new selling price:

	$ 80.00	***New Cost***
÷	***75%***	***(100% - 25% Desired Gross Margin)***
=	***$106.67***	***New Selling Price***

Here's the proof:

	$ 26.67	***Gross Margin Dollars ($106.67 - $80.00)***
÷	***$106.67***	***Selling Price***
=	***25%***	***Gross Margin***

Here is the easier way:

Use a GM Markup chart that indicates you should take a 33-1/3% markup to get a 25% gross margin. Then just multiply your cost by 1.333. **See chart on the right for a sample of a gross margin chart.** Some companies have computer programs that provide you with the right markup for an unlimited number of desired margins.

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*

For a distributor to maintain profitability with fixed prices, a system must be in place for consistent review and rapid adjustment of fixed prices.

Cost-plus pricing is logical, though flawed

Cost-plus pricing is a broad term that basically coincides with the activity-based costing methods discussed in Chapter 4. Cost-plus focuses on what it costs a distributor to fulfill a given order, with the "plus" representing profit margin. How much "plus" to add to a given price is largely a matter of gut instinct in assessing what the market will bear.

The cost of goods sold represents only the most visible cost to a distributor. Any reasonable cost-plus pricing system must also factor in overhead and the value a distributor adds to a transaction.

Pricing Tactics

Maintain a warehouse filled with a large inventory of products that are readily available when customers need them.

Here are three ways a distributor adds value to the products sold:

1. Maintain a warehouse filled with a large inventory of products that are readily available when customers need them. This facilitates one-stop-shopping for the customer and is known as a high fill rate. This is highly desired by many distributors' customers.
2. Hire and retain knowledgeable people who are adept at specifying the right product for the right application and solving customers' problems.
3. Provide customers with various services they need, including buying goods on credit, design and applications assistance, quotations for estimating purposes, delivery, and more.

As we learned in the last chapter, adding value for the customer adds costs for the distributor. The problem with cost-plus pricing is that, while it may provide a good measure of the costs of delivering goods and services, too often it fails to help justify the costs to the customer. Assessing customers' perceived value is an important DSS challenge that we'll deal with in the next chapter.

List-less pricing relies on third parties

Another fairly common method of distributor pricing is deemed "list-less." This depends on vendors providing and keeping up-to-date "list pricing" for products they sell. In some industries, third-party pricing services also perform this function.

List pricing sometimes is referred to as "manufacturer's suggested retail price." It's an amount based primarily on what the ultimate user of the product can be expected to pay. List prices are calculated on the basis of what distributors pay for cost of goods sold, plus an estimate of a reasonable markup.

List-less pricing appeals to the discount mind-set

In practice, list prices generally amount to a price ceiling. Manufacturers who publish list prices typically approximate the highest amount an end user is likely to pay. A high list price allows much room for discounting, and every customer likes to get a discount.

For instance, let's say a manufacturer puts a list price of $100 on a given product, allowing for 33% distributor markup. That means the distributor paid $75 for the product. Typically, that $75 distributor price would represent the highest price a distributor might pay for the product, based on a low-volume, less-than-truckload purchase.

The manufacturer setting the list price knows that most distributors pay less than $75 for the product because of high-volume purchasing. Let's say some of the best customers might pay only $60 per unit for the product.

If a distributor pays $60 for an item and sells it at the full list price of $100, that distributor would enjoy a gross margin of 40% and a markup of 66.7%.

	$ 60	***Cost***
x	***1.67%***	***Markup***
=	***$ 100***	***List Price***

The distributor would make $40 gross margin dollars:

	$ 100	***List Price***
–	***$ 60***	***Cost***
=	***$ 40***	***Distributor Gross Margin Dollars***

And a 40% gross margin:

	$ 40	***Gross Margin Dollars***
÷	***$ 100***	***Selling Price***
=	***40%***	***Distributor Gross Margin***

Or, the distributor could offer the customer an attractive discount as an inducement to buy. If the distributor follows "list-less" pricing of 10% off the manufacturer's list price, the distributor would sell the item for $90. That would still represent a hefty 50% markup ($60 x 1.5 = $90), generates $30 GMD, and 33.3% gross margin on the sale.

	$ 90	***Selling Price***
–	***$ 60***	***Cost***
=	***$ 30***	***Gross Margin Dollars (GMD)***

	$ 60	***Cost***
÷	***$ 90***	***Selling Price***
=	***33.3%***	***Gross Margin %***

The distributor could discount even more and still enjoy a reasonable gross margin.

Distributors use more than one pricing methodology

The down side of list pricing is that most vendors are inconsistent in maintaining list prices. Some do it, some don't. Many that offer list prices fail to update the prices in a timely manner. List prices also need to be maintained for different market segments, such as trade, industrial, and other types of customers.

Most distributors will employ more than one of these methods to manage pricing across their entire product offering. Some may also employ more complex methods, often referred to by terms such as velocity, matrix, or unbundled pricing.

Velocity, Matrix, and Unbundled Pricing Demand Sophisticated Accounting and Computer Systems

Velocity pricing is based on the premise that the fastest-moving products tend to be the most price-sensitive and demand deeper discounts. Items that move the fastest are often carried by several distributors in a given market. In addition, the prices charged are usually well known by the customers. Slower-moving, less price-sensitive products don't demand deep discounts and are perfect candidates for velocity pricing.

The fastest-moving products tend to be the most price-sensitive and demand deeper discounts.

Theoretically, every item in the warehouse could be assigned a velocity-based price, but the labor involved would be prohibitive. Also, different velocities apply to different customer segments, so velocity pricing is usually used only with the top-selling products. On the positive side, faster-moving items mean faster turnover and, therefore, lower carrying costs.

