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## MERCHANT WHOLESALING IN THE UNITED STATES

Today wholesaling in the United States is a big, growing industry that is changing rapidly and significantly. In this article I want to put wholesaling in a better and more realistic perspective, and especially to show how it is changing, and must continue to change, in response to the challenges of the present-day American economy.

### 1. WHOLESALER-DISTRIBUTORS

First of all, who are the wholesaler-distributors? Today there are some 205,000 independent merchant wholesalers. Altogether they will generate more than \$ 800 billion in revenues in 1979. They are a highly diverse group — i.e., big, small, profitable, unprofitable, satiated, hungry, smart, dumb, conservative, and change-seeking. The new wholesaling milieu is a „scrambled” world in which there are wholesalers who manufacture, wholesalers who retail, and wholesalers who are uncertain whether they are producers, wholesalers, jobbers, retailers, financiers, or whatever.

In a number of ways, the wholesaler feels the impact of constant changes and innovations in the whole marketplace. Technological advances, product line proliferation, changing retail structures, and social adjustments are only a few of the real problems that complicate his life. Each improved product passing through the wholesale level generates a new demand for investments in warehouse space, market analysis, and sales training, and for myriad adjustments in the wholesaler's information systems. Each major retailing shift designed to satisfy customer needs obliges him to adjust his selling patterns, to review the

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customer service levels, to study product assortments, and to revise his strategies.

He must also deal with the growing aspirations of his once-content employees, the changing values of the available labor pool, and the increasing demands of the community for social service. The typical wholesaler faces such challenges with each new day — often without the resources of the larger manufacturing organizations that sell to and through him. If one still regards today's wholesaler as that traditional, unsophisticated middleman of the past, he must wonder how the wholesaler has survived at all — let alone grown strong — in our complicated social and economic system.

#### FUNCTIONS AND CHARACTERISTICS

An initial problem in discussing wholesaling is the matter of definition. The Webster dictionary defines the wholesaler as „a merchant middleman who sells chiefly to retailers, other merchants, or industrial, institutional, and commercial users mainly for resale or business use". This is somewhat vague for my present purposes, and I should like to narrow down the definition of the wholesaler. The wholesaler is one who:

1. Purchases goods from manufacturers for his own account (as distinguished from the agent, who typically does not purchase for his own account) and resells them to other businesses.
2. Operates one or more warehouses in which he receives and takes title to goods, stores them, and later reships them. (In some cases, he may have goods shipped directly by the manufacturer to the customer, so the goods do not actually pass through his warehouse. Still, a good part, and usually all, of the goods which the wholesaler handles do, in fact, pass through his warehouse).

The wholesaler's customer group varies according to his product mix. For example, there is one broad class of wholesalers who sell to retailers such diverse commodities as food, drugs, tobacco, hardware, dry goods, and appliances. Another class sells items as food, paper products, medical goods and supplies, and so on, to restaurants and institutions. A third class sells building materials to builders and contractors. A fourth class sells manufacturing supplies such as tools, chemicals, abrasives, and so on, to manufacturers. In the complex automotive parts aftermarket, there are even warehouse distributors who sell only to other jobbers — i.e., wholesalers who sell to retail outlets.

Finally, we may classify wholesalers in terms of ownership. The wholesaling function can be performed by „manufacturers' branches"

or by retail chains. The branches are captive wholesaling operations owned and operated by a manufacturer; this practice is common in electrical supplies (e.g., Westinghouse Electric Supply Company and General Electric Supply Company), and in plumbing (e.g., Crane Supply Company and American Standard). Captive branch operations are also common among truck manufacturers, full-line farm -equipment manufacturers, and the large producers of major appliances. In the retail food field, A. P. Groger, and other chains operate warehouse systems which do, in fact, perform a wholesaling function.

Here I shall be mainly concerned with the merchant wholesaler as described by the U.S. Department of Commerce. The merchant wholesaling house may be privately or publicly owned, but in either case it stands in the market as a distinctive, independent enterprise. According to the Department's definition, the merchant wholesaler is primarily engaged in buying and selling in the domestic market. More specifically, he buys and sells merchandise on his own account; sells principally to retailers or to industrial, commercial, or professional users; usually carries stocks; assembles in large lots and generally redistributes in small quantities, usually through salesmen; extends credit to customers; makes deliveries; services merchandise sold; and renders advice to the trade.

