

# 1. What are the biggest concerns regarding the working relationships between manufacturers and distributors? Please explain:

## *Results from Wholesalers*

- Too much focus on price (4 responses).
- Manufacturers bypassing distributors and selling direct to end users (5 responses).
- Speed to market and reliability of ETA's, especially for production moved offshore (2 responses).
- Lack of loyalty for effort. Margin erodes as alternate prices are solicited even when products are specified. No desire to stock products.
- Ensuring that distributors have the same programs as our competitors. Working with manufacturers is often easier than with agents, as agents tend to have biased relationships with competitive distributors.
- Special pricing arrangements given to contractors by some manufactures in the form of rebates or free material.
- Lack of product knowledge on the part of wholesalers. Manufacturers expected to "clean up the mess" on misapplied product, start up, after sales service, warranty, etc.
- Manufacturers who use agents. Agents use info from distributors to obtain project quotations, agents rep other product lines not specified. Agents then use the info to submit quotations through other distributors who may not have had knowledge of the project until the info was provided to the agent for a brand name product.
- Failure of distributors who commit to a partnership with a manufacturer in its entirety to control renegade branches to not continue their support of the "other guys" and bring them in line with the commitment.
- Creating confidence.
- Special pricing to specific accounts below into stock costs that are allowed to spread to non-intended accounts.
- Overly optimistic sales expectations and results and reaching common ground.
- Good relations with suppliers is paramount, especially for those who want to work with you.
- Many manufacturers seem to have an increasing attitude of "take it or leave it". What they seem to forget is there's competition out there and someone will jump on board once the opportunity arises to work with the distributor.
- Manufacturers continue to focus their resources on retail clients (big box).
- Manufacturers allowing over-distribution of goods causing lower margins. North American manufacturers not able to compete with import product.
- Promises made by a sales rep not accepted/followed by higher rank people.
- Credit.
- Supplier lack of co-operation on returns, inventory balancing.
- Harmonization of government regulations that impact distributors' inventory levels and manufacturing processes; i.e. product design changes and functionality such as energy standards.
- Manufacturers are off-loading more administration work to distributors in their marketing plans.
- Constant pricing changes, slow reaction to changing markets.
- Not enough effort on efficiency/value offered; want concessions over other distributors.
- The market being more and more competitive in waterworks, they tend to limit the advantage we used to have and offer the same deals to anybody.
- Wholesalers carrying too many lines; should prioritize their offering and sell a limited number of manufacturers per product category.
- Manufacturers trying to open up too many lines of distribution eroding the value of the partnership and commodifying their product line.
- Supply chain on both sides of the equation: manufacturers expect wholesalers to inventory an appropriate level and wholesalers expect that they should inventory an appropriate level. During strong economic times this was easy; high sales covered many challenges. Recently there has been a disconnect as wholesalers have reduced their inventory levels and expected manufacturers to inventory the product and ship "just in time". There has to a middle ground where manufacturers and wholesalers agree on what "appropriate" is.



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## *Results from Manufacturers*

- Distributors lack of commitment to stock sufficient inventory (5 responses).
- Price focus (3 responses).
- Unclear communication; projections of requirements in these uncertain times will help both parties to have less stockouts (2 responses).
- Wholesale distributors' staff is not as educated on the products as needed (2 responses).
- Going direct / not respecting the value chain.
- Increase turns, push out delivery is stressing relationships.
- Differing business objectives (i.e. Beautiful Heat initiative is a prime example; distributors are not participating, yet most likely have the most to gain).
- Responsibility for sales being pushed back onto manufacturers.
- Strategic alignment training, resource deployment.
- Distributors private labeling products imported from off-shore become competitors to manufacturers.
- Distributors who carry exclusive competitive lines.
- Wholesalers ordering not looking at new items or ordering incorrect items in which their people are guessing.
- Inventory "flow-through", planning, quantity of orders, last minute and collaborative forecasting efforts, marketing.
- Confidentiality and huge differences on margins from both parties.
- Distributors don't know how to value services which reduce operational costs. Purchasers buy on price with little or no regard to fill rates, on time delivery, e-commerce ( EDI ), bar coding and packaging.
- Wholesalers not listening to what manufacturers are saying with regards to end-user relationships. Alignment in strategic directions; manufacturers sell features and benefits; wholesalers sell boxes.
- Product to the street - pick up time and resistance of skewing a new product. Won't stock until we have history.