Matrix pricing is also complex, based on a matrix of customer characteristics, such as segment and size of customers. Distributors that employ velocity and matrix pricing need sophisticated accounting and computer systems to keep track of all the variables.

Unbundled pricing is based on the number of services a customer consumes

Unbundled pricing is another advanced form of pricing that is still in the experimental stage in most industries. It can be thought of as a form of activity-based pricing, except the cost of various activities does not get built ("bundled") into the price of a given product. Instead, it is itemized separately. Products are assigned a basic low markup, then ratcheted up in price depending on how many services a customer consumes. Do customers pay cash or are they extended credit? Is it a pickup or delivery? Each service used would add to the price.

The main attraction to the unbundled pricing concept is that it allows customers to decide exactly what services they need and are willing to pay for. A disadvantage is that it is terribly complicated to implement. A distributor must determine prices for various service elements, then account for them across different customer segments.

Also, unbundled pricing is a revolutionary concept in most industries, and meets considerable customer resistance. Customers who are used to getting "free" delivery from distributors, for instance, may well rebel against paying "extra" for the service.

The term "gouging" has virtually no meaning in the distribution industry.

Distributor prices are fair prices

Whatever methodology a distributor uses to select the selling price of a given product, a DSS should never feel guilty about the prices charged by an employer.

Some prices might entail extraordinarily high markups, but that is to compensate for low markups on other products or loss leaders sold at no profit or at a loss. The percentage range in overall gross margin between the highest-performing distributors in a given industry and the lowest performers seldom exceeds 15%. No matter how good they might be, the best distributors don't generate eye-popping gross and net margins. Competition simply won't allow it.

Don't Give in to the "Stockholm Syndrome"

Distributor sales personnel are sometimes swayed to give into pricing pressures from customers. A DSS who gets hammered daily with the message from customers that "your prices are too high," may begin to believe it. One prominent distribution industry consultant has labeled this the "Stockholm Syndrome," after a famous episode in 1973 when hostages from a bank robbery in Sweden began to identify emotionally with their captors rather than the police who were trying to free them.

Similarly, salespeople who deal with and befriend customers on a daily basis are susceptible to believing charges that their employers are charging "too much" for certain products. Customers might point out to them that other distributors are selling the items for substantially less. They might say they "know" the distributor paid rock-bottom prices for those goods and is unnecessarily inflating the selling prices.

A DSS who takes customer service seriously may well come to identify with these complaints. After all, it's your role to help customers. Cutting prices is a way to help them.

Or is it? A top-notch DSS must never forget the fundamental basics of distributor pricing across the board. Distributors invest considerable money in the infrastructure required to serve customers. They stock large amounts of inventory in a warehouse. They hire experienced people who know the products and their applications. They educate their customers. They deliver the goods and perform other valuable services. These services cost plenty of money. If a distributor can't cover its costs and earn a fair return on investment, that distributor won't be able to help anybody for very long.

In the next chapter, we'll take a look at pricing from another angle. We'll examine in more detail the factors than lead to customer price sensitivity, as well as situations when they are not so sensitive.

Quiz

Pricing Tactics

1. Price is MOST likely to be a major factor when customers are buying

A. commodity products.
B. special order items.
C. brand items.
D. products that are part of a cost-plus bid.

2. The MOST serious drawback to competitive pricing is that it

A. is based on just a few products.
B. reduces sales for all competitors.
C. tends to erode gross margins.
D. tends to raise cost of goods sold.

3. Which of the following is the most commonly used pricing method among distributors?

A. Velocity pricing
B. Unbundled pricing
C. Matrix pricing
D. Fixed pricing

4. One drawback to using the fixed pricing method is that it

A. requires complex calculations.
B. confuses margin with markup.
C. reduces margins when costs go up.
D. increases margins when costs go up.

5. The "plus" in cost-plus pricing stands for

A. activities cost.
B. profit margin.
C. extra value perceived by the customer.
D. cost of good sold.

CHAPTER 6

Quiz

Pricing Tactics

6. A distributor may add value to the products it sells by

A. storing unwanted goods in a warehouse.
B. hiring employees who will sell the highest priced goods.
C. reducing its operations costs to a bare minimum.
D. providing a variety of services to customers.

7. A big advantage for list-less pricing is that it provides

A. the fairest way to price items.
B. much room for discounting.
C. a way to calculate the total cost of goods sold.
E. a good measure of the cost of delivering goods and services.

8. A distributor buys a product for $75 and sells it for $100. The cost goes up to $80. What will the distributor have to sell it for to get the same gross margin?
FORMULA: NEW PRICE = NEW COST ÷ (100% - DESIRED GM)

A. $125
B. $110.11
C. $106.67
D. Can't tell from the information provided

9. What is the best reason NOT to use velocity pricing for every item in a warehouse?

A. The labor costs would be prohibitive.
B. Carrying costs are more likely to go up.
C. The average margin for all products gets reduced.
D. The faster moving items are not price sensitive.

10. Distributor Sales Specialists with "Stockholm Syndrome" are likely to

A. believe that they are charging too much for their products.
B. more thoroughly understand the basics of distributor pricing.
C. have a better grasp of the cost of value added services.
D. provide customers with higher priced goods.

(Answers below)

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

CHAPTER 7

How to Use Perceived Value and Price Sensitivity to Increase Profits

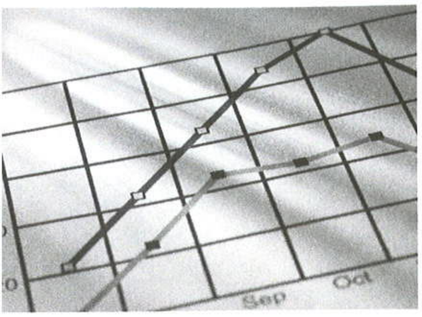
Perceived value has a lot to do with how much money a distributor can make.