While the entire wholesaling category includes factory branches, petroleum bulk stations, merchandise agents, brokers, and so on, the merchant wholesaling category excludes such operations.

#### CURRENT IMPACT

Sales by merchant wholesalers in 1979 are expected to reach approximately \$ 810 billion, rising 11 percent above an estimated \$ 730 billion level in 1978. Sales by durable goods wholesalers are expected to advance at a 13 percent rate to \$ 385 billion. Nondurable goods wholesalers should realize a sales increase of 9 percent of \$ 425 billion.

Employment, which has grown 3 percent each year since the 1974—1975 recession, is expected to expand at about the same rate in 1979. Merchant wholesalers inventories are expected to grow at about the same rate as sales in 1979, allowing a continuation of the past three years' stability in stock-sales ratios.

The 1978 sales pattern was again characteristic of a business cycle upswing, with the rate of sales gains in durable goods about double that in nondurables: 19 percent compared with 9 percent. Wholesalers in 10 of 16 major commodity lines experienced double-digit growth

rates, led by gains approaching 20 percent or more in motor vehicles' and equipment; machinery, equipment and supplies; electrical goods; and furniture and furnishings. Inflation accounted for part of these sales gains, although it slowed to a 3.1 percent rate in wholesale trade during 1977 compared to 5.9 percent for overall GNP, according to Commerce's Bureau of Economic Analysis. The total extent of inflation in wholesale sales is not known, but estimates are available in certain commodity lines. For example, the National and Southern Industrial Distributors Association estimate the 1977 inflation level at 7.1 percent (up from 6.2 percent in 1976), which accounted for approximately half of the 1977 sales increase.

On balance, then, the independent wholesaler remains a vital and significant part of the American economic system. So long as there are men willing to take on the risks, problems, and specialized functions of handling and selling a changing variety of goods to changing markets, there will be a large, vital, and independently operated wholesaler-distributor sector in the U.S. economy.

The wholesaler's success will depend on his response to the manufacturers and retail chains that want to absorb his function and on his ability to adapt and apply new concepts and techniques. Just as the manufacturers' strategies change with technological, political, and social developments, so must those of the merchant wholesalers.

It is possible to identify some commodity wholesalers who will pass from the scene. Others will swiftly shift to new commodities. Some will build regional or national networks of warehouses along single commodity lines, as have the paper merchants, electrical supply companies, and automotive parts distributors. Others will form tighter wholesale-retail franchised group, such as Super Valu, Ace Hardware, Butler Brothers, and Western Auto. Still others will become multicommodity super-marketing systems, with all the accoutrements of sophisticated marketing technology.

## 2. CHANGE IN ATTITUDE

Many wholesalers have stopped regarding themselves as strictly warehousing or break-bulk points in the distribution complex, and have begun to stimulate and respond to their markets on their own. This new marketing posture requires that the wholesaler dissect his available markets to determine which segments are potentially the most profitable and exploitable ones. In some instances, he has shifted selling emphasis from traditional markets to new ones. For example:

Many electrical and electronics distributors have directed a new sales effort in recent years to industrial and commercial markets, to supplement their established electrical-contractor market.

The progressive plumbing house has expanded its market from nearly complete reliance on master plumbers and craftsmen to include industrial accounts as well.

Many grocery wholesalers, both the voluntary food groups and those independents who still exist, have added a sales effort geared to the growing institutional market, including hotels, airlines, restaurants, hospitals, and schools.

Interestingly, the 1967 business census showed that merchant wholesaler sales for the first time were divided about equally between retailers (or resellers) and business and industrial users. Today, business and industrial users account for more than 60% of wholesale sales.

Market analysis is strongly influencing the type and variety of merchandise and commodity lines handled by the wholesaler. One effect is that the wholesaler is now increasingly sensitive in his selection of product lines, and tends to review and adjust his product range in response to the needs of his various market segments. At the same time, however, he is more cautious than before; he carefully weighs the cost of entry into new markets against the cost of satisfying new needs of established markets.