## *Results from Agents*

- Trust, competition & communication between distributors (3 responses).
- Distributors sourcing products directly and cutting out current distribution channels (3 responses).
- Keeping a level playing field re: price, supply, and customer support/promotions.
- Central distribution and how this affects agents that rep manufacturers who aren't able to be part of the central distribution for various reasons. Also, the effect of distributors sourcing their own products from overseas has a negative effect on our local manufacturers. Distributors seem not to understand the value in using a local manufacturer as well having a local agent or sales rep call on them.
- Manufacturer's expectations vs. profit opportunity available to the distributor. Manufacturers must respect the fact that they can not expect loyalty if the profitability is not there.
- The number of manufacturers and wholesale distributors have declined over the years through buyouts & amalgamation. Power has shifted to the wholesale distributor.
- Offshore imports increasingly gaining market share, distributors sourcing direct from offshore manufacturers eroding North American manufacturers profits.
- Price versus quality of product.
- The perception in the marketplace of distribution not being able to provide sufficient value to their customers and the perception of manufacturers not providing sufficient value to distributors to support that customer base. The result is a deterioration of brand loyalty and the loss of implied value for customer service, technical resources and support, sales and marketing support, leaving price as the only deciding factor.
- Since many manufacturers have cut their marketing budget it's becoming difficult to answer all requests from distributors for their promotional activities.
- No brand loyalty. Will change suppliers without any notification.
- Exorbitant costs to participate in distributor events such as golf tournaments.

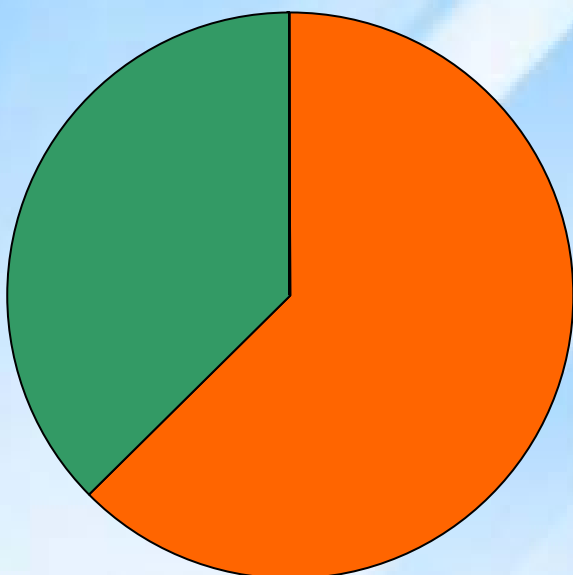


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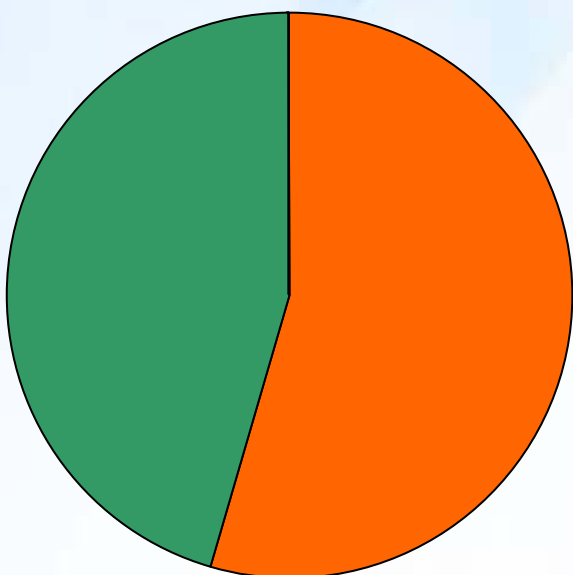
## 2a. Are these working relationships improving or becoming more strained?

### Results from Wholesalers



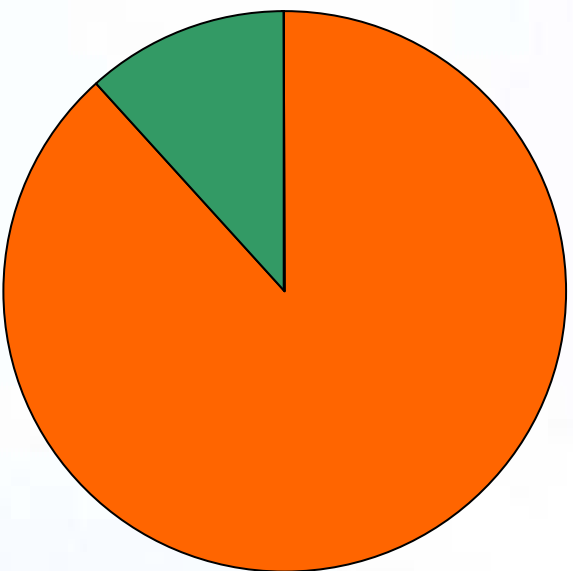
**Improving: 37.5%**  
**Becoming more strained: 62.5%**

