Changing, Even in Good Times

Competition causes manufacturers and distributors to rethink the Green Industry's marketing chain.

by Bruce F. Shank, executive editor

After a slow start this spring, Green Industry distributors and manufacturers have rebounded making 1984 a considerable improvement over the past three years.

The number of products and product lines available to distributors continues to expand. Competition between product lines and between distributors is increasing.

The landscape manager and golf course superintendent benefit from this healthy situation. However, distributors in some areas are concerned. Credit problems leftover from the recession, increased competition, and changing distribution patterns are shaking out a few distributors and may eventually cause long-term adjustments to product distribution.

Distribution patterns

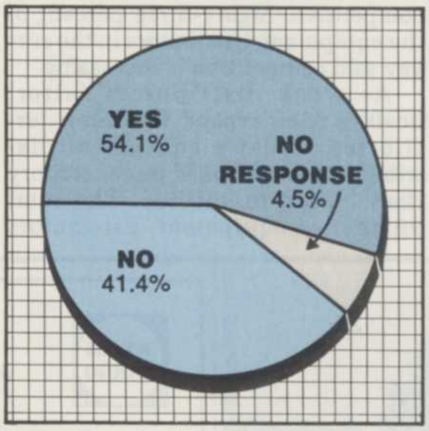
Manufacturers and distributors are taking a hard look at distribution chains. Forty-three percent of chemical and equipment distributors want more protection from other distributors in their territory. They also want to eliminate unnecessary layers (and commissions) in the distribution chain.

A variety of distribution arrangements exist. A chemical distributor often carries a number of competing brands and is not protected by a territory to the same degree as an equipment distributor. For this reason, manufacturers are less inclined to promote the distributor as well as the product.

Many equipment distributors (31 percent) carry chemicals to provide full service to their customers. Large regional distributors; such as LESCO, The Andersons, Lebanon, and United Agri-Products; are expanding their reach and are now competing with small regional chemical suppliers.

Vastly increased competition results. More than 90 percent of the distributors in the survey said excessive competition and price cutting are problems. Many small chemical suppliers complain they can't compete on bids with the large regionals due to lower volume. They say profit margins are slipping dangerously and formerly loyal customers are taking the lower price of the large regional over the service of the small local supplier. Seventy-five percent think increased competition will force out a number of small chemical suppliers.

As primary manufacturers expand their lines, are they pressuring you to replace equipment lines you carry with theirs?*



* Answers based on 133 equipment suppliers

Chemical manufacturers are enjoying the purchases by large regional suppliers, reformulators, and large buyers like ChemLawn. Chemical product managers can plan production based on a few large orders rather than speculating on the purchases of many small buyers.

In some cases, chemical manufacturers can make a safe profit by selling technical or bulk chemicals to large national reformulators such as O. M. Scott, PBI Gordon, and Mallinckrodt. A few manufacturers, like Stauffer, prefer to sell to reformulators than to sell to hundreds of distributors. In the future, large chemical companies may be inclined to leave selling the end user up to large reformulators.

Forty-two percent of the chemical distributors report increased demand by customers for bulk chemicals and custom blending. Distributors with reformulating ability have a definite advantage in these cases.

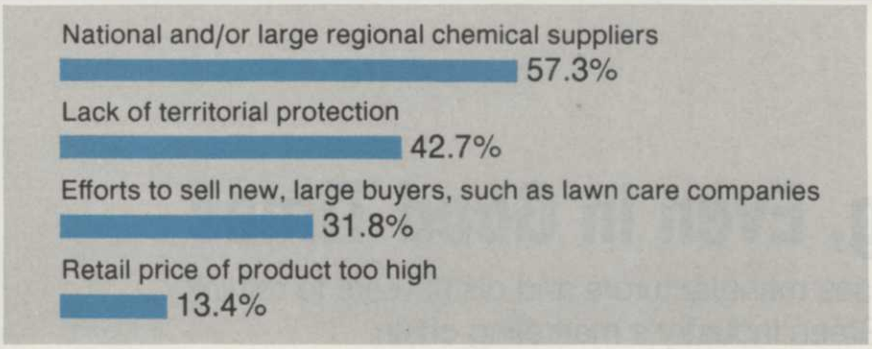
One possible scenario for future chemical distribution is the large reformulator supplying bulk products and the small local supplier supplying small quantities, much like the grocery store and the convenience store. Forty-eight percent of the suppliers said this is happening already. Forty percent indicated local distributors will stop trying to compete with larger suppliers and raise their prices to or near suggested retail.

Equipment distributors receive territorial protection because they need it. The investment in parts, inventory, service department, and labor is sizeable. For every three chemical distributors, there is one equipment distributor. For example, Jacobsen has roughly 50 U.S. professional turf distributors and SDS Biotech has about 150 turf chemical outlets.