But successful wholesaling is founded on the service satisfactions of proximity, broad product assortments, and rapid response to the needs of local retailers, contractors, and other customers. Wholesaling organizations by nature must count as their most important resource their intimate knowledge of the product and service requirements of a particular market segment. In the sense that manufacturers can best rely on their know-how for producing for selected markets, wholesalers can best rely on their know-how for servicing selected markets. Venturing beyond the available knowledge and skill requires significant investments of time and money, and instant success is by no means guaranteed.

The point to be emphasized here is that long-run truth must arise from short-run reality. The cost of multiple short-run adjustments to exotic market segments is real and high. A line of building materials can be added to the ordinary lines handled by a paper merchant, for example, but the attendant traumas militate against any significant increase in short-run profit.

### 3. BASIC TRENDS AND CHALLENGES

This conglomerate-type expansion is not the most significant kind of change that is taking place in wholesaling patterns today. The more important developments lie closer to the traditional operations of wholesaling; and within the current swirl of changing patterns one can distinguish several major trends that are shaping the future of wholesale distribution.

#### INCREASED INTEGRATION

Historically, the goods-producing and distribution area of the economy has been separated into four distinct levels—manufacturing, wholesaling, retailing, and consuming. This structure of levels is becoming blurred. Because of wholesale-retail franchising, conglomeration, and joint venturing, vertical and horizontal marketing systems are emerging. In some of these systems the merchant wholesaler holds a pivotal position.

Most interestingly, and certainly significantly, these systems seem to have evolved through creative entrepreneurship rather than as a result of studied corporate effort. If this is true, then the trend is quite likely to continue as the merchant wholesaler (who is essentially an entrepreneur) becomes more sophisticated and searches for new opportunities.

#### MORE „AGGRESSIVE” SERVICE

As newer technologies develop, new marketing systems evolve, and more sophisticated financial concepts come into use, the merchant wholesalers are adjusting their service emphasis. For example:

— Among industrial equipment and supply distributors, service and merchandising efforts are being tailored in the light of both OEM (i.e., original equipment manufacture) and MRO (maintenance and repair operations) activities. To provide better service for its industrial customers, Englewood Electric Supply Company of Chicago has shifted its emphasis from personal-contact sales to programmed reordering via Data Phone.

— A number of wholesale druggists now handle the retail druggist's customer account records. This „service” is really a device to „tie” the retailer more closely to one wholesaler.

— In the grocery field, credit extension used to be a prime function of the wholesaler. Today almost all wholesale grocery products flow into retail stores on a cash basis, for all intents and purposes. Here

service has shifted from credit extension to merchandising support, inventory management counseling, and profit analysis on behalf of the retailer.

These changes suggest the vigor with which the wholesaler is searching for competitive advantage and his willingness to break with traditional methods. Such action, I might say, is hardly in keeping with the view of the wholesaler as a sterile anachronism.

#### PRICING AND CREDIT

The wholesaler has been critically reviewing pricing and credit policies, and he has made numerous changes. First, he has examined his prices in terms of the internal costs both to himself and to his customer. He has found, for example, that pricing arrangements such as system contracting ordinarily result in lower cost and better service for the customer than do older and more conventional pricing methods. Today's merchant wholesaler is likely to regard the improvement in service as a decisive advantage of system contracting, even given the fact that the selling price resulting from it may frequently be higher or lower than the current price in the open market. In fact, a number of wholesaler-distributors have been successful in switching customers from direct account buying by persuading them that „our price may be higher, from time to time, but remember — your internal possession costs will be lower because of our improved service”.

He is also reviewing credit policies and revising them to take advantage of sophisticated financial methods. For example, a major electrical and electronics distributor in Canada has revised his credit operations and policies to emphasize two modern concepts: a) a concept of accounts receivable management which includes the use of probability assessments of trade-category risks, and b) control by importance and exception. This revision led him to reduce the term of credit from 60 days to 40 days, a step that released a substantial amount of capital which he put to much more profitable use in building inventory and exploring his markets.