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

1. **Explain the difference between cost and perceived value.**
2. **Identify 10 factors that influence customer price sensitivity.**
3. **Explain how distributors can add tangible value to the goods they sell.**
4. **Recognize opportunities to sell adds-ons and upgrades.**
5. **Explain the importance of adding line items to each order.**

CHAPTER 7

How to Use Perceived Value and Price Sensitivity to Increase Profits



A distributor's costs are the amount spent to acquire goods and produce services. Costs are defined in dollars and cents.

The price charged for products sold by a distributor needs to incorporate not only the cost of those goods, but also their value to the buyer in that marketplace. Ultimately, this value is expressed in dollars and cents, but getting there involves psychology as well as arithmetic.

Perceived Value Varies with Different Situations

Value is a buyer's perception of how much a product or service is worth.

Value is a buyer's perception of how much a product or service is worth. How value is perceived depends on the situation. A person dying of thirst in the desert might be willing to give up everything for a jug of water, yet would regard a sack of gold to be worthless.

Consider another example that is relevant to the distribution business. A manufacturer uses a high-pressure, abrasive process that quickly wears out a certain metal component of the production line. This component costs \$5 and tends to fail about once a month. Each time a failure occurs, the manufacturer must shut down the line and replace the component. It costs the manufacturer an average of \$1,000 every time the line must be shut down.

Suppose a DSS working for one of this manufacturer's distributors has heard about new components with a ceramic lining that should last at least six months under the same conditions. The ceramic-lined components sell for \$50 apiece—10 times as much as the conventional metal units.

However, instead of monthly shut downs to replace the metal components, the manufacturer can expect only two shutdowns a year with the new ceramic components.

Expressed in terms of cost, the ceramic components cost the manufacturer 10 times more per unit. Using two of the ceramic parts at \$50 apiece, rather than 12 metal components costing \$5 each, means \$40 a year more in material expense. This equates to an annual material cost increase of 67%. However, the cost associated with the production shutdowns would significantly drop. With only two shutdowns per year—compared to 12—the manufacturer would realize operational savings of \$10,000 annually.

Customers are less price sensitive in some situations than others

In the example just cited, two different perspectives come into play. The DSS is trying to sell a customer an item that costs 10 times more than the customer is used to paying for a similar product. Some customers might focus on this and object to paying so much more. In such a situation, a skilled DSS would move the focus of the conversation away from cost and toward the value of the ceramic component.

Although the material cost is $40 per year higher, the potential savings to the customer is almost $10,000 a year. Paying that extra $40 to achieve this savings is pretty smart, wouldn't you agree?

Here's how a DSS might present this to a customer.

Cost/savings comparison on metal vs. ceramic components

Metal Component	
Old metal component cost	*$5 per unit*
Units used per year	*12*
Annual cost of component	*$60*
Cost of 12 line shutdowns	*$12,000 ($1,000 x 12)*
Annual total cost to customer	*$12,060 ($12,000 + $60)*
Ceramic Component	
New ceramic component cost	*$50 per unit*
Units used per year	*2*
Annual cost of component	*$100*
Cost of 2 line shutdowns	*$2,000 ($1,000 x 2)*
Annual total cost to customer	*$2,100 ($2,000 + $100)*

Difference in total cost:

	$12,060	*Metal Component Cost*
-	*$ 2,100*	*Ceramic Component Cost*
=	*$ 9,960*	*Annual Savings*

A DSS must recognize when opportunity knocks.

By explaining to the customer how paying merely $40 extra for better material, the DSS helps the customer realize $9,960 a year in total savings. That's spectacular value.

A DSS must recognize when opportunity knocks

Let's pose another question: Could this DSS have sold the ceramic component for more than $50? Given that the customer stands to realize almost 20 times that amount in overall savings, the answer might well be yes. It would depend on a number of considerations. Knowing when you can charge higher prices is a matter of gauging customer price sensitivity.

10 Factors that Influence Customer Price Sensitivity

In Chapter 6 we discussed how competition puts restraints on the price that distributors can charge for any given item. The opposite holds true as well. Lack of competition usually enables distributors to increase prices and margins.

1. **Exclusivity for valuable products may permit premium prices**
   Distribution is a highly competitive business. Not only do competing distributors sell many of the same products, but those same products often can be obtained through other sales channels as well, such as retail stores, over the Internet, etc.

   Nonetheless, many distributors enjoy a degree of exclusivity on certain products. Sometimes this arises by an agreement with a vendor. More often, it stems from decisions by the distributor to take on products that competitors don't know about or have access to—or which they don't recognize as having good sales potential.

   Suppose the distributor in the previous example was the only one in that area stocking the ceramic components. In that case, the distributor probably could charge more than $50 apiece for the items. Let's assume the distributor raised the price to $100. The math still shows enormous annual savings for the customer:

New component cost	***$100 per unit***
Units used per year	***2***
Annual cost of component	***$200***
Cost of 2 line shutdowns	***$2,000 ($1,000 x 2)***
Annual total cost to customer	***$2,200 ($2,000 + $200)***
Difference in total annual cost between old metal component and ceramic component: $9,860 ($12,060 - $2,200)	

We could plug higher numbers, like $500 and $1,000, into these equations and still show substantial savings for the customer. However, it is likely that at some point the distributor would encounter psychological limits to perceived value.

