

Wholesalers Key to Retailer Success

Many retailers in our industry do not consider the extraordinary benefits they can derive from an effective buying strategy centered around buying through wholesalers rather than trying to buy through direct-shipment vendors, whether publishers or product manufacturers.

There are several key areas of consideration. First, there is the issue of “turns” and effective optimization of investment in inventory. Second, there is the question of staff allocation and costs. Many retailers fail to take either of these considerations into account and find they are always struggling to keep up with things and operate the business effectively.

As a contrast, the health food industry has become very focused on the use of wholesalers as the major supply route, primarily due to the savings in staff that can be afforded by eliminating a lot of direct vendors. Recently one of the regional buyers at Whole Foods Markets approached our company with a list of vendors they were buying “direct” and indicated they would be advising those vendors either to arrange to ship through Lotus Light, or they would discontinue stocking their product lines! This actually is not an uncommon experience we have had with numerous health food stores referring vendors to Lotus Light or simply working out a mechanism to switch that business.

Why do they do this? These health food retailers have figured out that the more vendors they have to deal with on a consistent basis, the more ordering and bill paying they have to do, the more diverse ordering processes they need to manage, the more complications arise, and the greater the need for more staff (and more expense) to manage and handle the process. By cutting down to a very few primary suppliers who carry a wide range of products from multiple manufacturers, they streamline their process, have a more efficient supply chain, and reduce internal overhead costs enormously.

The second major issue is that rather than having to track separately the order minimums and lead times for dozens (or hundreds) of vendors, they can conveniently plan on fast, regular order delivery by their wholesalers on a consistent (usually weekly) basis. Many direct vendors also have per item order minimums which in some cases involve taking in more product than needed for the week. This negatively affects “turns” and “in stocks” as the system has to be artificially adjusted to deal with excess quantities to meet minimums, and the need to “wait” to meet minimums.

The big profit potential comes from the ability to increase “turns”. Analysis of “turns” versus “margin” by inventory professionals shows that even adding one extra “turn” of inventory provides more bottom line profit than adding 3-4 points of margin. Thus, increasing by 4 turns is worth 10-12% of margin differential. Working closely with a wholesaler, as opposed to working with manufacturers with widely varying terms and lead times, can actually increase the “turns” on the inventory many times. Ordering weekly and spreading across a wider inventory selection, turns can increase 15-20 times or more!!! This is an enormous enhancement in cash flow and profitability that is often overlooked in a review limited to only discount. This allows the retailer to invest the least amount of money in inventory with the highest possible return, an essential in tough economic times, and allows retailers to stock a broader selection to meet the needs of the customers, and thus, optimize sales.

Some wholesalers have become very effective at developing a monthly promotional discount program. This means that the wholesaler is doing the work of negotiating extra margin points for the retailers across a wide selection of products. There is no way that a retailer can effectively manage the negotiating and discount process across hundreds of vendors efficiently. These promotions tend to

change from month to month, giving the retailer opportunities to enhance margin and run special promotional focus activities in the store for the customers. Properly utilized, buying against these promotions can make working with the right wholesalers highly profitable, so that the store gets the benefit of both increased turns and enhanced margins!

As the economy has gotten tougher, the successful retailers in the health food industry have adopted the strategy of wholesaler-centric buying more and more. It is a strategy that can and should work well in the metaphysical bookstore industry and yield cost-savings, efficiencies and enhanced profits to the stores who work with wholesalers who stock a broad selection of the needed books and products, who provide fast turnaround and high “in stock” service, and who offer promotional discount programs regularly to provide added profits to help stores survive in our tough economic climate.

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