



# Principles of Marketing - Part 10: Wholesaling

As we discussed in Part 9: Retailing, it is more the rule than the exception that marketers are not able to handle all distribution activities on their own. Instead, to get products into the hands of customers often requires the marketer to seek assistance from third-party service firms. In addition to retailers, marketers should be aware of other resellers whose expertise in certain facets of distribution can prove quite beneficial. Additionally, other activities associated with moving products must also be well understood and often requires the help of others.

In this tutorial we examine another reselling group - wholesalers - and see how they come into play when a marketer attempts to reach the final customer. We will show that wholesalers exist in many formats, affect a wide range of industries, and offer different sets of features and benefits depending on the markets they serve.

We will conclude our discussion of distribution by considering other functions the marketer must undertake to physically move a product through the channel of distribution. Whether handled by the marketer or contracted to others, these functions are crucial to having a cost-effective and efficient distribution system.

This tutorial includes the following topics:

1. Wholesaling
2. What is Wholesaling?
3. Benefits of Wholesalers
4. Concerns of Wholesalers
5. Ways to Categorize Wholesalers
6. Products Carried and Promotion
7. Distribution Method
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**What is a Wholesaling?**

Wholesaling is defined as the activities involved in selling to organizational buyers who intend to either resell or use for their own purposes. A wholesaler is an organization providing the necessary means to: 1) allow suppliers (e.g., manufacturers) to reach organizational buyers (e.g., retailers, business buyers), and 2) allow certain business buyers to purchase products which they may not be able to otherwise purchase. According to the 2002 Census of Wholesale trade, there are over 430,000 wholesale operations in the United States.

While many large retailers and even manufacturers have centralized facilities and carry out the same tasks as wholesalers, we do not classify these as wholesalers since these relationships only involve one other party, the buyer. Thus, a distinguishing characteristic of wholesalers is they offer distribution activities for both a supplying party and for a purchasing party. For our discussion of wholesalers we will primarily focus on wholesalers who sell to other resellers such as retailers.

**Benefits of Wholesalers**

The benefits wholesalers offer to members of the channel can be significant and involve most of the ones we discussed in Part 8: Distribution Decisions, though specific benefits vary by type of wholesaler. Yet there are two particular benefits – one for suppliers and one for retailers - that are common to most wholesale operations and are worth further discussion:

- **Provide Access to Products** - Wholesalers are in business to provide products and services to buyers (e.g., retailers) who either cannot purchase directly from suppliers because their purchase quantities are too low to meet the supplier's minimum order requirements or, if they purchase directly from suppliers, will pay higher prices compared to bigger retailers who obtain better pricing by purchasing in greater quantities. Since wholesalers sell to a large number of buyers their order quantities may match those of large retailers thus allowing them to obtain lower prices from suppliers. Wholesalers can then pass these lower prices along to their buyers, which can enable smaller retailers to remain competitive with larger rivals. In this way transacting through wholesalers is often the only way certain retailers can stay in business.
- **Provide Access to Markets** – Providing smaller retailers access to products they cannot acquire without wholesaler help offers a benefit for suppliers as well since it opens additional market opportunities for suppliers. Namely, suppliers can have their products purchased and made available for sale across a wide number of retail outlets. More importantly, for a company offering a new product, convincing a few wholesalers to stock a new product may make it easier to gain traction in the market as the wholesaler can yield power with the smaller retailers convincing them to stock the new product. Considering a wholesaler can serve hundreds of small retail customers, the marketing efforts persuading the wholesaler to adopt a new product may be far more efficient compared to efforts needed to convince individual store owners to stock the new product.