Perceived value has self-imposed limits

Asking someone to pay $1,000 for a component that once cost $5 might lead to buyer resistance no matter how much savings can be demonstrated. The customer might be tempted to shop around and see what other distributors charge for the same component.

Distributors that did not carry the item might begin to investigate the product once they found out how much their competitor sold it for. They could discover its profit potential and start selling it as well. Competition would then force down local selling prices for the item.

For certain products, it can be worthwhile for a distributor to push the limits of pricing to see what the market might bear. It's simple to lower prices in an effort to spur more sales. It's harder to increase established prices once customers get used to paying a low amount. When a distributor has exclusivity on a certain product or line, it is one of the best opportunities to charge premium prices.

2. **New products offer a pricing "window of opportunity"**
   Product exclusivity is limited in many distribution industries. It's usually in the interest of manufacturers to sell popular products through as many distributors as possible.

Sometimes distributors form a committee composed of purchasing and sales personnel to determine which new products to take on.

One of the best opportunities for distributors to gain exclusive sales is when a new product comes out. For at least a brief time, a particular distributor might be the only one selling it. This is why many distributors constantly are on the lookout for new products to sell.

This doesn't mean it's a good idea to buy every new product that comes out. Distributors take a risk when they invest money in unproven products. Many products turn out to have unknown defects or lack customer appeal for a variety of reasons. There are probably more losers than winners with new products.

Purchasers frequently seek advice from inside and outside sales personnel on whether they should take a chance on a new product. Sometimes distributors form a committee composed of purchasing and sales personnel to determine which new products to take on. A DSS can become more valuable to the company by sharing knowledge of product features and benefits that will satisfy customers' needs and desires. A good DSS should be on the lookout for new products all the time.

When a new product turns out to be a hot seller, exclusivity typically lasts for only a short period of time. Competing distributors start to sell it as well. Then customers are able to shop around for better prices and, as a result, margins tend to shrink. Nonetheless, new products frequently offer distributors a way to expand selling prices and margins.

3. **Infrequently ordered products allow for higher margins**
Another factor impacting price sensitivity is customer familiarity with a product. Think of grocery shopping. Most consumers are familiar with the price of household staples such as bread and eggs because they often buy them. For that reason, staples usually are sold at low margins—often as loss leader items. Grocers make up the difference with higher margins on gourmet foodstuffs and less frequently purchased items.

The same logic applies to the distribution business. In general, the more frequently customers order a product, the more familiar they are with its typical price. When it comes to products they purchase only on rare occasions, they are not as cognizant of what kind of pricing is appropriate.

4. **Higher prices on unfamiliar products can imply premium value**
   Lack of familiarity also can be turned to your advantage in another way. For products that are unknown, higher prices can convey an impression of premium value.

   Think of shopping in a wine store and trying to choose between two bottles of wine you're not familiar with, but you are tempted to try. One bottle sells for $15, the other for $25. Most people would assume the $25 bottle is of higher quality.

   That's not always true. Even experienced wine drinkers find that some lower-priced varieties taste better than more expensive brands. Or they may feel the higher-priced wine is a bit better, but not enough to justify the price differential. However, if they are in the mood to experiment, they might opt for the higher-priced wine precisely because of its higher price.

Experienced wine drinkers may find that some lower-priced varieties taste better than more expensive brands.

5. **Unfamiliar brands and private labels invite unique pricing strategies**
   Distributors can benefit from this kind of buyer psychology. Sometimes they can earn higher margins selling unfamiliar brands that are positioned as premium products. Some distributors employ this strategy with privately labeled merchandise.

   Some distributors use private labels as a merchandising strategy to differentiate themselves from competitors. Private labels may bear the distributor's name or some other identity. In either case, they give a distributor an exclusive brand to sell.

   Frequently, private labels are used on goods produced by low-cost overseas manufacturers. This enables distributors to sell the goods at lower prices than competing brand name products, but at healthy margins. In other cases, a private label may be marketed as a premium-priced product that is superior to competing brands. This is where unfamiliarity and exclusivity can work to a distributor's advantage.

6. **Emergencies justify higher prices**
   Customers occasionally need an item on an emergency basis. In these situations, they are not inclined to shop around for the best price. If they call your company to locate the product, most likely they'll be willing to pay any price you quote, within reason.

It's hard to define precisely what "within reason" may mean. Distributors always have to weigh short-term profit opportunities against the value of long-term business relationships. Distributors certainly don't want loyal customers accusing them of gouging at a time of dire need.

It's important to keep in mind that supplying goods in an emergency adds cost for the distributor. It may require a special delivery to a job-site. The distributor might not have the product in stock and must obtain it elsewhere at a premium price. The DSS and warehouse personnel may have to interrupt their normal duties to fill the emergency order. Overtime pay for some employees may result. These extra costs may well justify a variable fee for after-hours service. Some distributors will waive the fee for their regular, more profitable customers.

These special efforts cost distributors money and disrupt normal operations. That's why they are justified to sell items at substantially higher prices or suspend normal discounts during emergencies and unusually high-demand periods.

7. **Special orders require higher margins**
   Closely related to emergency orders are situations in which a customer makes special demands on a distributor. Maybe it's to purchase a product not normally carried by the distributor, or to package the item in an unconventional way, or ship it to a location off the beaten path.

   As a general rule, it's good to accommodate special requests as a matter of customer service. But it's important to be sure that the profit margins of such sales are adequate to cover the extra burdens they place on the distributor.

