

# THE CHANGING ROLE OF DISTRIBUTORS IN THE ADHESIVES & SEALANTS INDUSTRY VALUE CHAIN

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Today it is more important than ever that distributors add measurable value. Raw materials suppliers and formulators are constantly re-evaluating distribution strategies and the true value to the marketing function and bottom line. It's no longer suitable to merely say you add value. You must add measurable value to each part of the entire value chain.

The role of distributors is to fulfill one or more elements of the marketing function. Providing maximum features of the marketing function helps assure the survival of distribution in the value chain. Figure 1 shows the functions of marketing and how distributors can provide these features. The decision to use distributors depends on the ability of the distributor to provide those marketing functions supporting the selling strategy and serving the target markets at reasonable cost. Distributors can:

1. serve fragmented markets at lower overall cost.
2. offer direct sale to large numbers of potential customers.
3. carry wide product lines important to end-users.
4. place inventories closer to customers, providing faster delivery and servicing.
5. "absorb" credit risks

Understanding the quantitative value of each throughout the entire value chain is critical.



## **THE FUNCTIONS OF MARKETING**

- **SELECTING TARGET CUSTOMERS**  
Who is going to purchase and use the products or services?
- **PRODUCT PLANNING**  
What products or services will be offered?
- **PRICING**  
What prices will be charged at each step of the distribution chain?
- **CHANNELS OF DISTRIBUTION**  
The paths through which ownership passes on the way from manufacture to end user  
How will products or services be offered and delivered to the target?
- **PHYSICAL DISTRIBUTION**  
Transportation – physical movement of goods to the ultimate end user  
Warehousing and storage  
Location  
Order Processing
- **PROMOTION**  
Advertising - Communication of message to target audience  
Personal Selling – Direct person-to-person contact with customers  
Sales Promotion – Trade shows, Demonstrations, Displays, “Deals”  
Public Relations – Builds a strong image in the target audience, but other than advertising  
Publicity – “Free” communication with a target audience

**Figure 1**

It's often said distributors offer a single source of supply to customers, but few truly understand the value of one-stop shopping. Full-Service distributors offer a wide variety of products and services. Limited Function distributors provide narrow offerings, but provide specialized services or knowledge. The challenge is to understand that value and maximize it.

Companies considering the use of distributors for the first time, face many challenges. The most important is to understand the value proposition offered to distributors and downstream customers. Pricing strategy must be balanced allowing distributors to profitably service customers. Typically, successful strategies identify “functional discounts” commensurate with the value of the marketing functions provided.

Whether you are a manufacturer using or considering distributors, or are a distributor, you must understand the fundamentals of the



value chains you are operating within. There may be opportunities to change the value chain, allowing you to capture more of the value, often at the expense of other participants.

The value derived by the end use customer is the single most important factor in selecting the distribution strategy to serve a given market segment. The mode of distribution, and whether to use distributors or not, hinges on how value is delivered to the targeted end use customer. The use of distributors is often warranted when the universe of potential end users is large and/or the market segment requires local inventory to provide adequate service to the target customer base. A distributor's sales force, local inventory, and broad-based market coverage provide elements to the marketing mix that many manufacturers can not effectively provide.

Selecting distributors is critical to the success of a distribution program. The distributor must possess at least certain key attributes:

1. Access to desirable customers.
2. Resources to implement the marketing functions necessary to succeed:
  - Adequate selling organization
  - Adequate inventory
  - Adequate cash flow
  - Other important products/services.
  - Relationships
  - Location
3. Financial responsibility
4. Social and environmental responsibility

Managing distributors is a difficult challenge. The relationship between manufacturer and distributor has been one of "supplier - customer". Today's, relationship has evolved into a partnership, with power shared by the participants. Both Peter Drucker and Kevin McVey identified the importance of the relationship between manufacturers, distributors and customers as being critical to success.



*“Adversarial power relationships work only if you never have to see or work with the bastards again.”*

- Peter Drucker

*“The middleman is not a hired link in a chain forged by a manufacturer, but rather an independent market, the focus of a large group of customers for whom he buys.”*

- Kevin McVey

The balance of power between manufacturer and distributor must meet the needs of both while maintaining a focus on value delivered to downstream customers. This is seldom an easy task. The power position in the Value Chain can change rapidly, by purposeful action of participants, or outside influences. When the needs of distributors and manufacturers collide, conflicts occur resulting in reduced service to the customer and loss of value to the value chain.

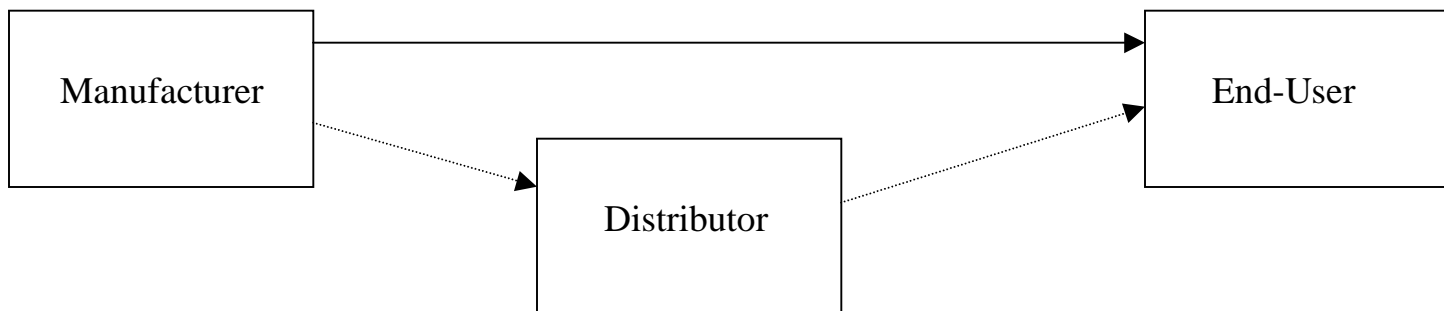
Managing distributors requires an integrated approach:

- Training
- Goal Setting
- Control
- Pricing
- Relations with customer
- Communications
- Business policies
- Distributor motivation
- Leadership
- Meeting end user needs

The single most important factor in success for distributors and those using distributors is to understand the quantitative nature of the value chain you are operating in. (See Figure 2). Only then can you capture your share of the value delivered and maximize your chances for success.



## Simplified Value Chain



## Complex Value Chain

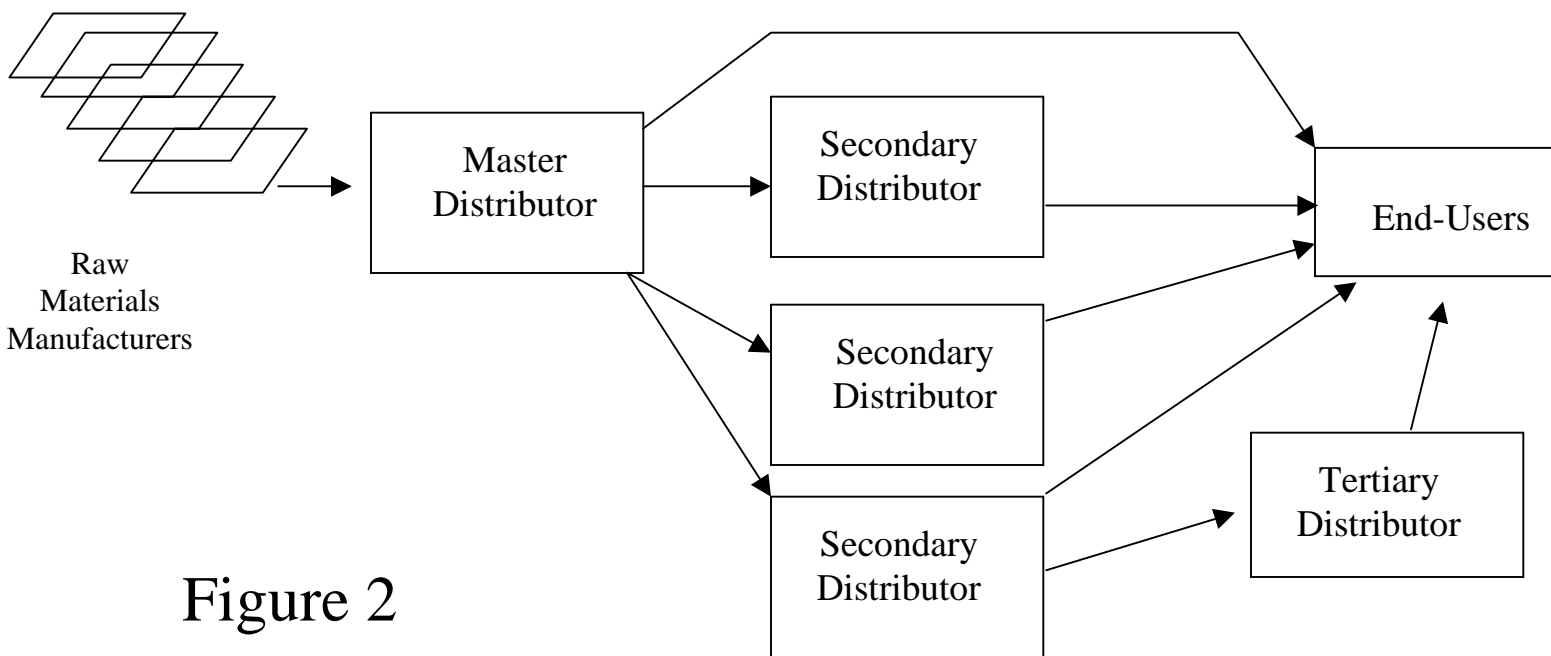


Figure 2



## **About The Author**



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an international strategic management  
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Bob joined ChemQuest in 1999 with 27 years experience in the Adhesives, Sealants and Coatings Industry. Prior to joining ChemQuest, he served as Business Manager and New Business Development Manager of Ashland Specialty Chemical Polymers & Adhesives Division. He brings with him extensive knowledge and experience in developing high-productivity sales and marketing teams, developing business processes, market assessment, competitive analysis and business modeling. His primary strategic focus has been in catalyzing growth through internal initiatives as well as business and technology acquisition, licensing and partnerships. He holds a B.S. in Chemical Natural & Synthetic Polymer Chemistry from SUNY College of Environmental Science & Forestry. Call Bob at (614) 792-3673.

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