



# The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

## **Building Your Vendor Report Card**

**By Jason Bader**

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Over the years, I have attended many distributor meetings involving brief tabletop sessions with established or prospective suppliers. I have always viewed this as the distribution equivalent to speed dating. You sit down, exchange pleasantries for the first few minutes, get down to the manufacturer pitch, review the 25 new products they intend to launch in the first quarter, review the sales numbers compared to last year and just when the you hear the question, “Is there anything we can do to improve our relationship?”, the chimes ring and you are off to your next 20 minute meeting. The date is over and I don’t even know if I got to first base. The least they could do is take my number and promise to call.

The biggest reason for the lack of direction is that we did not come in with a plan. The manufacturer has a plan – keep talking until the bell rings. If they talk about product, they do not have to address the issues that preclude us from mutual profitability. We have an annual chance to convey our expectations to a decision maker. Let’s not waste time on marketing pitches or sales revenue projections. We need to get down to the core issues between the two companies. When the bell rings, the opportunity is lost.

As distributors, we often complain about vendor performance. We rarely let them in on the secret. We expect them to be clairvoyant. Coming into the meeting with a well crafted vendor report card shows that you mean business. Because it is a document, it can not be dismissed as easily as conversation. There is power when ink is laid to paper. This document conveys expectation. It simply says, “If you wish to continue receiving checks from my company, these conditions need to be taken seriously.”

When I create a vendor report card, I include 5 sections: financial performance, sales, purchasing, receiving and accounts payable. With the exception of the financial piece, the sections each contain comments from the different departments. I have seen many vendor report cards that stop at sales. While sales information is extremely valuable, it is only one part of the relationship with that supplier. Over the remainder of this article, I will examine each piece of the report card and give some suggestions on information to gather.

At the top of the report, I list the financial information. I am most interested in the components that give me return on investment information. In previous articles, I discussed the importance of calculating and monitoring financial ratios. The key points of data I list at the top of the page are: inventory turns, gross margin and GMROI. If any of these indicators are underperformers, I make this a point of discussion. You would be amazed at the things a supplier can do when you suggest that Turns are not where you want them to be. We start talking about returning dead and slow moving products or changing freight prepaid levels. These are net profit impacting discussions and we are only at section one.

The next section is dedicated to sales. I want to point out that this report card is not designed to be a place to vent. You must come up with positives and negatives. If there are no positive comments, the impact will be greatly reduced. The comments should key on the acceptance in the marketplace. What is the quality of the product offering? Are there holes in the line? Is the product price competitive? What are the competitors doing? This is a feedback mechanism for the supplier. If we are going to grow together, we need to help them see the product from the eyes of the end user.

During this section, we should also discuss marketing support. Have the current promotions been effective? Are their sales people helping pull product through the distribution channel? Would joint sales calls be appropriate? Is there additional training required? You will have no trouble filling this section of the report.

The next department is purchasing. How easy is it to buy products from the company? Are current freight policies making it difficult to buy efficiently? Are price increases given in advance? Are they in an electronic form? I would like to see some discussion around lead time trending. Have they been consistent? What is the fill rate? Am I constantly running into back order situations? As a distributor, we often have to compensate for a supplier with poor fill rates. Perhaps, we should ask for some offsetting compensation.

Receiving is a department that is often overlooked by a supplier, yet is the porthole to their customer. Everything passes through the hands of these men and women. They will have plenty to say about the performance of your suppliers. What is the condition of the product when it hits the dock? Is the packing slip legible? Has it been properly packaged? It was this question that led to a significant change in one of my supplier's shipping procedures.

Back when I was the operations manager for a distributor, we were having problems with skids of power tools getting broken into and products being stolen during transit. The product was wrapped in clear shrink wrap and the items were easily identifiable. In the report card, one of our receiving people suggested that the problem could be eliminated by simply changing to black shrink wrap. Insert slap to forehead. Do you think that someone in executive management could have come up with that fix? We were too far away from the job to see the solution.

The final group to be heard from is the accounts payable department. The biggest area of contention is the supplier invoice. Is the invoice, or statement, easy to read? Can we easily identify when the supplier owes us a credit? This is also a great area to discuss payment terms. Is there some room for negotiation? Does the supplier offer cash discounts for early payment? Is there some extended dating available? How easy is it to work with the accounts receivable department? This is one of those areas that will not come up unless you initiate the conversation.

This is not a document that you can slam together in a couple of days. I typically tell people to allocate a full month to the information gathering process. You have several departments weighing in on the report. Although I mentioned it previously, I want to emphasize a point. Make sure that you include positive comments in the report. If you don't, the information will be disregarded as just a bunch of distributor whining. Trust me, we whine.

Going thought the effort will be well worth your time. I have seen significant changes in supplier relationships by using this tool. You gain a whole new level of respect in the eyes of the supplier. Most of all, you maximize the time you have with the decision makers. Now if there is any time left, you can show me your new gizmo. Ding, time is up.

If you need help starting your document, please feel free to contact me. I am always available at the email address listed below. Good luck.

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