### **Concerns of Wholesalers**

The wholesale industry has served an important role in the distribution process for well over 100 years, yet the challenges they face today are raising the stakes as many wholesalers fight to maintain their market position. Some of the issues facing today's wholesalers include:

- **Disintermediation** – The growth of the Internet as a communication and distribution channel has led many to conclude that wholesaling will lose its importance as manufacturers and final buyers learn to transact directly. This so called “disintermediation” of marketing channels is a real concern to some wholesalers, especially those that do not function as a dominant party within a distribution channel. For example, assume a retailer operating a gift card store uses a wholesaler only to purchase a specific manufacturer's products. In this situation if the manufacturer begins to offer direct purchasing to smaller customers the wholesaler may have little leverage in efforts to retain the retailer as a customer. In instances of disintermediation wholesalers face the challenge of creating greater value for their services, thus making the retailer's decision to switch more difficult.
- **Facility Location** – Wholesalers who are heavily involved in product shipment may spend considerable time evaluating sites for locating facilities. For organizations needing very large facilities, the decision as to where to locate becomes more difficult and more expensive the closer the location is to major metropolitan areas. In fact, land costs in some regions of the world have risen so high that utilizing this space for wholesaling operations may not be feasible. In addition to land costs, facility location is also affected by access to adequate transportation, such as roads, seaports, airports and rail terminals. Areas with available land often lack the infrastructure needed to run wholesale facilities unless expensive and time-consuming improvements (e.g., build highway, extend rail line, etc) are made.
- **Transportation Costs** – For wholesalers involved in transporting products, the worldwide rise in fuel costs has forced a close examination of how they handle product distribution. Transportation expense can represent a significant portion of overall distribution costs and these higher costs are often passed on to customers in the form of higher product prices. This problem also presents opportunities for wholesalers that work hard to control fuel costs with such methods as: using equipment and delivery vehicles that are more fuel efficient; utilizing computer routing software to determine less costly delivery routes; and offering greater incentives to customers to accept deliveries during less congested times of the day.
- **Adapting to New Technologies** – In addition to technologies to lower fuel costs, other technologies that assist the distribution process are offering both advantages and disadvantages to wholesalers. On one hand new technologies, such as radio frequency identification tags (RFID) placed on shipped products allow wholesalers to maintain tighter control over their distribution activities. But gaining the benefits associated with these new distribution technologies can be expensive in terms of acquiring and learning to use.

- Offering Non-Product Assistance – Wholesalers are finding that offering products is not the only thing of interest to their buyers. Many customers also want wholesalers to offer additional value-added services such as employee training (e.g., teach selling skills), promotional support (e.g., financial support for advertising), and assistance in managing their operations (e.g., building an online store). Keeping pace with the services in demand by their customers requires constant research and communication with customers.

#### **Ways to Categorize Wholesalers**

In Part 9: Retailing we showed how retailers can be categorized using different operational characteristics. Wholesalers can likewise be grouped together, though the characteristics are slightly different.

For our purposes we will separate wholesale operations based on four marketing decisions:

- products carried
- promotional activities
- distribution method
- service level

and one legal factor:

- product ownership

As we discussed with our retailer categorization, these grouping schemes are not meant to be mutually exclusive. Consequently, a wholesaler can be evaluated on each characteristic.

#### *Products Carried*

Similar to how retailers can be categorized, wholesalers can also be classified by the width and depth of product lines they handle. The categories include:

- General Merchandise – Wholesalers carrying a very broad line of products fall into the general merchandise wholesaler category. Like general merchandise retailers, the product lines these wholesalers carry may not offer many options (i.e., shallow depth). These wholesalers tend to market to the smaller general merchandise retailer such as smaller convenience or general stores.
- Specialty Merchandise – Wholesalers focusing on narrow product lines but offering deep selection within the lines fall into the specialty merchandise category. Most specialty merchandise wholesalers direct their marketing efforts to specific industries. For example, specialty wholesalers supply such industries such as electronics, seafood, and pharmaceuticals.

#### *Promotional Activities*

Wholesalers can be separated based on the importance promotion plays in generating demand for products handled by the wholesaler. Two basic categories exist:

- Extensive Promotion – The main job of some wholesalers is to actively locate buyers. This occurs most often where a wholesaler is hired to find buyers for a supplier's products or where the wholesaler is very aggressive in finding new customers for their business. Under these arrangements the most common promotional activity is personal selling through a sales force, though advertising may also be used.
- Limited Promotion – Nearly all wholesalers engage in some promotional activities. Even in situations where a wholesaler dominates a channel and clients have little choice but to acquire products from the wholesaler, some promotion will still occur. For instance, at times a wholesaler may need to use their salespeople to persuade buyers to purchase in larger volume than normal or to agree to stock a new product the wholesaler is handling. In other cases, especially for wholesalers selling products for business use, promotional activities may be more extensive and include advertising and other promotional methods.