### Results from Manufacturers



**Improving: 45.5%**  
**Becoming more strained: 54.5%**

### Results from Agents



**Improving: 11.8%**  
**Becoming more strained: 88.2%**



## 2b. Please explain how working relationships are improving or becoming more strained

### Results from Wholesalers

- Improved communication & cooperation is helping (4 responses).
- Distributors are selling at low margins when free material is given it takes away the sale that should have gone through to the distributor.
- Lack of commitment to the product category in terms of resources puts added strain on the relationship.
- Agents expanding the lines they carry to supply the complete plumbing package. Commission rates may be higher with offshore products than brand names increasing pressure to compromise info provided by distributors. Agents and manufacturers often not becoming specified on projects, leaving this to distributors, then piggy back on the info and work of others.
- Our goals and long term relationship with our partners are not clearly explained.
- Relations are starting to improve as more businesses are examining vendors' overall programs not just product price points.
- Manufacturers are allowing agents to make too many pricing decisions.
- Economic times are stressful and things have really not changed much with some manufacturers.
- Margins are being squeezed.
- Canadian borders continue to be bombarded with a broad range of product produced off-shore.
- There are fewer knowledgeable people in the field and with less experience, making long terms connections difficult.
- Credit has eased but is still an issue with many manufacturers.
- Suppliers want to work with selected distributors to get their share of market.
- Some suppliers are providing better ongoing feedback, via email or Excel. Some are (hopefully unintentionally) making us look bad to our customers on the ETA issue.
- The ability to network in trade & buying group associations is allowing us to discuss points of common interest.
- After years of a supply chain model that afforded small wholesalers an opportunity to represent a line and be profitable, market price pressures, end user cost saving attempts and a change in how products are brought to market is creating tension and a lack of loyalty on all sides.
- Everyone from all sectors realize that our industries are changing from a regulatory standards aspect and product performance standards. End result is both manufacturers and distribution partners must communicate even more to make sure everyone's needs are met from product designs to product inventory levels at the distributor.
- Offloading of administration is adding more overhead to distributors—i.e. cost to run their programs.
- The best price rules. Nothing else matters as much.
- It's tougher and tougher to get advantages from manufacturers creating a stress in relations.
- The slowdown has forced manufacturers and wholesalers to evaluate partnerships; everything is moving in the right direction re: limited distribution of lines. There needs to be coordination of supply chain between wholesalers and manufacturers. The "buy direct" issue is waning as the economy recovers.



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## 2b. Please explain how working relationships are improving or becoming more strained

### *Results from Manufacturers*

- Better verbal & written communication is building trust and allowing for better resource deployment (3 responses).
- Distributors are causing deterioration in pricing & switching loyal end user customers with private labeled product.
- Increased margin pressures.
- Inventory commitments & planning are very difficult to manage since distributor/manufacturer strategic alignments are rare. Products sourced from Asia create the biggest problem specifically due to lead times.
- Distributors are demanding too large margins and the manufacturer is suffering from this: we get dimes, they make dollars.
- Executive level needs to provide direction to identify and realize profit opportunities.
- Wholesalers continue to push for pricing, threatening manufacturers with private label and that they can buy cheaper from Asia.
- There is an understanding that products and services need to be "pulled thru" the supply chain, not pushed.
- There is a reluctance to provide info on needs for planning.
- Wholesalers have to embrace the skill sets of manufacturer personnel.
- There is a diminished ability to add value to manufacturer's offering.
- Off-shore sourcing has created various alternate channels whereby product can be supplied into the Canadian market. While understanding the importance of being competitive, some partners are becoming more aware of that reducing time spent on price related activities allows for more productive value added time to spend on business success strategies.
- Neither of the above: this 'concern' has been ongoing many years and is not getting any worse or better.

### *Results from Agents*

- Stocking wholesalers are far and few between, they expect the manufacture to have stock. And, when they do order they expect it will ship that day (2 responses).
- Everyone wants more, more, more and sometimes there is nothing more to give, thus straining the relationship.
- Distributors are under greater pressure for profits & the introduction of distribution centers and direct purchases are eroding the amount of business that smaller manufacturers and local agencies are receiving.
- Certain decisions are made on a national level that aren't necessarily the best for a particular region. Central distribution and sourcing of products has a negative effect on some relationships.
- Although the manufacturer is at the top of the food chain, they walk a fine line with distribution based on how well defined the roles and responsibilities are, as well as the profit opportunity that is available to distribution. When a product line is no longer profitable, manufacturers should not be surprised when they discover that distributors have sourced a more profitable substitute.
- Competition between distributors is higher than ever.
- Who do you align with? Trying to be all things to all people does not work.
- Our world is becoming smaller and therefore more positive interactions are taking place.
- Strains due to not having the products to meet the changes in due time.
- Price rules. Quality and specification become "second fiddle".
- Relationships are improving because there is value perceived in a distributor/manufacturer partnership especially when neither side is being taken for granted.
- If the distributor cannot get the money for his activities, he might be tempted to go toward secondary partners.
- Service is no longer a factor in the relationships.
- The distributor is becoming a competitor because they've gone outside and sourced/private labeled their own products.
- Varies to the degree that the distributor is moving away from traditional channels; distributors that are trying to support those channels are getting favorable treatment.
- We participate less often.