Equipment distributors are loyal to one primary line, such as Toro, Jacobsen, and Ransomes; and usually carry a number of secondary lines, such as National, Cushman/Ryan, and Bunton that don't compete. Therefore, manufacturers of primary lines are willing to promote their products and the distributor.

Changes in equipment distribution are coming about for two main reasons. First, primary manufacturers have begun to make products which compete with secondary lines, such as walk-behind rotary mowers. For example, a Toro distributor who carried Bunton as a secondary line had competing products on his showroom floor this year. To make it a little more exciting, Bunton started importing a greens mower. Another example is Bobcat (Wisconsin Marine) which

What are the main reasons for price cutting?



was a common secondary line until Ransomes bought Bobcat.

The distributor is up tight because he is mainly dependent upon the primary manufacturer. The primary manufacturer is up tight because he is providing considerable support to a distributor who now carries a competitor's product.

Fifty-four percent of the distributors said primary manufacturers are pressuring them to replace secondary equipment lines with theirs.

Some distributors indicate the walk-behind rotary business is too competitive with John Deere and Exmark, as well as the primary manufacturers, entering the race. This may discourage primary manufacturers from expanding with products where short liners can undercut them.

The second major reason for changes in equipment distribution is the 20 to 25 percent distributors pay dealers. In certain areas, such as the Northwest and the Mid-Atlantic, distributors often have dealer networks. Distributors are seeking ways to save the dealer cut so they can be more competitive. Eighty-three percent of the equipment distributors in the survey said competition is increasing.

As weak distributors falter, healthy ones expand into their territories. Today's equipment distributor seems to need more territory than before to survive. The total number of equipment distributors may drop in the future as a result.

Instead of maintaining a complete inventory at many locations, the distributor of tomorrow may have a central warehouse and small sales and service outlets in branches. In this way, the distributor receives the advantages of volume buying without the overhead of separate full branches.

The service truck may replace the branch service department as well. Nearly 70 percent of the distributors responding now offer job-site service. A customer's mechanic can talk to the distributor's mechanic by phone to correct many problems and the service truck can arrive at the customer's location at the same time parts arrive.

Advanced factory parts delivery systems are enabling forty percent of the distributors to reduce their parts inventories. Computerization at the distributor and manufacturer level will increase the efficiency of parts departments.

Thirty percent of the distributors reported their service departments were a break even or losing proposition. It also takes them an average of five days to turn around a piece of equipment brought to their shops for service. Faster, more profitable options to service are being sought.

Distributors are not satisfied to act as service and parts suppliers to manufacturers when equipment is sold directly by the manufacturer to large buyers. Half the distributors said manufacturers they represent also sell direct to government or other large buyers within their territory. The assumption that the service business will make up for the loss in the sale is incorrect. A fifth of the distributors reported manufacturers also sell parts directly to equipment owners.

Advertising support

Overall, distributors of chemicals and equipment indicate a general satisfaction with support provided by manufacturers. Distributors receive a variety of sales incentives from manufacturers; including product brochures, advertising aids, show support, early order programs, and inventory financing packages. Manufacturers back up regional distributors with national advertising and marketing programs.

More than 80 percent of the 150 distributors responding said manufacturers share advertising costs. The most common assistance is direct mail and show pamphlets. Distributors use direct mail and show exhibits more than other marketing tools to support sales efforts. Half the distributors don't use these tools despite assistance from manufacturers.

One third of the distributors use newspaper and telephone directory advertising. One out of nine buys radio time and one out of 20 buys television time.

District sales managers of some manufacturers have promotional budgets and supply artwork and copy for advertising in regional newsletters and magazines. A marketing allowance, based upon sales by the distributor, is another way manufacturers help distributors pay advertising and show costs.

Nearly 90 percent of the distributors believe national advertising by manufactureres helps them sell in their area.

Manufacturers often help distributors finance inventories. The best deal seems to be a no-interest, no-payment floorplan program offered by a major equipment manufacturer. If the distributor commits to an inventory by August 1, he will not have to start paying interest on the equipment until the following August.

Early order programs are common for both chemical and equipment distributors. Reductions of ten percent or more are offered to distributors who order equipment in the fall instead of the next spring.

Delayed billing up to five months is offered by many chemical manufacturers. For example, a distributor may extend customer billing 60 days and the manufacturer will extend the distributor 90 days.

Seventy percent of the chemical distributors polled are concerned about their liability in case of misuse of pesticides by their customers. Half provide seminars to help prevent accidents by customers. They feel pesticide certification is an adequate test of safe pesticide use, but they (80 percent) believe all applicators of restricted use pesticides should be certified. **WT&T**