#### *Distribution Method*

Wholesalers have distribution methods similar to those of retailers in that customers may or may not be able to physically visit the wholesaler's location to acquire their purchase. For the purposes of our discussion of wholesaling, this category is separated based on whether or not a stationary location exists from which the wholesaler conducts the physical movement of products.

- Stationary Location – The most common wholesaler arrangement is where the wholesaler has one or more fixed facilities where product handling operations take place. However, while stationary wholesalers share the characteristic of a permanent location, they often differ on whether customers can visit these facilities:
  - Customer Accessible – At certain wholesaler locations buyers can shop at the facility. In fact, retail warehouse clubs, such as Costco and Sam's Club, also function as wholesalers for qualifying businesses. In addition to selecting their orders, buyers are responsible for making their own arrangements to transport their purchases.
  - Not Customer Accessible – Most operations classified as wholesalers do not permit buyers to visit their facility in order to select items, rather buyers place orders via phone, web or through person-to-person contact with wholesaler's representatives. Also, in most cases, the wholesaler takes responsibility for product delivery.
- Non-Stationary Location – Not all wholesalers carry inventory at a stationary location. In fact, some do not carry inventory at all!
  - Mobile – Several specialized wholesalers transport products to the customer's location using vans or trucks. Buyers then have the ability to purchase product by either walking through the mobile facility or ordering from the wholesaler who then selects the items from the vehicle.
  - No Facilities – Some wholesalers do not have physical locations that store products. Instead, these operations rely on others, such as delivery

companies, to ship products from one location (e.g., manufacturer) to the buyer's place of business.

#### *Service Level*

Wholesalers can be distinguished by the number and depth of services they provide to their customers.

- **Full-Service** – Wholesalers in this category mainly sell to the retail industry, and in most cases, require a strong, long-term retailer-wholesaler relationship be established. In addition to basic distribution services, such as providing access to an assortment of products and furnishing delivery, these wholesalers also offer customers additional services that aid retail store operations including offering assistance with: in-store merchandising; retail site location decisions (e.g., find best geographic location for a new store); store design and construction; back-end operations (e.g., payroll services); financial support; and many more.
- **Limited Service** – Compared to full-service wholesalers, buyers dealing with limited service firms offer far fewer services. Most offer basic services, such as shipping and allow credit purchasing, but few offer the number of service options found with full-service wholesalers.
- **No Service** – Some wholesalers follow a business model whose only service is to make products available for sale and only on a cash basis. In these instances, the buyer handles their own transportation of the product.

#### *Product Ownership*

Wholesalers can be classified based on whether they do or do not become the owners of the products they sell. By ownership we mean that title (i.e., legal ownership) has passed from the party from whom the wholesaler purchased the product (e.g., manufacturer) to the wholesaler. It also means the wholesaler assumes any risk that may arise with handling the product.

- **Do Take Title** – Wholesalers taking title own the products they purchase.
- **Do Not Take Title** – Wholesalers who do not take title are focused on activities that bring buyers and sellers together. Often these wholesalers never physically handle products

#### **Wholesale Formats**

Considering the criteria by which wholesalers can be categorized, it is not surprising many different wholesale formats exist. Below we discuss ten wholesale formats. While many of these wholesalers also have an online presence, we do not distinguish an “e-wholesaler” as a separate format the way we did with “e-tailers” or online retailers. The reason? While most wholesalers do operate from a brick-and-mortar facility, few wholesale operations permit customer shopping at their facility. Thus, the nature of industry for many years has been to have customers use communication tools (e.g., phone, fax) to place orders. With the wholesale industry, the Internet simply serves as another communication option rather than a significantly different distribution channel.

