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

Consumer confidence is shrinking and U.S. manufacturing output has shrunk to its lowest level in more than 20 years. In some categories, year-over-year sales are down 20-40%. Simply put: Business stinks.

Now more than ever it is critical for consumer goods manufacturers to drive towards effectiveness and efficiency. Unfortunately, many 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 – Rewarding distributor performance inappropriately. Many manufacturers authorize a distributor, arrange favorable discounts, set up a co-op fund and start taking orders. Not the worst approach in the world… as long as the distributor holds up its end of the bargain. Unfortunately, many manufacturers do not hold their distributors accountable for their performance. Are they meeting their volume commitments? Are they growing each year? Are they selling the desired product mix? Are they penetrating targeted retailers? When designed properly, annual goal setting combined with reward programs can drive distributor motivations in a manner than aligns with the manufacturer's motivations.

#3 – Not providing regular performance feedback. Many distributors are not focused on how well they are performing for a given manufacturer's products, especially if those products comprise a small portion of their portfolio. Even with proper annual goal setting and reward programs in place, distributors can be surprised at the end of the year with how poorly they performed. The answer is to provide simple, understandable feedback on a regular basis that evaluates distributors on how well they are executing (e.g., distribution percentage, mechandising) and what kind of results they are getting (e.g., sales, volume), accompanied by constructive feedback on how to improve.

Now is the time to take action. 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.

Bart Schwartz, Principal / Schwartz consulting / +1 773.580.1091 / bart@schwartzconsult.com