8. **Six single cans sell for more than a six-pack**
   Another type of sale that requires higher margins occurs when a customer wants a smaller quantity of items that are normally sold bundled in a package or case. It's like a grocery store selling individual cans of beer or soda at a higher per-unit price than if they were sold as part of a six-pack. Breaking up a package or case results in extra labor and accounting costs. Plus, the case then becomes unsaleable except as individual units.

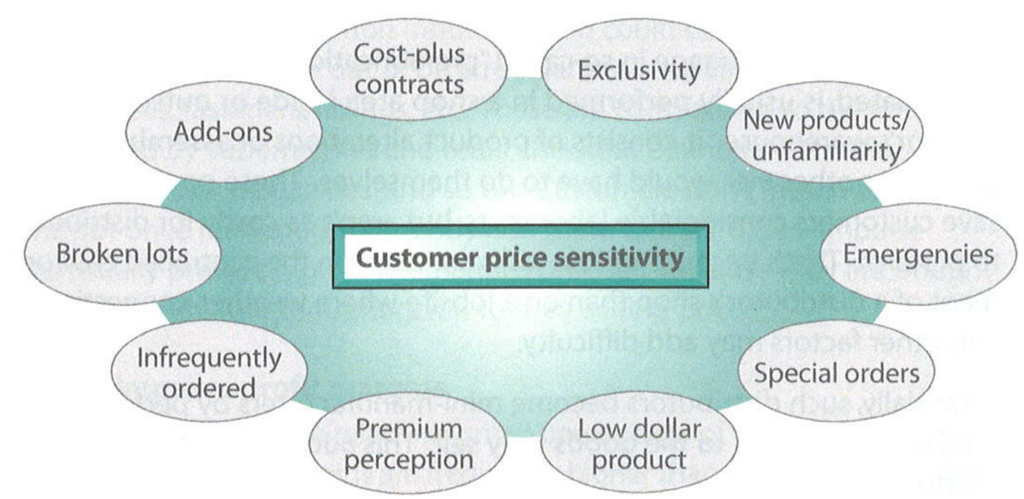
9. **Tiny price tags offer huge mark-up opportunities**
Small-ticket items that cost just a few dollars or less generally need to be sold with extraordinary markups. The labor involved in handling and keeping track of these items can add up to more than the cost of the products themselves.

If a distributor pays $1 for a small repair part, it makes more sense to sell it for $2 or $3 than at the normal markup range of $1.25 to $1.50. It's doubtful that any customer will run to another supply house to buy it just because the other distributor sells it for 50 cents less. Items with tiny price tags tend not to be price sensitive.

Items with tiny price tags tend not to be price sensitive.

10. **Cost-plus customers are not very price-sensitive**
Another good opportunity to boost gross margins comes in selling to customers that work on cost-plus contracts. As the term suggests, these arrangements usually require customers to submit material purchase receipts to their employers for reimbursement of expenses. The party paying the bills usually has some type of review process that questions extraordinary amounts, so we're not saying the sky is the limit in what you can charge. Yet customers working on a cost-plus basis usually won't be as price-sensitive as those whose profits are more directly related to expenses. These customers tend to be more concerned with product performance and reliability than cost. They are prime candidates for sales of premium-priced, high-performance products entailing high margins.

Factors That Decrease Customer Price Sensitivity:



Distributors Frequently Add Tangible Value to the Products They Sell

So far in this chapter we've addressed the idea of "perceived value." This is the value that exists in the minds of customers in relation to the various situations already discussed.

Yet value exists in more than just the mind. Distributors contribute real value to the products they handle. In previous chapters, we've discussed some of the intangible value inherent to the business of distribution. This includes factors such as a large warehouse stocked with comprehensive inventory, availability of credit, knowledgeable employees, and so on.

We call these "intangibles" because customers tend to take them for granted. Some view distributors as simply the "middle man" in the supply chain and overlook the value that distributors bring to the table.

Prefab and kitting are valuable services

Many distributors add tangible value to the products they sell through processes that physically alter the products or the way they are presented.

These added value processes include threading or beveling pipe, as well as welding or assembling components. They also may include the "kitting" of products, i.e., grouping a family of goods that are usually used together into one convenient package or kit. Items like boilers, oil tanks, and other items can be sold with accessory packages that simplify installation, carry a higher profit margin, and add gross margin dollars to the order.

Some distributors engage in so-called "prefabrication." Prefab, as it's often abbreviated, is usually performed in a shop area inside or outside a distributor's warehouse. It consists of product alterations or assemblies that customers otherwise would have to do themselves. These operations often save customers considerable labor costs, but aren't as costly for distributors to perform. That's because certain tasks are easier in the controlled environment of a distributor's shop than on a jobsite where weather, congestion, and other factors may add difficulty.

Essentially, such distributors become mini-manufacturers by performing finishing operations to the goods they sell. This adds obvious value to the products.

Prices for altered, assembled, or kitted goods must be correspondingly higher to cover the added costs to the distributor—along with the added value to the customer.

In most industries, only a handful of distributors in a given market perform such operations. Those that do typically earn high gross margins on these altered products.

Add-ons and Upgrades Can Improve Profits

How often have you heard the phrase "Do you want fries with that?" This is nothing more than the strategy adopted by the quick service restaurant industry of asking customers whether they want French fries with any order that does not include them. These businesses have found that many customers who may not have wanted fries originally will say, "Aw, alright," once they are prompted.

Distributors have similar opportunities to boost profit margins by selling add-ons to their customers. Sometimes customers simply forget to specify them, while others may believe they are already included. Customers placing phone orders frequently forget certain items that are part of the same family of goods or that are needed for certain kinds of projects.

For example, a remodeling customer might order a host of construction materials and tools from a distributor but overlook something like touch-up paint. A skilled DSS would remind the customer of this oversight.

