

Walking the Value Chain  
Tightrope:

# How Wholesale Distributors Will Survive and Thrive



**Vistex**<sup>®</sup>  
Now it all **adds up**<sup>™</sup>

eBook

[info@vistex.com](mailto:info@vistex.com) | [www.vistex.com](http://www.vistex.com)

# Table of Contents

- 3** Introduction
- 4** Achieving 20/20 Visibility
- 4** Maximizing Downstream Partners
- 6** Recipe for Greater Margins
- 7** Profit Leaking Got You Freaking?
- 8** Maximizing Margins: Right-Mixing Products
- 9** Data Power: Building Margin Momentum
- 10** The Critical Role of Software
- 11** Conclusion: Maximizing Inbound Income, Optimizing Outbound Spending
- 11** About Vistex
- 11** About the Author



# Introduction

Wholesale distributor margins will always be dependent upon striking the right balance. Distributors are challenged with simultaneously satisfying the buy-sides (manufacturers and suppliers) and sell-sides (retailers, resellers and other customers) of their business, while also recalibrating volume and price. In order to sustain eroding margins or beat the odds and improve margins in this competitive and changing environment, a distributor must be agile.

On the manufacturing side, wholesale distributors (WSDs) work hard to meet and exceed upstream sales goals so they can earn performance incentives and negotiate better contract terms. Downstream, distributors coax and incite their sales channels to create pull-through demand for the manufacturers' products. Balancing the earned income and slim-to-none markups against unreimbursed promotional program costs and operational expenses is the existential challenge facing WSDs.

One proven path to achieving a healthy balance is to accurately plan acquisition costs, sales costs and demand. Top-down planning has been historically sabotaged by the lack of real-time, data analytics-driven business intelligence—particularly where incentive programs might contribute. Outdated, fragmented systems and manual processes that are supported by paper or spreadsheets, with point solutions managed outside of their ERP systems, add to the chaotic data feed.



Many WSDs that grew through acquisitions are still working with inherited legacy IT systems that were never consolidated, so each region or product line may have its own proprietary system. Meaningful and accurate visibility is difficult in these situations. Forecasting future outcomes can be nearly impossible. ROI and profitability might be “guesstimates” that are fueled equally by intuition and data.

For many years, WSDs have been trying to improve the accuracy and timeliness of cost recovery from claims—40% of a typical distributor's profit. This is a shrinking minority of a WSD's profitability when compared to the potential reward (or disaster) of performance incentives.

These are the challenges we will explore and resolve in the forthcoming pages.

