

Industry Focus

Relationship Counseling

How can a distributor keep tabs enough on current and prospective suppliers to ensure the partnership is healthy and strong?

BY ABBIGAIL KRIEBS

There has always been a fine line dividing the relationship between manufacturers and distributors, and this relationship is only complicated more during a tight economy, when both sides are just trying to stay open another day.

You, our readers, have been inundated with information from all sides concerning market data and recessionary slumps and that meta-topic of globalization. You have seen mergers and acquisitions taking place left and right. Companies have restructured, re-restructured, and worked hard to stay afloat — and many of them have. For a lot of you, it may seem that most days still feel like a lot more give and a lot less take.

This give and take dynamic is most clearly seen in your relationships with your suppliers.

We did a survey in the recent past that asked *Industrial Distribution* readers how often they evaluate their supplier base, and over 40 percent of our respondents said that they address this more than once a year (see our March/April issue). That seems like a lot of evaluation on your part — and consequently, a lot of time spent making sure that you and your suppliers are continuing to be a good fit for one another as the economy changes. It is a task embedded in the very nature of the distribution business, and one that most of you appear to tackle up front to ensure a smoother relationship with a supplier in the future.

Serious, Upfront Evaluation

The overwhelming consensus from most of our readers is that before they even begin to work with a certain supplier, they evaluate to make sure they know what they are getting into with any company.

Josh Greene is the CEO of Panjiva, a company that compiles data on over a million suppliers across the globe to make the supplier search an easier one for companies in every specialization. Panjiva maintains a database of these suppliers and makes it searchable for distributors trying to source products from all over the world. He says that there are three main points of focus for distributors as they are selecting their suppliers — the three “Cs”: capabilities, customers, and certifications. Distributors want to know that the supplier they are choosing is extremely capable at what they need



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them to do or provide. They also want to know that the supplier has previous experience in dealing with a customer of their size or status. Increasingly common is the need for companies to also match themselves with suppliers who operate similarly to them, whether it is focusing on inescapable safety regulations or even standards like social causes or ecological responsibility.

The interesting — and beneficial — thing about Panjiva is that they don't exclude any supplier from their database. They publish the good right alongside of the not-so-good to keep purchasers in the loop as much as possible. According to Greene, "We want to maintain information on all suppliers, good and bad, so that if a supplier that is less than ideal approaches you, you have the information available from Panjiva to know that they are not someone you want to work with on your project. As a supplier, you are in Panjiva's database whether you like it or not."

The Executive Director of Distributor Partners of America (DPA), Zac Haines, says that his buying group has a similar take on the process: Evaluate early and hopefully avoid problems later. For suppliers to become members of DPA, they are first screened based on data. Are they working with any DPA members currently? How many? They are then evaluated by the distributor buyers themselves. DPA asks for feedback from each of those distributors identified to see if it is a relationship that they want to become involved with, or one that they had better forego. Haines notes that as distributors, "We are creatures of habit. We like to get in a relationship and stay there, so long as it is consistent and the relationship is mutually beneficial." But in order to do that successfully, the relationship has to be a good one from the very start. DPA tries to take some of the stress of this arduous evaluation off their part-

ners' shoulders. "Distributors that join our group have the luxury of knowing that we have vetted the suppliers ahead of time for them," says Haines.

Our readers appear to have similar opinions. In response to a recent anonymous survey conducted by *Industrial Distribution*, one distributor said that any potential supplier, especially one from overseas, "must have the internal infrastructure to support distributors in the states." Their criteria included logistics abilities, favorable credit terms, warranty support, and the ability to meet supply volume requirements consistently. This distributor also said that they send a profile questionnaire to any potential partner and then evaluate them according to their responses. Another said that they choose their suppliers carefully and look for common values: "It must be a partnership that is mutually beneficial. We review their certifications, credentials, reputation, and references as well as their product lines." Another agreed, saying that customer references had the biggest weight for deciding whether or not to begin a relationship with a supplier.

Maintenance, Maintenance, Maintenance

Since our survey cited 40 percent of distributors saying they evaluated their supplier base more than once a year, it came as no shock to us that when asked how they ensure suppliers will provide a quality, legitimate product in a timely fashion, distributors said that an in-person visit was the most important way to gain information.

One distributor responded that they visit each and every one of their suppliers at least once a year to gauge how that supplier is doing at their facility. There is a big difference between how a manufacturer is doing on the ground versus how they are doing on paper, after all.

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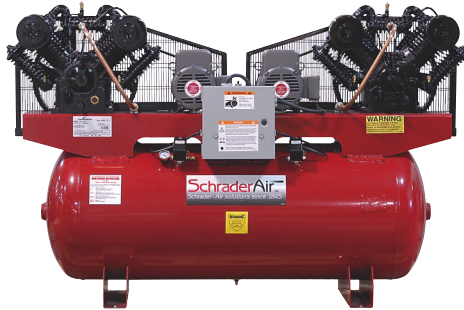
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Another distributor said that they “visit them often, facing the brutal facts as they surface.” They recognize that this relationship, just like any other, takes time and a constant reevaluation of the facts, whether a pleasant activity or not.

Haines from DPA echoes this strategy, saying that distributors must constantly determine if the current identity of the manufacturer, not necessarily the one they have had in the past, is truly working in this partnership. He recommends to do this especially following big changes at the manufacturer themselves, such as following an acquisition or a reorganization under new management. Sometimes, the new manifestation of that supplier is not one that will work as congruently with you as before. In the instance of DPA, dissolving a relationship with a supplier that is no longer a good fit often comes down to the facts. If a supplier isn't abiding by the terms of the contract they have with the buying group, they get thirty days to rectify their behavior. If not, they are out.

“Relationships are built on trust and trust is built from consistent and credible actions,” says Haines. If you can't trust your suppliers, you can't work with them.

Blending Technology and Handshakes

Panjiva's Greene addresses the very heart of the issue when he mentions that these relationships are in transition for both manufacturers and distributors. “Frankly, for a very long time people did not have a lot of information at their disposal. In the absence of information, they had to rely on relationships or had to know somebody who knew somebody in order to find the right supplier,” says Greene. Now, there is more information available about suppliers and more technology-driven solutions to finding suppliers that are a good fit for your company, helping to eliminate the need to vet multiple suppliers later on in the process.

He notes two mistakes he sees in the distributor-supplier relationship. One is that distributors rely on existing relationships and don't bother with the information. “The reality is, if you are not taking advantage of the information that is available, your competitors are and you are putting yourself at a disadvantage.”

The other mistake is to swing to the opposite extreme and forego relationships entirely to rely on pure data. This is perhaps an even more dangerous mistake to make. “Information is very powerful,” says Greene, “but it is a complement to your instincts and the relationships that develop as you go.”

“The people who are doing it right at the moment are the people that are successfully marrying the old world of relationships and the new world of information, applying sound judgment to facts and figures.”

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