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### **3. Have you spotted any trends that either encourage or alarm you regarding manufacturer/distributor working relationships? If yes, please describe:**

#### ***Results from Wholesalers***

- Manufacturers commissioned agents hiring the distributors' employees and showing total disrespect for their customers. (This is only done by a select few agents.) It should be a policy by the manufacturers that their agents should never approach their customers' employees (2 responses).
- Less fidelity in the relationship (2 responses).
- Organizations require better communication to know who to talk with and who are making decisions.
- Manufacturers and distributors have to understand that manufacturers manufacture and distributors distribute. Waters are becoming muddied in that some distributors feel they can make more money by having products made for them by non-distribution committed manufacturers and some manufacturers in turn are seeking out direct routes to the contractor thus by passing distribution.
- Many manufacturers seem to leave distribution decisions to their agents. If they were employed directly by the company instead of working on their own, decisions would be more impartial and for the best interests of the manufacturer, instead of providing the best interests for the agent.
- A tendency to shop all over the place for the lowest prices.
- Quality of workmanship on products have somewhat decreased in order to compete with offshore manufacturers. The product is passed on to the distributor, who then passes it on to the consumer.
- Manufacturers want to get closer to the consumer and will support any means to do so, even stepping over or around the distributors.
- Consolidations/mergers can sometimes shift the "balance of power" to a "take it or leave it/ we're the only game in town" approach.
- Trend for new items to be introduced in big-box retailers before distributors.
- The size of fish that manufacturers chase on their own is becoming smaller and instances of direct selling that circumvent the traditional spirit of the manufacturer/distributor relationship are more prevalent.
- I am encouraged by the increasing level of communication between the two groups. The communication and coordination will be critical as our industry evolves.
- There are some instances but relationships are improving; they are usually after there has been some hardship or strain in the relationship.

#### ***Results from Manufacturers***

- Distributors going direct to purchase material overseas and not supporting the North American market, mainly because of pricing (3 responses).
- Distributors sourcing their own private label products.
- Distributors are now working closer to align the strategies and marketing activities to inventory commitments with manufacturers' support.
- Distributors are not adapting to current business practices seen in other industries.
- Not recognizing trends soon enough to react.
- Distributors transferring inventory burden to manufacturers, which is a difficult role for them since efficiency of manufacture is their job.
- Wholesalers taking on other competing lines.
- Increasing capitulation of their role in value chain.
- The emergence of specialty distribution outlets that are extensions of manufacturers operations are beginning to erode the broad wholesale distributors power in the market.
- Many distributors in the wholesale channel spend a high percentage of time focused on price and much less time on results drive success strategies.
- Lack of experience in the branches as individuals retire or move on.
- Push out deliveries to reduce delinquencies looks good in meetings but strains relationships.



### 3. Have you spotted any trends that either encourage or alarm you regarding manufacturer/distributor working relationships? If yes, please describe:

#### *Results from Agents*

- More distributors going offshore to do their own importing to stay competitive.
- Wholesalers expect us to accept the change in business climate even though we have built up brand loyalty at the contractor level. Wholesalers are stocking more & pushing harder on their branded products.
- Central distribution and sourcing of products.
- Distributors are struggling to be profitable and are supporting peripheral manufacturers to gain exclusivity. This contravenes traditional interests of the standard manufacturers and is creating a very competitive atmosphere. The result is a breakdown of the conventional business model.
- Lack of business.
- Wholesalers' closest relationship is now with his customer rather than the manufacturer. His customer chooses him not a specific manufacturer.
- I see an improvement in relationships with eastern-based manufacturers working closer with western-based distributors.
- If the current model continues, wholesalers as we know them will no longer exist. Most have laid off senior staff who could answer questions and have gone to handing up the reps phone number.
- Distributor does not respect the specification and carries lowest price product hoping to get it approved.
- Market trends show that price continues to be an important factor, but not the only factor. That's encouraging as it shows value is perceived in dealing through distribution channels and subsequently value in the products being sold through distribution.
- Some distributors have private label on products which are already sold by actual distributors. We see more and more imported products with aggressive prices.
- Distributor does not want to inventory product but expects to pay the same price as when he did.
- There's a trend towards less and less staff at the distributor. This means there are less people available to sell or provide a value added service. This means more and more, business is based strictly on price. The biggest culprits are the publicly traded distributors.
- Retail distributors are leading the pack. Distributors to the trade enjoy the support of manufacturers' reps and agents and can survive quite nicely as a trade only distributor.



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