

Who owns the customer?

Distributors, CEM's or no one?

By **Harry J. Abramson**
President
Electronic Salesmasters Inc.
Beachwood, OH

“Who Owns The Customer?” is a dumb and annoying phrase. Nonetheless, I still hear some distributor salespeople make the claim that “I own that account”. I seriously question that the salesperson would have the courage to make that brash and ignorant statement in front of their customers purchasing staffers. What an indignity!

Does saying “I have account control” sound better? NO! Words like these suggest the customer may be motivated by some sort of incentive as opposed to good business practices. Sure, it still happens, but it's rare-very rare. Today distributors, representatives and manufacturers are more professional, sophisticated and, certainly, more ethical than yesteryear.

Since the Electronic Distribution Show and this magazine focus on distribution, this article will, too. So why do salespeople lay claim to account ownership? Keep in mind that all of the reasons below can change-and rather suddenly in light of the preponderance of mergers and acquisitions:

- In-house stores (They come and go.)
- History of being prime supplier (Nothing is forever.)
- Contract agreements (They can be broken.)
- Relationships (People move on.)
- Letter of Intent (Totally non-committal)

The “account ownership” mentality is precisely what gets salespeople in trouble. It often means they are taking competition for granted or, even worse, that they do not respect competition.

Distributors must create value

The most popular new measuring stick for companies is value creation. Distributors exist to create value for their customers, suppliers and stockholders. Customers count value in terms of whether distributors beat the competition by providing services faster, better and cheaper—as well as various as-

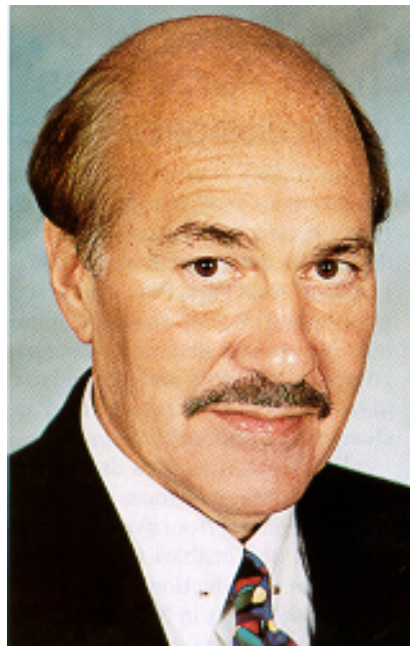
pects of asset management. The problem is that many buyers resist paying the distributor for value-added services and it has turned into a “no charge” selling tool.

Suppliers measure value from a distributor in terms of demand fulfillment, handling of receivables, quick turn business and often value added product modifications. Stockholders and investors keep score by tracking the price of the stock.

All of us have to understand how our companies can contribute to value creation. We should have a grasp of what the “value drivers” are in our organizations. Many distributors fail to clarify which activities drive value and which only drive cost. Distributors must understand which is which in order to convey the message to their customers and suppliers and thereby drive influence - not control!

Outsourcing

Back to my earlier point—that business conditions can change quite suddenly. Recent history tells us that your OEM customer may outsource their manufacturing to a CEM (Contract Electronic Manufacturer) where you



Harry Abramson

may have no relationships, let alone “account control.” Besides, the CEM may be out of the territory with their own favorite vendors, who sell them at single digit margins. Not a pretty picture considering Arrow's Steve Kauffman aspires to take his company's GPM back to 21 %. Neither he nor other distributors will easily accomplish this goal as CEM's grow appreciably faster than distribution. CEM's are often getting better prices than distributors. CEM's tried to get disty-like privileges several years ago. Now they're bigger and control over 50% of the board level assembly in the U.S. I say “It's just a matter of time.” Now who will have more influence on the customer - the distributor or the CEM? ? ?

Is it possible?

How do you achieve total and complete account control? It's easy if you are a supplier who succumbs to the euphoric notion of Rob Rodin's recent book *Free, Perfect and Now*. It ain't gonna happen and neither will account control.

Survivors

It should be obvious by now that to survive in the 21st century distributors, manufacturers and representatives must provide cost-effective products and services. Education of our customers must continue for them to understand “total procurement cost”, especially at a higher price, or many companies will fail. Mediocre service won't cut it! Channel partners must work together as unselfish team members in order to grow and flourish – and not at the expense of each other.

Adding value

All distributors feel that they add some unique value to their customer base. Personally, they all seem the same to me, even though the words and acronyms are different. Bottom line: Never before have buyers been more acutely sensitive to performance, and value. Now they have all the tools and systems to measure it. Keep in mind that their computers memory is better

than their personal one. It is not just issues of price, delivery, quality and a cornucopia of "value added" (tired old term) services—It's the big picture! So let's not think in terms of who owns the account, but more in terms of the bottom line - PERFORMANCE.

There are a lot of catch phrases and the following are meaningless without explanation:

We add value.
We make a difference.
We make our customers deliriously happy.
We exceed our customers' expectations.
as opposed to. . .
We'll make you more profitable and tell you why.
We'll make you smarter and explain the process.
We'll help you change and explain consultive selling.
We'll deal with you honestly. This is a given - I hope!

Disintermediation

Distributors don't want to be looked upon as middlemen or intermediaries, but they are more so than a manufacturers' rep. Why? Because the rep is an outsource of a company's sales function with non-competing lines. The distributor's primary function is fulfillment, but they're having difficulty maintaining huge inventories and selling at single digit margins. However, UPS, Roadway and Federal Express are willing to do it for any supplier.

Distributors seem to be more vulnerable, because they have a greater degree of "sameness" and CEM's will have more clout and purchasing power than they do.

The Internet implication

Some industry analysts believe e-commerce will make "dead meat" of middlemen, especially with price and cost-cutting pressures of our economy. I believe it's conjecture for now, but **watch out!** Distributors in their most basic form are **resellers**.

Distributor considerations

Distributor margins are falling faster than the proverbial lead balloon. Why? CEM's! Can distributors retire debt service after an acquisition while selling CEM's at single digit margins? I think not. Will margins improve? Yes, in a sellers' market, but there is no guarantee that suppliers will allocate parts to distributors sooner than the

multi-billion dollar CEM's. The question is, "Who has the clout?" How long will they have it? Got the picture? Collision course!!!

Change will continue to accelerate! Distribution will become even more complex and so will the challenges they face. One inescapable requirement for success is that we, ourselves, must change as managers and salespeople to keep pace with our customers' needs.

It is going to become more difficult for distributors to assert account influence when OEM's can fulfill many of

the same basic services at a lower cost structure. The bottom line squeeze will be "ON" and the notion of distributor account control will definitely be "OFF".

Again, there is no such thing as "account control," but if there is any single influence that will dictate the direction of our businesses and that of our customers, it's **technology!**

Free market pricing

Mr. Distributor, if you thought your margins were eroding, wait until "free market pricing" via the Internet takes hold. That promises to be a real joy ride.