Wholesalers will continue to experiment with new approaches to pricing and credit. One evidence of this is that it is not unusual to find a wholesaler applying only direct costs to a special sale as a means of competitive pricing, ignoring traditional gross-margin requirements. Also, it is not unusual to find a wholesaler requesting an „extra 5%” from a supplier for a special deal and then giving the customer an extra 7%! This trend reflects the restlessness and inquisitiveness of modern wholesaling management.

## REGIONAL COVERAGE

One can cite numerous new approaches to regional coverage. Thus, subsidiary branches and „twigs” with limited, fast-moving inventories, but with ready access to the central warehouse, are sprouting all over the map. This new pattern is well established among plumbing, heating, and cooling distributors, and wholesalers of electrical parts and equipment are adopting it as rapidly as they can identify which items move fastest and where.

Of particular interest is a leapfrogging strategy of market penetration that some wholesalers are now following. Instead of an „oil slick” type of expansion, these wholesalers are trying „backfire” tactics: they are reaching out as far as 1,000 miles from headquarters to establish operations which hopefully will spread back to the home base. These new operations have been started both by missionary effort and through acquisition. This closing of distance is bound to increase as communication and physical-distribution techniques advance.

## ORGANIZATIONAL FORM AND SIZE

The trend toward larger corporate organizations through public financing, merger, and acquisition is pervading the economy, and it is particularly notable in the wholesaling area.

Current data indicate a definite shift from proprietorships and partnerships to the corporate form — the traditional, family-owned operations are declining in numbers, and the publicly held wholesaling corporations are increasing. There is every reason to expect this trend to continue, inasmuch as the formalized corporate structure enhances the ability to grow.

In our continued contact with wholesalers, my colleagues and I have also noted their mounting interest in setting values on their equity and their willingness to loosen their hold on ownership through public issues and employee stock plans. Tax laws have undoubtedly stimulated this open-mindedness, and in this sense have exerted a highly beneficial influence. Public ownership brings more capital resources and, at the same time, brings pressure on management to use more sophisticated management techniques. It also spurs a search for opportunities to automate in such areas as information systems, materials handling, order selection and processing, and delivery operations.

The Census Bureau also reports that, according to sales volume figures, merchant wholesalers are growing in size.

Still, of some 205,000 merchant wholesalers, only about 4,000 were generating over \$ 10 million in annual sales.

Evidently, the wholesaler-distributor is changing his corporate form and growing in size. This trend, along with other trends already noted, shows that wholesaling is responsive to its environment and that it can effectively adapt to the pressures for lower-cost distribution from both suppliers and customers.

The wholesalers must continue to interpret these pressures and respond and adapt to them. There is considerable evidence that wholesalers realize this. They have, for example, converted their trade associations into centers for researching present and future problems of distribution and educating their members about them. They have also pooled their efforts in order to gain from their collective experience.

At the center of the pool is the National Association of Wholesaler-Distributors, a federation of over 100 commodity-line organizations. It offers a comprehensive education and development program for all types of wholesalers. Its leadership has both followed and been spurred on by the individual commodity associations.

A second source of innovative leadership is the manufacturing sector. The wholesaler-distributor and his supplying manufacturer share a common goal: to reduce the cost of distribution while a) obtaining sufficient profit or adequate return on investment and b) paying for innovation necessary to ensure growth of the enterprise. The manufacturer, with his larger resources, has a strong motive for helping the wholesaler develop an operational network that can meet these challenges, and in fact many manufacturers have come forward to offer useful assistance. The wholesaler is basically an entrepreneurial personality, and frequently has plowed ahead on his own; but he is the first to acknowledge the important contribution that the manufacturing sector has made to improving financial, promotional, sales, and inventory management within wholesaling.

#### INVENTORY MANAGEMENT

Judging from various surveys and trade discussions, the wholesaler's major problem is inventory control and management. One might expect this, since inventory comprises the main part of a wholesaler's assets and the number of different items kept in stock can be very large indeed. Beyond that, however, our economy has annually generated a monumental number of new products, particularly in the past few years. As companies further increase their RD expenditures on new-

-product development, the inventory problem of wholesalers will grow more and more acute.