# Achieving 20/20 Visibility with Your Pricing and Incentive Management

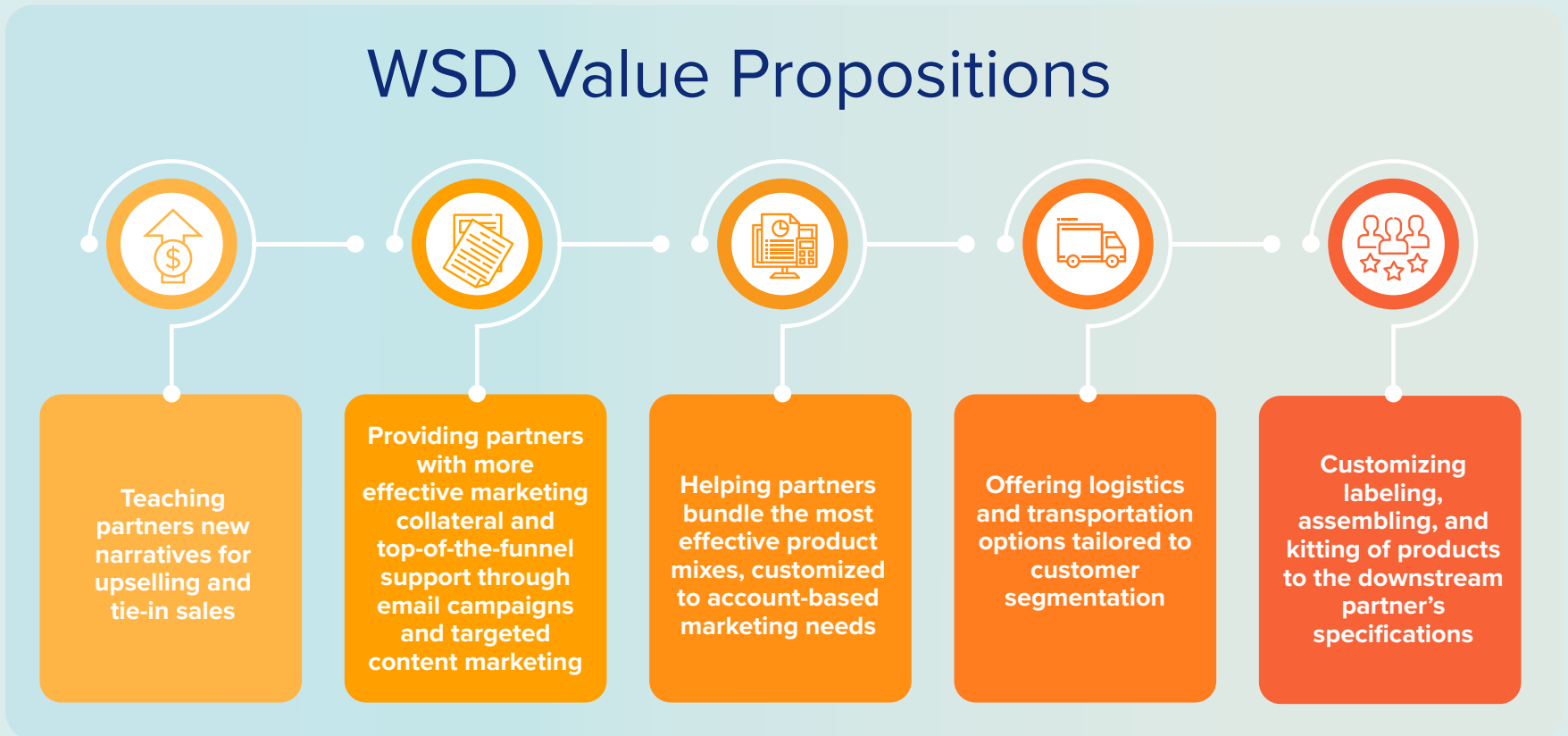
Many wholesalers today struggle with the visibility of the pricing and incentives they receive from upstream vendors, or those that WSDs themselves offer to downstream retail partners and end customers. Visibility helps wholesalers intelligently strike a balance in the decisions they make.

## Downstream Partners Adding Value

Battle-tested wholesalers no longer rely on low prices to satisfy sales channel customers. The downstream business model has evolved. A value- or service-oriented approach is being widely adopted by progressive WSDs who offer combinations of products that might also include services. These services could range from analysis and recommendation of complementary and effective products, to delivery/calibration/cleaning of equipment, or other benefits beyond the product itself. These services can also include proven steps to ease product procurement, like adopting online and omnichannel buying experiences, which are becoming commonplace in the consumer world.



Another key to changing downstream customer buying behavior lies in demonstrating the WSD's value proposition during the offer negotiation phase. Those value propositions can include the following:



These new efficiencies will save downstream partners time and money. These options also engender channel partner loyalty and longevity, which has the potential for improving WSD margins.

