

# National contract hangover

Recently, we at Purvis Bearing Service have discussed with several of our customers some of the issues plaguing their organizations as a result of their national contract relationships. The discussions have led to an increase in business for us to the tune of several million dollars. Let me explain: As more customers have gotten on the "national contract bandwagon," we've found ways to grow our business by filling the gaps these contracts leave behind.

National contracts are put together to leverage the customer's spend and to seek better front-end pricing and perhaps volume incentive rebates, all with good intentions. But we've found that the negative effects of these contracts can leave customers – especially the employees on the plant floor – with a hangover they didn't bargain for.

Good things come to those who are persistent and work within their core competencies, so don't turn out the lights with these customers. Independent distributors take great

pride in providing customers with the best sales organization. Our customers and suppliers tell us this all the time. Independent power transmission specialists, for example, are true solution managers who continuously look for ways to add value to the transaction for the customer.

We participate in agreements that make sense to us and allow us to work within our framework and utilize our organization most effectively. In several recent meetings where customers have asked us to come in and discuss a strategic sourcing agreement, we've learned of a common thread of shortfalls that surface with this national contract hangover.

What are they? To no surprise, national chains are grabbing up national contracts and over-committing to customers by trying to be all things to all people. Unfortunately, the one who gets the short end of the stick in most cases will be the contracted customer.

We've found that in almost all instances, the contracts are written with the customer's best interest in mind at the corporate level and then handed down to the plants. Rarely do the plants in a given market have the opportunity for input in the decision. After a contract is inked and before it has had time to dry, this is when our customers report the beginning of the end.

Here's what our customers tell us are the common shortfalls of national contracts.

**1. The accounts may be reassigned.** This is usually because the contract has teeth in it where compliance is enforced. The contracted distributor often assigns a less qualified person to manage the account. The customer becomes a part of a salesperson's route. The customer

knows the corporate eyes are on their facility, as well as their purchasing habits, which are driven by the agreement and guarantee them the business.

**2. Sales call frequency diminishes.** The contracted distributor's salesperson becomes complacent with the perception that this is captured business. The eager independent starts to get the calls. I can't tell you how many times our salespeople have gotten called out after hours or in a breakdown situation and capitalized on the contracted distributor's inability to respond and, more importantly, to perform.

**3. Poor follow-up.** We're finding that, more times than not, there simply isn't any follow-up with the customer. This falls back to less-qualified individuals being assigned to the account and being incapable of providing quality solution-management and service. We've been called out after a customer has waited sometimes for several hours. And, in the name of service, our solution managers have identified the problem, recommended

the best possible solution and delivered the product with a high sense of urgency before the contracted distributor even called back.

**4. The service levels deteriorate and slide downward.** Service has always been viewed as a cornerstone and basic function of our existence as distributors. We can't abandon that. What is the cost of downtime and idle personnel waiting for the delivery of product? This leads us to the next issue: substitution of product.

**5. The substitution of product.** Although first- and second-tier quality products were discussed in the meetings leading up to the signed agreement, we find that customers are receiving third- and fourth-tier quality products. These products are being provided for improved cost position and margin enhancement. This often happens without the customer's knowledge or approval. The customer needs to be made aware of this issue and insist on being provided with first-tier quality products for their applications and

## CUSTOMERS DISILLUSIONED BY NATIONAL CONTRACTS ARE BUSINESS OPPORTUNITIES FOR INDEPENDENT DISTRIBUTORS



By Stacy Mikkelson

processes. This issue leads us to believe that there is some sort of disconnect within the customer's organization.

Communication must exist from the corporate contract administrator down through purchasing, warehousing and production. A truly connected process would insure that each is made aware of what was agreed upon. Perhaps being brand specific as it relates to product would insure delivery of first-tier quality products.

**6. Manufacturers are falling victim to contracts themselves.** Most manufacturer salespeople are instructed not to make calls with non-contracted distributors. This is because manufacturers don't want to engage in political warfare and deal with the contracted distributors by questioning their allegiance to their products. At the same time, these manufacturers are inquisitive, asking for explanations as to why their business is down with the contracted customers.

There is an assumption in the marketplace that just because a given customer is under contract with a national chain that this captures the business for manufacturers represented by that distributor. From what we've seen, this a misconception and it needs to be addressed. Manufacturers should confront national chains about their brand loyalty. Either that, or they should start working the national accounts on their own or with other distributors to discover what's really happening. We see few manufacturers taking an active role with national accounts and when they do, they find that substitution of product is a common occurrence.

Representing and promoting quality products and providing

justifies our existence and is a value-added service.

**8. Pricing creeps up.** We've found that as the contracts are implemented on borderline margins, the contract distributor will "inch up" the cost to the customer. We have witnessed 20 to 40 percent increases from the originally agreed upon price. When confronted about this, the contracted distributor has a long list of reasons to justify the price increase, the most common of which is slow movers. We've also seen instances where brands of inferior quality are positioned as more premium quality products and therefore will cost more.

Consistency in pricing is key to the success of any agreement. **9. Plant survey information is not utilized.** As an agreement unfolds, part of the deal is to conduct plant surveys. The intent is to streamline the replacement process and provide quality solution-management by documenting all processes and applications used throughout the plant. We're finding that these surveys fall to the bottom of a database and are not being used as they were intended. This comes at a significant cost to the customer in wasted time and labor. Plant surveys should be treated as a working document and kept updated with day-to-day changes in processes and applications.

**10. Finally, communication breakdown.** We've also found that honest and open communication with the customer goes away. The contracted distributor often minimizes the efforts of its salespeople so that they are providing only a basic function, termed in the industry as "read and replacers" and "order takers." These sellers do not look to provide better solutions to recurring problems for the customer and often slip to becoming

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**— Stacy Mikkelsen, Purvis Bearing Service**

quality service is the distributor's duty. Distributors play an active role in the quality process and shouldn't abandon that philosophy.

**7. Local availability of product goes away.** For the most part, national chains work off of what they term "a baseline inventory." Very rarely will they augment the branch inventory to support a contracted customer, at least from what our customers are saying in the markets we serve. This can, and often does, lead to an increase in standard and premium freight charges, depending on the need for the product. We ask, why add cost to doing business and how does it get accounted for within the customer's organization? Surely, with a line-item increase in expended money towards freight, cost is accounted for somewhere on the general ledger. Increased costs are increased costs any way you slice it.

Independents have the flexibility to adjust their inventory to provide the best possible service for customers. Inventory at each branch is tailored to the needs of that branch's market. National chain distributors work more from a regional distribution center that may be located in another state — or they shift the burden back to the manufacturer. Another basic function of the distributor is to provide local availability of product to the customer. This

basic administrators of the contract.

We recognize that this information is not earth-shattering news to some, but it should be to others. We challenge contracted distributors to address these shortfalls and implement a more traditional distribution philosophy for the salvation of the industry. We believe the national pendulum is starting to swing back towards organizations that have stayed the course by providing quality products and the best possible service. We haven't forgotten how to sell and we don't sit around waiting for contracts to be handed to us. We have agreements with customers and choose not to use the word "contract." Agreements are only as good as the people that engage in them. When taking the interest of both parties to heart, independent distributors work within their core competencies to provide national customers with good, home-grown service and quality products that can't be matched. ■

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