Product proliferation is most apparent in the grocery area, where the number of new-product introductions has been matched, and even exceeded, by the number of modifications in the size and packaging of older product lines. Similar product expansions are taking place in the automotive parts, electronic equipment and components, building materials, plumbing, heating, air conditioning, electrical, industrial papers, and numerous other lines. Today, for example, the automotive distributor carries about 70,000 identifiable items, as compared with 40,000 only ten years ago. Each item must be identified, labeled, handled, stacked, controlled, picked, packed, shipped, and invoiced — a very considerable job.

The sheer number of inventoried items presents an immense and unending problem for individual wholesalers. How much of what should he carry in stock, and when? One of the wholesaler's reactions has been to demand that manufacturers reduce the size and variety of the lines they offer. Another is „cherry picking” of lines.

These reactions are based on the wholesaler's realization that a full and complete line is often not the most profitable one. The practice of carrying every item in a commodity line in stock at all times is fast disappearing, and the practice of maintaining only 80—95% coverage is becoming increasingly common.

Manufacturers are also becoming increasingly sensitive to line profitability. American Standard, for example, recently reduced its line of brass fittings by more than 30%, much to the relief of many of its network members.

To come to grips with the inventory management problem, some wholesalers are selecting items and setting stock levels according to patterns of item demand and item movement. Unfortunately, however, the wholesalers who really practice modern inventory management techniques and strategies are few in number. Although it is true that every wholesaler has some sort of inventory control system, integrated systems of selling, buying, and financing are still quite rare.

#### SALES MANAGEMENT

Wholesalers have been sales-oriented, traditionally, but as a group they have not really caught on yet to modern, professional, systematic techniques of selling and promotion. Much of their sales effort has been personal selling by individual salesmen. Some exceptional wholesaler-distributors are demonstrating real imagination in this area, of course:

for instance, wholesale druggists are utilizing in-house telephone sales techniques to support the efforts of their more highly specialized personal salesmen. These personal salesmen limit their calls to key accounts, specialized customers, and prospects that show high potential. In fact, some drug wholesalers are taking 80% of their orders over the telephone.

Automatic reordering is another innovation that has been adopted to capture repeat sales and achieve lower costs. It is being used in electronics, plumbing, hospital supplies, and numerous other commodity lines. Since the automated approach frees salesmen from routine reordering tasks, it provides them with more time for specialized customer counselling and creative selling. In a number of cases, the use of „cash and carry” and catalog selling has substantially reduced the size of the wholesaler's sales force.

Wholesalers who operate multibranch companies are beginning to concentrate their big selling efforts on their customers' top management. They use their individual branches and twigs primarily to provide routine delivery service and to introduce product variations at the buyer level. This pattern indicates a trend toward divorcing the selling function from the product-handling function at the local level.

Personal salesmen in the wholesale area are also striving for deeper understanding of their customers' businesses. In particular, they are learning to help customers identify opportunities to reduce cost.

Unfortunately — once again — most wholesale selling is still conducted on a highly personal basis by relatively untrained and unsophisticated salesmen who call only on well-established customers. Still, wholesalers recognize the need for more systematic and sophisticated sales efforts, a need which is being satisfied in part by the National Association of Wholesaler-Distributors and subordinate commodity line associations.

Aggressive manufacturers who have important stakes in their distributor networks have also increased their efforts to provide wholesaler managers with educational support through their field representatives and, in some cases, through formal training programs.

#### PROMOTION MANAGEMENT

Manufacturers are also assisting their wholesalers with dealer shows, trade shows, advertising direct-mail promotion, and catalog preparation. Certain wholesalers, however, have rejected supplier assistance in this area in favor of proprietary programs that emphasize house identification. The wholesaler who elects this course is usually attemp-

ting to identify himself as the source for certain high-quality product lines, rather than as simply a „Brand X” wholesaler. This approach has been adopted by quite a number of wholesalers who deal in musical instruments and in the plumbing and heating and cooling lines.

The wholesaler faces not only product expansion, but a concomitant promotion expansion on the part of his suppliers. He is thus placed in the position of a „promotional censor”, who is literally forced to sift and screen the promotional items and concepts that are directed into his local market. He often bases such screening on a purely subjective set of criteria.

Despite what I should call intense promotional effort by the suppliers, wholesalers usually screen out between 78% and 90% of all promotions offered to them.