# Adding Upstream Partners and Predictive Modeling for Greater Margins

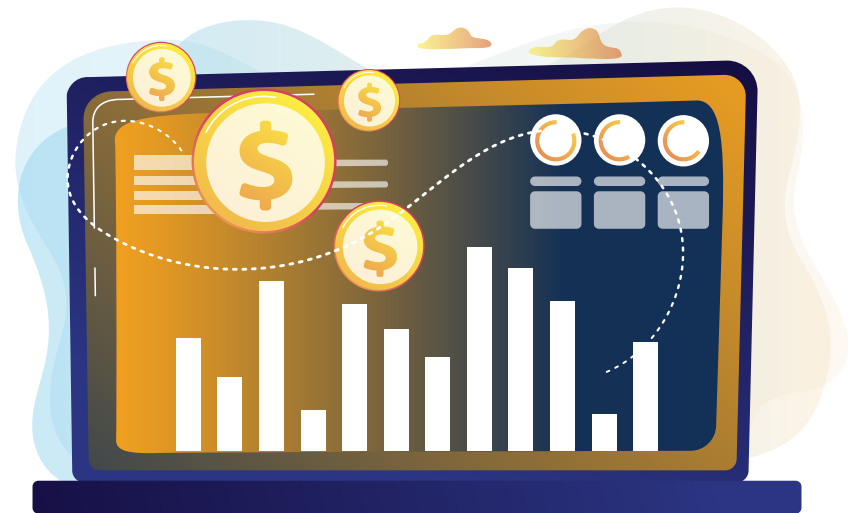
WSDs often manage hundreds of suppliers and are potentially eligible to thousands of programs, so they need fact-based, KPI-driven alerts to make informed forecasts and decisions. Real-time visibility and insights into their earned income, performance achievement, unclaimed marketing development funds, existing inventory, and sales demand give them the evidentiary proof of what is working to their advantage—and what is not. Using this information, WSDs can confidently negotiate better buying terms with vendors. Increasing marketing allowances and lowering inventory acquisition costs, either through price discounts or increased rebates, is a proven recipe for greater WSD margins.

Real-time predictive modeling and what-if simulations of new terms are game changers. WSDs can predict the volumes and profitability of price changes, or, consolidating suppliers for better performance. If vendors offer WSDs a tiered rebate that is contingent on a specific volume, WSDs can shift buying power from alternate suppliers to exploit that stretch goal, fully confident in knowing ahead of time that they will make the stretch.

WSDs can also deploy campaigns with the confidence that their investment in downstream customer incentive programs will sufficiently drive sales to achieve top-tier rebates and incentives on as many vendor contracts as possible—and give the WSD a winning ROI on that investment in the form of increased net profit. Smart analytics

will demonstrate when WSDs are concentrating on the right vendors and vendor programs to gain the greatest sales advantage and margin growth.

WSDs can use these powerful tools to take command of negotiations with vendors. By using accurate, automated analytics, a WSD can propose its own beneficial incentive programs to its vendors. Armed with these insights, WSDs should increase their value to suppliers and help justify preferential treatment in participation, pricing, inventory allocation, and other benefits.



## Profit Leaking Got You Freaking?

Finding the profitability leaks is key for distributors to stem margin erosion. Up to 40% of a WSD's income is achieved through program payments that reduce their cost of goods sold. The damage done by slow-to-no-go reimbursement and rebate claims processing cannot be ignored or overstated.

WSDs often contribute to the slow turn-around of payments by submitting incomplete—or incoherent—claims that often lack a structured, automated method of determining amounts to be claimed. This can be overcome by submitting required information, including appropriate cross-references to vendor SKUs, program IDs, and eligible customers.

Late and error-prone data will always drive up administrative costs for the WSD and the vendor, who will reflect these higher costs in future price negotiations with the WSD—a double-whammy for the WSD and its margins.



## Maximizing Margins: Right-Mixing Products

Right-mixing products is as integral to a distributor's margin as right-sizing and right-pricing. Right-mixing products begins with tracking historical data. In choosing vendor SKUs to stock from a product family, the WSD needs to understand many factors, including: price, margin, turnover, shelf space, lead time—even package-splitting (where allowed, of course). Understanding the margin potential for similar-sized SKUs from multiple vendors, as well as for multiple units of measure for any vendor's product, is also critical to carrying the right mix of products in inventory.

