Three distribution management mistakes industrial manufacturers make; and why now is the time to fix them

U.S. manufacturing output has shrunk to its lowest level in more than 20 years. For many manufacturers, year-over-year sales are down 20-40%. Simply put: Business stinks.

Now more than ever it is critical for industrial manufacturers to drive towards effectiveness and efficiency. Unfortunately, many industrial manufacturers tend to make three critical mistakes that hurt effectiveness and efficiency when it comes to distribution management:

#1 – Allowing distributors to shirk their agreed marketing and sales activities. Providing field marketing or sales support to distributors that are not capable of generating demand on their own is par for the course in distribution management. There's nothing wrong with this; many distributors are not set up to do much more than take orders. The problem arises when distributors that require manufacturer-provided demand generation support pay the same for product as distributors that do not require that support. Careful analysis will typically reveal that business flowing through distributors receiving significant support is not highly profitable. Often, tactics such as differentiated pricing models address the problem.

#2 – Not holding distributors accountable for performance. Many industrial manufacturers authorize a distributor, arrange favorable discounts, start taking orders and bend-over backwards to support that distributor. Not the worst approach in the world… as long as the distributor holds up its end of the bargain. Unfortunately, most manufacturers do not hold their distributors as accountable as they should. Are they meeting their volume commitments? Are they growing each year? Are they selling the desired product mix? Are they penetrating targeted accounts? There are measurement and reward programs that manufacturers can employ to drive desired distributor behavior. If done properly, such programs will benefit both manufacturer and distributor.

#3 – Failure to define the right field jobs and put the right people in them. Field employees of many industrial manufacturers wear two hats: engineer and sales person. The rationale is that fewer people in front of a distributor can lower costs. Unfortunately, this is not very effective and can be expensive in the long run. There are two reasons this approach does not work: First, engineering and sales are two completely different skill sets. It is the rare individual who truly excels at both and those people are promoted to management quickly. Second, truly capable engineers in the industrial space are becoming scarce resources. Finding people with sales skills is much easier relatively speaking. Manufacturers need to ask themselves if they want their engineers performing pure selling activities, at which they probably do not excel, or if their valuable time is better spent doing what they do best: solving engineering problems.

Now is the time to take action. Industrial manufacturers cannot afford to manage their distribution networks sub-optimally in this economy. Schwartz Consulting has helped many clients solve these challenges. Please feel free to contact us if you would like to discuss how we can help your organization improve your distributor network performance while decreasing the cost to manage it.

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