Currently then, the wholesaler-distributor lives in a world that is positive for him.

Many manufacturers have abandoned earlier attempts to „eliminate the middleman”. The manufacturer is much more concerned with his own return on investment. He is allocating factory resources to research and production rather than to distribution, which he knows has historically delivered a much lower return. The manufacturer is revising his small order policies, elevating prices in small quantity brackets, imposing annual minimum standards and taking other steps to divert dealers to wholesalers.

Market analysis is strongly influencing the type and variety of merchandise handled by the wholesaler. One effect is that the local or regional wholesaler is now increasingly selective in his choice of product lines, and tends to review and adjust his product mix in response to the needs of specialized markets. Some wholesalers have held down the number and variety of lines to raise service levels on selected items.

Some wholesalers have directed sales efforts to the growing institutional markets and selected national accounts.

Subsidiary branches with inventories geared to local market conditions have sprung up all over the nation. Wholesalers are also looking into miniwarehouses for limited, fast-moving inventories with ready access to a central warehouse.

There is a shift from proprietorships and partnerships to the corporate form of organization through public financing, mergers and acquisitions. The traditional family-owned operations are declining in number and the publicly held wholesaling corporations are on the increase.

There is a proliferation of new products in areas not previously

distributed by wholesalers, i.e., furniture, gifts, machines, word-processing equipment and supplies, etc.

Many wholesalers are increasing output per employee by adding electronic and mechanical facilities and better and continuous training of employees. Wholesalers are supporting the personal efforts of individual salesmen with in-house telephone sales, data phones and catalog sales promotion.

Specialized wholesalers are providing professional promotion counseling to generate new sales and profits for the dealer.

#### 4. THE FUTURE

Merchant wholesalers in the 1980's will differ from the manufacturer-producer orientation of the sixties and earlier due to growing customer demand for improved product services which began in the seventies. The basic new approach emerging in wholesale distribution is to place greater emphasis on consumer-oriented operations. While wholesalers historically have been classified according to the types of product they handled and the breadth of their product lines, wholesalers in the future will have greater concern for meeting the total needs of customers on a systems-concept or total-package basis.

For example, the petroleum distributor wants to be able to serve the total consumable product needs of service station and garage or maintenance facility customers. The food service equipment distributor is interested in providing the original facilities and serving the continuing needs of the food service industry. In some distributive fields the wholesale firm provides not only goods to the retailer but also price marking, credit, inventory management, computer services, and marketing support in advertising. Alternatives are examined with customers who are shown various methods of buying and selling supported by delivery schedule and credit payment plans aimed at yielding the greatest possible return on their capital investments.

The materials handling and distribution functions concerned with customer deliveries stress availability and convenience getting items when and where they are needed. Large regional warehouses in central locations servicing a number of branch supply points appear to be the trend for the future for some of the larger distribution networks. The inventory of merchandise in each branch supply point will be critical in terms of the customers served by the supply point. Com-

munication between warehouses and branch supply points will have to be rapid and responsive. Data access to central computers will facilitate the exchange of information and merchandise among the supply points. This approach will serve total customer needs better while reducing the cost of maintaining inventories. At the same time, it should reduce the incidence of stock outs and cancelled customer orders.

#### EMPLOYMENT AND PRODUCTIVITY TRENDS

The impact of this total service approach will be felt in the need for more qualified managers and competent specialists, as well as the need for balance between meeting demand for greater service with efforts to improve productivity which is essential to profitable company performance.

Employment in all wholesale trades grew at a 3.3 percent rate in 1977, up from a 2.5 percent increase in 1976. However, the pace of wage increases also accelerated; in December 1977 average hourly earnings were up 8.3 percent from one year earlier, compared to the 6.1 percent increase from December 1975 to December 1976.

Such inflationary cost pressures are among the factors heightening concern over productivity. To enhance productivity of sales forces, companies continue to evaluate and refine compensation plans, which usually combine salary with incentive features. Many firms' incentive plans are being expanded to include „inside” as well as „outside” sale workers.

