

This is a book about working relationships and how, if properly managed, they can lead to profit and business success across the supply chain. It draws on new and unprecedented research to profile the thorniest problems and opportunities often faced by wholesale distribution firms in their dealings with their manufacturer-suppliers.¹ Then it recommends how to build and sustain successes, fix emerging conflicts, and, if necessary, terminate unfortunate working relationships that just won't function in the future—if they ever worked properly in the past.

The All-Important Working Relationship

Although wholesaler-distributors² are the main focus of this book, it takes two to tango. For this reason, the book contains considerable information and guidance for manufacturer managers who want to be part of productive and equitable working relationships with their wholesaler-distributors. We will also address the specific

¹ Throughout this book, we use the terms “manufacturer” and “supplier.” In today’s business world, it is not always clear who actually did the manufacturing versus assembly versus resale. In any case, the terms represent firms from which wholesaler-distributors purchase the products they in turn sell to end-use customers.

² For stylistic purposes, we mix the terms “wholesaler-distributor,” “distributor,” and “reseller.” In each case, we are referring to a broad class of companies that take title and physical possession of goods, augment them with physical modifications, and resell them often as part of a complex assortment of goods and services to retail or end-use customers.

needs of midsized and smaller wholesaler-distributor firms. Unlike the distribution giants able to muscle concessions from their suppliers—particularly smaller manufacturers—the smaller, regional, local, and often family-owned distributors are frequently vulnerable to the practices of much larger suppliers.

At best, the typical wholesaler-distributor works as a partner with its suppliers, particularly the key suppliers who provide the wholesaler-distributor's core profit and frequently its market identity as well. True partnerships are rare, however, and working relationships come in many other flavors. How well various working relationships serve wholesaler-distributors is a key question raised in this book and answered with new research from the marketplace. The voice of the distributor is heard loud and clear in the interviews conducted for this book as well as their survey responses. Through the insights gained, we have been able to recommend relationship tools that can bring distributors and manufacturers to the table to analyze their self-interests and identify mutual goals to find ways to work together profitably. And, by reviewing the causes of the conflicts that are all too common within value chains, we have been able to develop a checklist for identifying and nurturing the most important elements of collaboration.

Standing on the Shoulders of Giants

The initial impetus for this project was the work of Jim Narus and Jim Anderson, who explored the effects of various manufacturer support programs, services, and incentives on overall wholesaler-distributor performance (Narus & Anderson, 1987, 1988). Since that seminal work, the landscape of support has changed radically with the wide adoption of Internet-based technologies, but the concept of alignment has prevailed and proven itself to be far more important than manufacturer support programs. Alignment captures the extent to which goal congruence exists among wholesaler-distributor and manufacturer self-interests and the

degree to which complementary resources and capabilities enable the two firms to capitalize on marketplace opportunities (Anderson, Narus, & Narayandas, 2009).

Unambiguous in concept, alignment is often difficult to implement. The key is to treat alignment as a management process. “Most organizations attempt to create synergy, but in a fragmented, uncoordinated way...The alignment process, much like budgeting, should be part of the annual governance cycle. Whenever plans are changed at the enterprise or business unit level, executives likely need to realign the organization with the new direction” (Kaplan & Norton, 2006, p. 1-2). What this means to wholesaler-distributor managements dealing with their suppliers is profound.

Marks, Horan, and Emerson (2006) advanced the Law of Legitimate Cross-Purposes and the Law of Perpetual Change to describe how distributors and managers can find common ground despite their divergent self-interests. Jap and Anderson discovered the importance of goal congruence and complementary resources and capabilities on successful wholesaler-distributor and manufacturer working relationships (Jap, 1999; Jap & Anderson, 2003, 2007). Although they did not recognize what they were studying as alignment, they did actually provide the initial spade work for its development as a central working relationship concept. Thus, our research efforts and conclusions in this book are built on a foundation supported by Narus and Anderson’s work on channel positioning; Marks, Horan, and Emerson’s efforts related in *Working at Cross-Purposes: How Distributors and Manufacturers Can Manage Conflict Successfully* (available from www.nawpubs.org); and Jap and Anderson’s insights into goal congruence.

The research that we report in this book was extensive and multifaceted. Our research team prominently included Ralph Oliva and Gary Holler of the Institute for the Study of Business Markets (ISBM) at the Pennsylvania State University (Penn State) who were assisted by three teams of MBA students, as well as Jim Guill, Jim

Manocchi, and Nandini Bose of Deloitte Consulting. We began by reviewing existing books and articles on wholesaler-distributor working relationships. We supplemented our findings with a series of personal or telephone interviews with 17 wholesaler-distributor managers and managers from 5 manufacturing firms located across the country. Based upon these initial efforts, we crafted a questionnaire to test our key hypotheses. You can review that instrument in appendix A. NAW made that questionnaire available online to senior managers of wholesale distribution companies nationwide. Some 238 managers took the time to respond. The key findings we report in this book capture the essence of their views and experiences with pivotal relationship management issues.

