

The President's Message

A Slippery Slope for All Involved



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As always, change is afoot in our industry. This should come as no surprise, as there always has been change and there always will be change. However, there have been a few recent moves in our industry that I thought our membership should be aware of. In this article, I am going to write about one of them and will save the other issue until the next edition of *News & Views*.

A prominent member of FEDA was telling me that a distribution entity that his company services (that is owned by an end user and solely supplying the end user) has been awarded membership into a buying group. This can occur in the franchise setting when either the franchisor or a group of franchisees set up their own distribution entity to handle various products for them, not just supplies and equipment. These distribution entities may be a member of a buying group or the entity, itself, may be a buying group. When a manufacturer decides to sell directly to these distribution entities, disruption to the supply chain can occur on a number of levels.

On the surface, FEDA members are the potential big losers. Obviously, we stand to lose business as these end users are now able to buy equipment and supplies on a direct basis through these distribution arms. Whether this approach succeeds or fails will depend on whether the distribution entity can give the end user more value and service than the dealers can. That is what competition is all about and the dealer has the expertise and tools to compete and bring added value and service to the customer. Personally, I fear that

once the precedent has been set, this practice could spread.

However, there is certainly a slippery slope here for participating manufacturers as well. If more and more end users are able to some way gain direct access to the products that dealers offer, the market shrinks and there could be fewer dealers left to sell to. With fewer

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dealers and more direct sales, manufacturers, the distribution entity, or both, will likely be burdened with the additional costs of services that dealers currently perform. Manufacturers consistently tell me they do not want to take on the functions (and costs) of credit, warranties, installation and

additional inventories, among others, but selling direct to end users, or their buying/distribution entities, will unquestionably bring those costs along with the sales.

I do think every dealer/distributor needs to do everything they can to deliver value to their customers. If we all take care of our customers—offering quality products, great service and do so at a fair price—there is no economic incentive for end users to find more direct means to access the products they need.

Where will this path lead to? Will a significant portion of our industry's volume be shifted to a self-buying model because these end users have been given enough tools to disintermediate dealer/distributors out of the supply

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A handwritten signature in black ink that reads "Brad Wasserstrom". The signature is stylized and written in a cursive-like font.

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Industry Insights continued

us to earn business, operate efficiently, and remain profitable. It is why we are here at this convention. We want to improve our businesses, which leads me to yet another question I'd like our manufacturer partners to consider often: If the dealer network disappeared, where would these services come from and where would the cost of providing these services shift to? These services and the costs associated with them aren't just going to disappear. This brings me to a second question I'd like our manufacturer partners to consider any time a situation comes up or any time there is a decision that has to be made regarding a distribution policy or any decision that potentially strips compensation from the dealer. The question is will this action "reinforce the message" or "undermine the value" of dealer based distribution?

It is a very simple question you can ask and needs to be asked to keep our channel healthy and keep end users satisfied in the long run. Again, the question is will this action "reinforce the message" or "undermine the value" of dealer-based distribution?

We desire better communication and collaboration on issues that could possibly "undermine the value" of dealer distribution. And it is incumbent upon us to listen to your challenges and needs in an understanding way and try to work through solutions together. We urge you to talk with your FEDA partners before making decisions that "undermine the value" we bring to you and to the end user every day. So before you sell direct or negotiate with one of our customers, or open up another non-value-added form of distribution, or strip our compensation, talk to one of your FEDA partners to see if our interests can be mutually aligned.

We know a lot of you understand this and are great supporters of dealer distribution. We thank those of you who are here in support of FEDA and its mission to keep dealer distribution the most professional, cost efficient and effective way to get your quality products to market. We applaud those of you who have intentionally made decisions and have explored ways to support dealer distribution in your policies and day-to-day practices, and we encourage you to continue this. Lastly, this may look different for some of you (in regards to functional discounting and rebates, MAP and MRP policies, minimum order policies, and others) but we know who our partners are and we will not support those who "undermine our value." □

President's Message continued

chain? If our industry manufacturers chase the short-term sales in front of them "because they are a part of the group," will this end up being a long-term strategic blunder? Do these manufacturers believe that a FEDA member will continue to support them if they are also selling the dealer's customers on a direct basis? Will end users be saddled with all of the hidden costs that they will have if they do find more direct paths to buy? Only time will tell how this plays out and we should all be watching carefully. □

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