Until recent years, growth of productivity in wholesaling kept pace with the growth rate in the total private domestic economy. From 1948 to 1977 annual productivity gains averaged 2.6 percent in wholesale trade and 2.7 percent in the total economy. However, wholesaling productivity declined more sharply in the 1974 recession, falling 7.7 percent compared to a 1.6 percent drop in the total economy. Wholesale trade, like other labor-intensive service industries, also has experienced more difficulty than manufacturing in improving productivity during the present recovery; wholesaling's average annual increase in productivity of 1.7 percent from 1974 to 1977 lags behind the total economy's 2.1 percent rate.

A 1978 study by the Distribution Research and Education Foundation (DREF) concluded that productivity rates in wholesaling have fluctuated more sharply than other industries during business cycles; more than two-thirds of historical variations in productivity rates can be explained by changes in sales growth. Productivity levels and growth

rates were found to vary widely among commodity groups; e.g., average annual productivity change from 1967 to 1972 ranged from a high of 8.2 percent for wholesale distributors of automobiles and other motor vehicles down to 4.4 percent in industrial machinery and equipment. In 1978, DREF plans to develop and refine productivity measurement indices and to launch pilot projects in company productivity improvement.

#### COMPUTER SYSTEMS SPREAD

In their drive to reverse the productivity slow-down, wholesalers will continue to turn to computerized systems in their offices and warehouses. In the warehouses, the computer produces order-picking documents, determines the location of incoming stock, and handles all the accounting functions and inventory control. Automatic two-way computer communication systems, which provide speedy transmission of orders direct to the wholesaler's computer, benefit customers by providing the purchaser access to recorded data. Customers can thereby monitor merchandise turnover to maintain tighter inventories.

Computerization directly benefits the wholesaler's own operation through improved centralized inventory management. The wholesale firm cannot only learn exactly what is entering and leaving inventory at all times, but also can determine which lines are most profitable to help in making correct buying decisions. Some drug wholesalers have realized savings by entirely automating both the receipt of customer orders and placement of orders with manufacturers. Further, sales force productivity can be enhanced by arming sales persons with computer reports indicating customers' buying history and profit potential, by providing customers with instant feedback on whether goods are in stock, and by reducing the paperwork involved in sales orders. Some sales persons now speed up order-taking on sales calls by carrying telephone accessories which serve as portable computer terminals.

Installation of computer systems will continue to spread in 1979 among the estimated one third of all wholesalers not yet using them. The cost will be within reach of more and more firms as intense competition, advancing technology, and the development of minicomputers bring hardware prices down (although software prices are rising). Turn-key and service-type packages specifically designed for wholesaler-distributors are increasingly offered. Many small wholesale firms unable to afford installation costs will lease equipment or use computer time-sharing services.

Another element of computerization is the Distribution Code System that was established in the early seventies. The system substitutes 11-digit numerical identification codes for products with long descriptive names; it also identifies the product's manufacturer. This eases ordering, receiving, sorting, packing, shipping, selling, and reduces paperwork.

In 1977, the coding system was expanded to include shipping containers and unit packs. In 1978, a study by Distribution Codes Inc. (DCI) for the National Center for Productivity and Quality of Working Life found substantial savings possible in warehouse operations and inventory control from computer scanning of shipping container symbols. A durable goods distributor selected for a case study attributed a 67 percent productivity improvement in preshipment order sorting to a scanning system. Total potential savings from improved inventory control were estimated at \$ 35—40 million per year for all grocery wholesalers.

#### PROFIT PICTURE

While computer systems will offer a boost to many companies' performance, profits and gross margins will be squeezed by slow productivity gains, inflation in product and operating costs, and stepped-up price cutting. First quarter 1978 after-tax profits fell 8 percent compared to the same period of 1977, from 1.9 to 1.6 percent of sales.

Principal factors behind the profit squeeze varied among commodity lines. A recent industry survey of electronic wholesalers pointed to rising operating expenses as a major reason for low profits despite high sales. However, industrial distributors were found in another survey to be controlling operating expenses, but having gross margins trimmed by intense price competition as brand loyalties declined and multiple distribution of product lines increased. If inflation continues to drive up inventory replacement costs in 1979, this squeeze on wholesaler margins is unlikely to continue.