The "fries" in many distribution industries also could be consumable items that customers often run out of on a regular basis—polishes, cleaners, putties, wipes, fasteners, fittings, etc. These are comparable to the impulse items placed by supermarket and retail checkout counters—chewing gum, batteries, popular magazines, and so on. Customers don't intend to buy them, but once reminded, frequently add them to their order. Impulse items usually provide high profit margins precisely because they are bought on impulse with little thought given to their selling price.

Add-ons improve profit margins

Add-ons typically entail a relatively small percentage of the total price of an order. Yet, their profit margins are frequently higher than the rest of the order.

That's because since the customer didn't think to ask for them in the first place, he or she probably is not inclined to do any comparison shopping. Impulse purchases are just that—impulsive reactions.

Upgrades go hand-in-hand with add-ons

A DSS can boost the company's income through upgrades as well as add-ons. The ceramic component example used to introduce this chapter is a perfect example of upgrade selling. A DSS should always keep in mind the best merchandise available in any product category.

When an order is placed for run-of-the-mill goods, it's simple for a DSS to ask the customer: "Are you aware that Product B performs better/lasts longer/looks more attractive...etc."

The more knowledge a DSS possesses of customers' businesses, the better able he or she will be to boost sales volume and margins through add-on and upgrade sales.

Gross Margin Dollars are the Key

So far, we've discussed ways to boost gross margin percentages for the sales made by a DSS. In the longer view, percentages aren't the most important thing to a distributor. A distributor pays bills with dollars, not percentages—making gross margin dollars more important.

Gross margin dollars are a function of sales volume as well as gross margin percentage. A distributor with a much larger sales volume will generate more gross margin dollars than a distributor with a higher gross margin percentage on much lower sales.

Example:

	$ 10 Million	***Total Sales***
x	***25%***	***Gross Margin***
=	***$2.5 Million***	***Gross Margin Dollars***

	$ 7 Million	***Total Sales***
x	***30%***	***Gross Margin***
=	***$2.1 Million***	***Gross Margin Dollars***

Add-ons make a big difference

A distribution industry consultant who studied the difference between profit leaders and median-profit companies in a variety of distribution industries came to an interesting conclusion. After examining all the data, he found gross margin percentages to be virtually the same between the high-profit and median-profit companies. The most striking difference between the high-profit and median-profit companies boiled down to two areas:

- **More line items per order**
- **Larger dollar amount per order**

So what does this tell us? Two companies might have the same dollar volume, the same gross margin, and the same gross margin dollars but the higher profit company would have generated that volume and those gross margin dollars with fewer, larger orders to serve and process. When adding line items to orders by selling proactively, a DSS builds overall sales volume and generate **more gross margin dollars per order**.

Distributors also gain efficiencies by selling larger orders. Selling more goods in the same transaction reduces paperwork, warehouse activity, delivery trips, and so on. Add-on sales not only create more gross margin dollars, they reduce overhead as a percentage of sales. That's why increasing order size can be even more important than increasing gross margin. With today's computer systems, it is relatively easy to consistently be aware of each customer's average order size and profitability. With this information at hand, the DSS is better positioned to avoid further discounts on orders that are not profitable.

As a DSS, you are in the forefront of this effort to increase order size.

Adding items to each customer order is one of the most important things a DSS can do to increase your value to the distributor's organization.

A DSS is obligated to follow the pricing policies and procedures of the employer.

A DSS must adhere to company policies

Sales policies vary with every distributor. Some allow sales personnel quite a bit of leeway to adjust prices on the spot, while others keep them on a tighter rein. A DSS is, of course, obligated to follow the pricing policies and procedures of the employer.

If you are granted considerable leeway to adjust selling prices, lock into memory all of the factors discussed in this chapter that lead to customers becoming less price-sensitive. The more experience you gain, the better able you will be to detect when one or more of these factors come into play. This will help both you and your company prosper.

In the next chapter, we will tackle some basic selling skills that apply to all sales personnel.

Quiz

How to Use Perceived Value and Price Sensitivity to Increase Profits

1. How customers perceive the value of a product or service depends mostly on

A. the price.
B. how much they feel it's worth.
C. the gross margin earned by the distributor.
D. a lot arithmetic and very little psychology.

2. Which of the following is TRUE about selling upgraded products?

A. Customers are usually more price sensitive for upgraded products.
B. Customers are usually less price sensitive for upgraded products.
C. Being the exclusive source for an upgraded product is not an advantage for the distributor.
D. Customers seldom want upgraded or exclusive items.

3. Of the following items, which would tend to have the LOWEST customer price sensitivity?

A. Items that are optional to keeping production lines running
B. Items that are ordered every few days
C. Commodity items with several suppliers
D. Items purchased as part of a cost-plus contact

4. Cans of beverages priced individually cost more than cans priced as part of a six-pack because

A. the seller incurs extra costs.
B. customers purchase more single cans.
C. the seller incurs fewer costs.
D. shipping single cans is more expensive.

5. A distributor can boost gross margins when selling to customers who are using the product in a cost-plus contract because the customers are

A. more price-sensitive than most.
B. about as price-sensitive as most.
C. less price-sensitive than most.
D. not influenced by the price.

Quiz

How to Use Perceived Value and Price Sensitivity to Increase Profits

6. A distributor that sells add-ons to its customer improves profit margins because

A. the goods are stocked in the warehouse.
B. they are always big-ticket items.
C. there is no comparison shopping.
D. the goods have a higher perceived value.