- General Merchandise – These wholesalers offer broad but shallow product lines that are mostly of interest to retailers carrying a wide assortment of products, such as convenience stores, variety stores (e.g., those offering closeout products), and novelty retailers. Since these wholesalers offer such a wide range of products, their knowledge of individual products may not be strong.
- Specialty Merchandise – Many wholesalers focus on specific product lines or industries and in doing so supply a narrow assortment of products but within the product lines offered there is great depth. Additionally, these wholesalers tend to be highly knowledgeable of the markets they serve.
- Contractual – In Part 8: Distribution Decisions we introduced the concept of wholesaler-sponsored channel arrangements where a wholesaler brings together and manages many independent retailers. The services of these wholesalers are limited to the retailers involved in the contractual arrangement.
- Industrial Distributors – The industrial distributor directs their operations to the business customer rather than to other resellers. Depending on the distributor, they can carry either broad or narrow product lines.
- Cash-and-Carry – A wholesale operation common to the food industry is the cash-and-carry where buyers visit the wholesaler's facility, select their order, pay in cash (i.e., credit purchases not permitted), and then handle their own delivery (i.e., carry) to their place of business. This form of wholesaling has begun to expand outside of the food industry as large wholesale club, such as Costco and Sam's Club, allow qualified businesses to purchase products intended for retail sale.
- Truck – As the name suggests, truck wholesaling operations are primarily run out of a truck that is stocked with products. These wholesalers often have assigned geographic territories where they regularly visit buyer's locations. In most cases these wholesalers offer specialty product lines with many being found in the retail food industry and the industrial markets.
- Rack Jobber – Similar to truck wholesalers, the rack jobber also sells from a truck. However, the main difference is that rack jobbers are assigned and manage space (i.e., racks) within a retailer's store. The rack jobber is then responsible for maintaining inventory and may even handle other marketing duties such as setting product price. This form of wholesaling is most prominent with magazines, candy, bakery, and health-and-beauty products. In some trades the name rack jobber is being replaced by the name service merchandiser.
- Drop Shipper – Wholesalers in this category never take physical possession of products, though they do take ownership. Essentially they are shipping coordinators who receive orders from customers and then place the order with a product supplier. Shipping is then arranged so that the supplier ships directly to the drop shipper's customer. Drop shipping is often most useful when very large orders are placed where transportation and product handling costs are high if there are too many distribution points.
- Broker – A far less obvious type of wholesaler is the broker, who is responsible for bringing buyers and sellers together. However, brokers do not take ownership of products and often never handle the product. Brokers are paid based on a pre-negotiated percentage of the sale (i.e., commission) by the side that hires their services. In most cases the relationship that develops between the broker and the

buyer and seller is short-term and only lasts through the purchase. Brokers can be found in the food industry, importing/exporting and real estate.

- Agent – Similar to brokers, agents also bring buyers and seller together though they tend to work for clients for an extended period of time. As with brokers, agents generally are paid on commission. A common type of agent is the Manufacturers’ Representative who essentially assumes the role of a sales force for a client. Manufacturers’ Reps may handle several non-competing product lines at the same time and during a single meeting with a perspective buyer may discuss many products.

**Wholesaler Summary Chart**

Below we summarize each wholesale format by using the five categorization characteristics. The characteristics identified for each format should be viewed as the “most likely” case for that format and are not necessarily representative of all wholesalers that fall into this format.

<b>Format</b>	<b>Products Carried</b>	<b>Promotional Activities</b>	<b>Distribution Method</b>	<b>Service Level</b>	<b>Product Ownership</b>
General Merchandise	general	limited	stationary not accessible	limited	take title
Specialty Merchandise	specialty	limited	stationary may be accessible	full limited	take title
Contractual	general specialty	extensive	stationary not accessible	full	take title
Industrial Distributor	general specialty	limited	stationary may be accessible	limited	take title
Cash-and-Carry	specialty	limited	stationary accessible	no	take title
Truck	specialty	limited	non-stationary mobile	limited	take title
Rack Jobber	specialty	limited	non-stationary mobile	limited	take title
Drop Shipper	specialty	limited	non-stationary no facilities	limited	take title
Broker	specialty	extensive	non-stationary no facilities	limited	do not take title
Agent	specialty	extensive	non-stationary no facilities	limited	do not take title