Complementing the survey efforts were a series of three practicum projects conducted by teams of students working toward their master's of business administration (MBA) degrees at the Smeal College of Business at Penn State. The three teams—called the Aligners, the Disruptors, and the Fixers—studied the causes of alignment and misalignment in working relationships, market forces that disrupt working relationships, and methods for fixing broken working relationships, respectively. In appendix B, you can read their assignment objectives.

A Roadmap to the Book

Based upon personal interviews with managers of wholesaler-distributors and manufacturers, an online survey of wholesaler-distributor executives, and a series of field study projects by students at Penn State University pursuing their master's degrees of business administration, we crafted this book to provide managers with insights and guidelines for successfully managing working relationships between wholesaler-distributors and manufacturers. Following a brief introduction to the topic in chapter 1, we divide the book into four parts: “The Fundamentals,” “Diagnostics,” “Action Plans,” and “A Final Word.”

The Fundamentals

We begin the heart of the book in chapter 2 by pointing out that you are managing a portfolio of relationships, not just one kind. These fall along a continuum from purely transactional relationships (a simple exchange of goods for money) to purely collaborative (close partnerships). Each of these categories of working relationships varies in terms of the content exchanged (products versus services versus technology versus capabilities), the duration of exchanges (the time frame), and the importance of the business. Naturally, managers must direct significant time, effort, and resources to ensuring that these partnerships deliver as expected.

Chapter 3 reveals that our research demonstrates that the key to high-quality working relationships is alignment. Firms do so by seeking goal congruence and leveraging complementary resources and capabilities. To align the efforts of both firms in a working relationship, managers must balance shared, contributory, and benign individual-firm goals, while reconciling conflicting individual-firm goals. The second half of the chapter examines the task of leveraging complementary resources and capabilities. Doing so requires that managers from both firms identify the ideal set of complementary resources and capabilities that their respective firms need and then partner selectively.

In chapter 4, we examine manufacturer support programs, services, and incentives. Our research findings clearly show that support increases the extent of alignment within a working relationship. Overall, we demonstrate that the most important support comes in the form of financial rewards, research on market conditions, and marketing efforts. However, we show that the importance of those support programs as well as other incentives varies as a function of three wholesaler-distributor business models—traditional wholesaler-distributors, bundle or solution sellers, and full-service providers. And, we point out that far too many manufacturers don't understand this distinction and end up providing the wrong support to their distributors.

Marketplace conditions can influence the quality of a wholesaler-distributor and manufacturer working relationship. Chapter 5 identifies nine significant working relationship disruptors and describes how firms can keep abreast of such changes.

Diagnostics

In chapter 6, we discuss how managers can set up and manage a market-based system for monitoring the state of their firms' working relationships using four categories of metrics. We discuss how these types of metrics can and should be blended into an effective relationship assessment system.

Action Plans

In the latter part of the book, we present four chapters that provide specific actions that managers can take to successfully manage wholesaler-distributor and manufacturer working relationships. Each chapter addresses a separate aspect of "The Fundamentals."

Chapter 7 provides a review of methods for building and sustaining working relationship alignment. We furnish process recommendations on how to select partners. In our discussions, we identify critical characteristics needed in a partner firm and also provide some guidance on how to deal with suppliers who are not partners. Of note, we advocate joint annual planning as an essential ingredient for continuing working partnership success.

The next three chapters of the book explore the task of managing working relationships under three sets of market conditions. In chapter 8, we review the best of relationship conditions—green markets, which are characterized by their stability and growth. Here, managers from both firms strive for continuous improvements. In yellow markets, conditions are more turbulent. They demand realignment with a given working relationships. In chapter 9, we explore the task of realignment. As more and more disagreements between firms are likely to emerge during these conditions, we discuss various conflict resolution mechanisms and suggest when and

how they should be employed. Chapter 10 addresses the dire consequences of a red market, one in which significant environmental changes threaten the termination of a given working relationship between wholesaler-distributor and manufacturer. We contend that each firm should establish a best alternative to a relationship (BAR) to specify the minimum acceptable outcomes from a working relationship and provide a viable course of action for a firm to take if the working relationship does not meet those standards. We outline the steps for creating and initiate a sound end game.

A Final Word

The final chapter summarizes the main concepts of the book, which were derived from its underpinnings in the research. We challenge you to apply your new skills and the tools provided in this book to your own firm's working relationships with its suppliers.

Let's Get Started

In the following pages, we provide a comprehensive roadmap for managing wholesaler-distributor and manufacturer working relationships. In a nutshell, it comes down to securing proper alignment with suppliers; insisting on the right mix of support programs, services, and incentives that match the requirements of wholesaler-distributor business models; and adapting the nature of those working relationships to meet changing marketplace demands over time. Sounds daunting, doesn't it? Let's get to work showing you how it can be done and helping you take your working relationships to the next level of profitability and success.

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