One development pertaining to inflation and its measurement was welcomed by wholesalers in 1978. That was the renaming by the Bureau of Labor Statistics of the „Wholesale Price Index” to „Producer Price Index”. The National Association of Wholesaler-Distributors asked for the change, since the index measures prices charged by producers, not wholesalers.

## LONG-TERM TRENDS, FORECAST

The principal concerns of wholesalers in the years ahead will be the expansion of customer service with attention to the need for improvement in productivity and earnings. Services will expand as wholesalers keep their marketing area customers informed about new products and their suppliers apprised of changes in consumer buying patterns. At the same time, distribution functions will be viewed in terms of cost balanced against margin generated. Costs not directly yielding profits will be considered for continuation only if an indirect benefit accrues to the company from the customer service so provided.

Wholesalers' total sales are expected to grow at an average annual rate of 10 to 11 percent during the next five years. Sales are likely to cross the trillion dollar mark in 1982 and should approximate \$ 1.2 trillion in 1983.

## 5. CONCLUSION

Like the rest of the economy, wholesaling is in a state of rapid change. The dynamics of the business world have hit some commodity lines and some kinds of wholesalers harder than others, but I believe that all have been affected. It is difficult to assess the violence and rapidity of change in this industry because of certain factors that blur visibility. Low-volume operations, for example, and family- or privately-controlled operations account for a substantial portion of the wholesaling volume, and one cannot usually obtain reliable statistics about such operations. Also, of course, wholesale-distribution networks owned or controlled by manufacturers account for another sizable chunk of the volume, and one cannot always separate the progress of these operations from that of their parents.

Despite the poor visibility, however, one can see that a growing number of wholesale operations are using modern business techniques and concepts. Since wholesalers view themselves as entrepreneurs and as profit-oriented businessmen, there is reason to believe that they will not restrict their activities to wholesaling alone. Indeed, they appear quite willing to develop marketing systems, some of which include manufacturing and retailing operations, using their wholesale houses as operational focal points.

On the negative side, a number of wholesalers are still tied to traditional forms and methods of operations, accepting the newer management techniques only slowly if at all. So far, the less sophisticated

wholesaler seems to be surviving; in so doing, he demonstrates the intense need in our economy for the continued services of this resilient entrepreneur. It is questionable, however, whether the future will continue to allow easy entry into wholesaling or permit the inefficiencies of naive management. In the light of continuing pressures for lower-cost distribution, more complex marketing systems, and advancing management technologies, the only courses open to the myopic wholesaler are to close shop, sell out, or shape up. In general, however, wholesalers seem determined to participate in our expanding economy. To an increasing extent, they are educating themselves and demonstrating a willingness to invest in newer systems and techniques. They are seeking and listening to the counsel of their more sophisticated suppliers, and they are cooperating with them on common problems.

As wholesalers continue to build their management strength and learn to handle the risks inherent in change, I am confident that they will maintain pace with the economy, prosper within it, and add value to it. The outcome, hopefully, will be a much more effective and efficient distribution structure in our economy.

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#### HANDEL HURTOWY W STANACH ZJEDNOCZONYCH

W artykule omówiono podstawowe zmiany zachodzące w sferze handlu hurtowego w USA oraz przedstawiono stan obecny i perspektywy jego rozwoju na rynku amerykańskim. Podana została interpretacja pojęcia „handel hurtowy” oraz scharakteryzowane zostały współczesne przedsiębiorstwa hurtownicze — m. in. sklasyfikowano handel hurtowy ze względu na formę organizacji i sferę działalności. Autor podkreślił również powszechną aplikację badań marketingowych w handlu hurtowym (m. in. badania rynku, badania kosztów) oraz wskazał na szerokie wykorzystanie strategii segmentacji. Omówione zostały również: integracja pionowa przedsiębiorstw hurtowniczych z innymi ogniwami kanału dystrybucji, metody finansowania przepływu produktów (polityka kredytowa), polityka cenowa, formy zarządzania i kierowania jednostkami handlu hurtowego, zarządzanie zapasami, komputeryzacja (przepływy informacji) oraz polityka w zakresie promocji. Artykuł zawiera też liczne przykłady ilustrujące omawiane problemy.