When the program benefits that are offered and potentially realized can be quickly analyzed, a WSD can then choose how to allocate inventory among similar product SKUs from several vendors. The WSD can then determine a strategy for optimizing purchases from vendors to realize the desired benefits—perhaps concentrating purchases from the vendor with the best net price after rebate, and then later shifting purchases to a different vendor once the achievable rebate tiers from the first vendor are maxed out.





## Data Power: Building Margin Momentum

The growth-starved wholesale distribution industry is learning that effectively managing data and identifying opportunities for adjustments will lead to a competitive advantage. The benefits of informed, data-driven decisions include the following:

- Learning and applying creative ways to entice new customers, while reinforcing existing customer loyalty
- Greater operational efficiencies
- Simulation and execution of advanced promotional sales scenarios
- Promotions built on combining location, channel, customer, and product
- Personalized sales promotions based on artificial intelligence



# The Critical Role of Software

Wholesale distributors, supported by robust software solutions that manage the full life cycle, have a strategic advantage in the marketplace. By deepening the understanding of the incentives offered and the opportunity costs of these programs, a WSD can negotiate from a position of strength and should then be able to boost profitability. What-if simulations and analytics that are powered by machine learning will enable WSD employees to make intelligent decisions regarding purchasing strategies and promotion designs. Such a software platform requires a structured, rationalized foundation of master and transactional data, which also allows claims processing to be fast, efficient, and profitable, instead of a source for leakage.

Using fact-based, intelligent insights to plan promotional programs and negotiate equitable purchases also creates true channel partnership and builds trust. This can lead to increased activity, fewer claim disputes and more harmonious, lasting beneficial business relationships. Your own employees benefit,

too. Decision makers realize unprecedented visibility into accurate, real-time sales trends and vendor program performance. Your employees can then trust insights that are driven by true numbers, which yield accurate forecasting and profitability.



# Conclusion

## Maximizing Inbound Income, Optimizing Outbound Spending

From price optimization to right-sizing inventory and right-mixing products, automated software solutions grant wholesale distributors a new opportunity to reframe the importance of their role as a strong upstream and downstream partner in the value chain. Wholesale distributors can then meet and exceed the needs of their channel partners with analytics-based predictive modeling for program planning and forecasting.

Predictive modeling software has ushered in an era where wholesale distributors are empowered with unprecedented visibility and business intelligence. Today they can make the right decisions based on real-time data and accurate forecasts, benefiting themselves, their vendors, and their retailers.



# How Vistex Adds Value

With high volumes and thin margins, distributors rely on price optimization and cost recovery programs for profitability and income. Vistex supports distributors with software and services to better manage vendor rebates, chargebacks, deals & offers, Co-op & MDF, price protection programs and

trade promotions. With enhanced alignment to businesses processes, distributors improve margins, guard against losses and leakages, gain visibility into price setting and true costs, incent customers and collect from vendor programs.



## About Vistex®

Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs. The world's leading enterprises across a spectrum of industries rely on Vistex every day to propel their businesses.

## About the Author

Matthew Hays is the Director of Product Management at Vistex. In this role he manages the roadmaps for new product development, supports marketing and sales functions, and maintains business partnerships. Matthew has a long history with manufacturing, supply chain, life sciences, software lifecycle management, project management, and customer engagement.

Vistex®, Go-to-Market Suite®, and other Vistex, Inc. graphics, logos, and service names are trademarks, registered trademarks or trade dress of Vistex, Inc. in the United States and/or other countries. No part of this publication may be reproduced or transmitted in any form or for any purpose without the expressed written permission of Vistex, Inc. The information contained herein may be changed without prior notice.

[info@vistex.com](mailto:info@vistex.com) | [www.vistex.com](http://www.vistex.com)

© Copyright 2020 Vistex, Inc. All rights reserved.



**Vistex**®

Now it all  
**adds up**™