7. Private labels are established by distributors for all of the following reasons EXCEPT

A. To achieve larger market share
B. To create brand loyalty
C. To generate higher margins
D. To easily accommodate special requests

8. The BEST way for a distributor to increase its profits is to increase the number of

A. add-on items.
B. total sales.
C. special orders.
D. private labels.

9. According to the course, which of the following is the key to a distributor's financial success?

A. Sales volume
B. Gross margin dollars
C. Gross margin percentage
D. Emergency orders

10. Which one of the following factors will limit how long a distributor can charge premium prices for a new product?

A. Other new products are developed.
B. Private labels will mimic the new product.
C. Buyers will resist paying higher prices over time.
D. Competing distributors will start to sell it as well.

Quiz

How to Use Perceived Value and Price Sensitivity to Increase Profits

11. Which of the following situations offers the BEST opportunity for a distributor to increase gross margin?

A. Gaining exclusive sales for a new product
B. Selling familiar brands
C. Providing products on a routine basis
D. Keeping the price down on small-ticket items

(Answers below)

Answers: 1-B; 2-B; 3-D; 4-A; 5-C; 6-C; 7-D; 8-A; 9-B; 10-D; 11-A

GLOSSARY

Common Wholesale-Distribution Terms

"A" — "B" — "C" — "D" —

Letters assigned to classify inventory items based on their popularity, i.e., fastest moving goods are "A," next fastest "B," etc.

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.

Acquisition Cost —

Amount of money spent on advertising/ promotion to acquire a new customer.

Activity-based costing (ABC) —

A costing system that identifies the various activities in a firm and uses multiple cost drivers (non-volume as well as the volume based cost drivers) to assign overhead costs (or indirect costs) to products. ABC recognizes the casual relationship of cost drivers with activities.

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.

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. *Also see* Home Improvement Center; Mass Merchandiser.

Bin Box —

Small box used to organize small parts on a distributor's shelves.

Blister Pack —

Hard plastic see-though wrapping for small parts, usually affixed to a cardboard backing card.

GLOSSARY

Common Wholesale-Distribution Terms

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.

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 —

When expenses match revenue.

Broker —

An agent who, for a commission, negotiates a transaction between a buyer and a seller of goods but does not take possession of, or title to, the goods.

Buying Group —

Organization of wholesaler-distributors (or some other category of businesses) that band together for joint purchasing in order to obtain greater volume discounts.

Carrying Costs —

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

Central Distribution —

Practice of maintaining a large wholesale-distribution warehouse to store large quantities of merchandise, which get broken into smaller lots for shipment to branches.

Channel of Distribution —

See Distribution channel.

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

Cold Calling —

Unsolicited selling to unfamiliar persons: the practice of trying to sell things by telephoning or personally calling on people who are not known to the seller.

GLOSSARY

Common Wholesale-Distribution Terms

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.

Co-op —

Organization of similar businesses or dealers to fund a source of supply.

Co-op Dollars/Funds —

Funds made available for joint advertising/promotion efforts between vendors and distributors.

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.

Cost-plus Pricing —

A method of determining the price of a product or service that uses direct costs, indirect costs, and fixed costs whether related to the production and sale of the product or service or not. These costs are converted to per unit costs for the product and then a predetermined percentage of these costs is added to provide a profit margin. The resulting price is cost per unit plus the percentage markup.

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

CSR —

Customer service representative.

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.

Cut Sheet —

Material specifications, such as size, capacity, and ratings, that describe the characteristics of a manufacturer's products. Cut sheets are used in bidding.

Dating/Dating Terms —

Agreement between a vendor and distributor or distributor and its customer to extend a payment period.

"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.

Direct Selling —

Circumventing the normal chain of distribution by cutting out one or more parties in the chain, usually pertaining to a manufacturer selling directly to a wholesaler's customers. *Also see* DTU (direct to user).

Distribution —

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

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.

Distributor Sales Specialist (DSS) —

An inside sales person who works cooperatively with outside sales and other members of the distribution team to grow existing customers, creates new customers, and meets or exceeds monthly sales quotas at the appropriate gross margin while increasing customer satisfaction.

DIY —

Do-it-yourself. Refers to a consumer who tries to bypass hiring a contractor or to a retailer who sells to such a consumer.

"Dogs" —

Nickname given to slow-moving inventory items.

GLOSSARY

Common Wholesale-Distribution Terms

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.

Dumping —

Selling merchandise at prices below prevailing market rates, usually used to describe foreign manufacturers selling at less than production cost in order to subsidize a local industry and/or company.

E-commerce (Electronic Commerce) —

Sales transactions taking place electronically via computers, especially over the Internet.

Economic Order Quantity (EOQ) —

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

EDI —

Electronic Data Interchange.

80/20 Rule —

See Pareto's Law.

Electronic Data Interchange (EDI) —

Sales transactions and recordkeeping accomplished between buyers and sellers electronically.

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.

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.

Fill Rate —

The percentage of orders or line items filled completely.

Fixed Pricing —

A method of determining the price of a product that means there is no bargaining allowed over the price of a good or, less commonly, a service.

Functional Discount —

Discount provided for performance of specific functions, often used to describe the discount passed on to members of a buying group.

Gatekeeper —

A person or group that controls access to somebody or something.

GMROI —

Gross Margin Return on Investment, a key financial measurement for wholesaler-distributors.

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 markup 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.

Home Improvement Center —

Retail business specializing in various building products. Large home improvement centers are often called "big boxes". *Also see* Mass Merchandisers.

HVAC/R —

Heating-Ventilating-Air Conditioning-Refrigerating.

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.

Inside Salesperson —

Salesperson who remains in the sales facility and generally sells over the phone.

Internal Customer —

Anyone in the organization—a coworker, 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.

