

In Defense of the Middleman

James S. Calvin, President
New York Association of Convenience Stores



It's called "self-distribution." Instead of C-store merchandise being shipped from producer to wholesale distributor to retailer, it goes directly from producer to retailer.

A C-store chain, the theory goes, can buy large quantities cheaper by ordering directly from the manufacturer, derive bigger profit margins, and better control inventory levels.

Sheetz Inc. in Altoona PA is a high-profile example. They "went direct" about four years ago, setting up their own central warehouse to receive product from manufacturers and deliver it to their 250 stores. It seems to be working for them and a few other chains around the country.

John Zikias, a consultant specializing in category management and marketing, says interest in self-distribution is being driven by a desire for greater flexibility, lower cost of goods, improved in-stock levels and the ability to merchandise local items.

In today's hyper-competitive environment, it's not surprising that C-stores would be intrigued. The marketplace is so topsy-turvy that buying certain products at retail at Wal-Mart and re-selling them at your smaller store is often mathematically more profitable than buying through your own distributor. Who could blame Joe's Deli Marts for seeking another option that might yield more gross-margin dollars? Why *not* cut out the middleman?

Well, if your wholesaler merely delivers boxes of product to your stores twice a week, hands you an invoice and says good luck, maybe it makes sense. But if he's going far beyond that, different story. The overriding issue is, what does your middleman bring to the table?

The answer, in most cases, is "a lot." Here in the Northeast, the C-store industry is blessed with high-quality wholesale distributors – some big, some small, many family-run, all service-minded. Most provide retail accounts with merchandising support, incentive programs, category management expertise, guidance on new product introductions, trade shows, and other value-added services.

For goal-oriented retailers, the wholesale distributor often becomes a trusted adviser, trade partner, and window on the wider marketplace. A strong working relationship with the right distributor can literally make or break a retail business.

Cutting out that middleman is always an option. But, like giving yourself a haircut or representing yourself at a speeding trial, there are potential risks. Do you own warehouse space? Do you *want* to own, operate, maintain and insure delivery trucks? What are the costs for additional manpower? In short, will self-distribution carry you to the next level, or just spin your wheels?

Should you be tempted to explore self-distribution, write down all the perceived benefits you can think of, such as one-stop-savings offers from vendors, leveraged power-buying opportunities, the flexibility to get multiple deliveries per week or next-day deliveries, etc. Then show that list to your existing distributor. Before you cut out the middleman, see if he can address some or all of these objectives.

Chances are you'll rediscover that your wholesale distributor is not just a company that transports product from Point A to Point B, but an indispensable bridge to long-term success for your retail business.