Inventory Turns —

Number of times inventory gets sold and reordered ("turned over") in the course of a year. Sometimes called "Turns."

Invoice —

Bill of sale.

JIT —

Just-in-Time. *See* Just-in-Time Delivery.

Jobber —

Old term for a wholesaler, pertaining to the wholesaler's function in coming up with material quotes for customers' job bidding.

GLOSSARY

Common Wholesale-Distribution Terms

Just-in-Time (JIT) Delivery —

Delivery at the time the goods are needed, rather than on a set delivery schedule.

Knockoffs —

See Counterfeit Goods.

LTL —

Less than truckload. Pertaining to truck shipments of less than full capacity.

Line —

See Product Line.

Line Item —

Line on an invoice pertaining to a single SKU.

List-less pricing —

Discounted amount of the "list price" (selling price of something as stated in a catalogue or price list).

Loss Leader —

Product deliberately sold at cost or below for promotional purposes and to pull in customers who may then make other purchases too.

Loyalty Discount —

Discount given, usually by a manufacturer to a distributor, based on purchase of either a complete line of goods or additional lines besides those most desired by the buyer.

Manufacturer —

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

Manufacturer's Rep/Agent —

Independent businessman/company acting as a vendor's sales representative.

Marketing —

All business activity involved in the moving of goods from the producer to the consumer, including selling, advertising, packaging, etc.

Markup —

Amount added to the cost of goods sold to determine the selling price, usually expressed as a percentage of the COGS. 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].

Mass Merchandiser —

Large retail store selling to consumers. In the PHCP industry, home improvement centers are often mass merchandisers selling PHCP products. Large stores or chains may be called "big boxes" or home improvement centers.

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.

"Missionary" Work —

Sales support activities, such as training, introducing new products, etc., which don't directly result in sales orders but which help predispose customers toward buying particular products.

MRO —

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

National Account/Home Office Account —

A large customer with numerous locations nationwide that orders through a central buying authority, with delivery to local outlets.

National Brand —

A nationally distributed product brand name. May also be distributed regionally or locally.

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.

Obsolescence —

Condition which occurs when products are no longer made (are "obsolete"), usually having gone out of demand or out of fashion.

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.

Outside Salesperson —

A salesperson that calls on customers at their businesses, or other outside locations, rather than selling at the business facility by which the salesperson is employed.

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.

Palletize —

Banding or shrink-wrapping cartons on a pallet.

Pareto's Law —

An unexplained statistical relationship that applies to numerous business calculations (and other non-business calculations). In business, Pareto's Law states, for example, that 20% of the products produce 80% of the profits. Also known as the "80/20 Rule."

Past Due —

An account overdue on payment.

PHCP —

Plumbing-Heating-Cooling- (industrial) Piping

P&L Statement —

Profit and Loss Statement.

P.O.P. —

Point of purchase, often pertaining to retailer promotional displays.

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.

Prefabrication —

The practice of manufacturing the components of an assembly in one location and assembling them in another. When used for buildings, prefabrication controls construction costs by economizing on time, wages, and materials. Prefabricated units may include doors, stairs, window walls, wall panels, floor panels, roof trusses, room-sized components, and even entire buildings.

Premiums (Marketing) —

Relatively large and expensive promotional giveaways such as wearing apparel and sporting goods.

Price-based Marketing —

The marketing of products based mostly upon price.

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 salespersons).

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.

Promotions (Marketing) —

Special, time-limited selling campaigns, often including lowered sales prices, discounts, or giveaways, designed to promote sales of certain products.

Promotional Allowance —

A percentage of sales revenue given to distributors or others in a supply chain to promote a product line.

Prospect —

(Noun) An individual or organization with a need for a particular product or service, the potential for or existence of an understanding of that need and the potential to ultimately purchase the product or service.

(Verb) To proactively seek out potential buyers of a product or service and approach them through personal contact (in person, over the phone, one-to-one email or fax) with the intent to sell should a need exist.

PVF —

Pipe, Valves and Fittings. Usually refers to industrial distributors' inventories.

Qualify —

To determine the purchasing potential of a suspect, prospect, or customer.

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.

Retailer —

A business that sells primarily to consumers.

Return on Investments (ROI) —

Net income as a percent of total company assets. [Net income divided by total assets.]

Revenue —

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

ROI —
Return on Investments.

Sales Representative —
See Manufacturer's Sales Rep/Agent

Showroom Salesperson —
A salesperson who sells to consumers in a distributor's showroom.

Shrinkage —
Inventory that gets lost, stolen, or broken.

SKU —
Stock-Keeping Unit.

Specialties (Marketing) —
Promotional giveaways which are smaller and less expensive than premiums, such as pens, pencils, and key chains.

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.

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.

Turns —
See Inventory Turns.

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.

Value-Based Marketing —
The marketing of products based upon a combination of price plus additional seller services or product features which make the products valuable to the customer. Brand names and value-added services are among factors that increase the value of products being marketed.

Velocity Pricing —
Pricing system based on speed with which products move, i.e., usually discounting faster moving items more deeply than slow movers.

Vendor —

A company that sells goods or services to another company.

Vendor-Managed Inventory (VMI) —

A value-added service, usually offered to industrial customers such as OEMs and MROs, which requires that the distributor take the responsibility for making sure that the customer never runs out of critical items needed to keep the customer's business operating.

VMI —

Vendor-Managed Inventory.

Volume —

See Revenue.

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.

WIIFM —

Sales factor acronym—what's in it for me—used to describe what should be the focus of any communication with a prospect or customer.

INDEX

INDEX

INDEX

INDEX

INDEX