

The Siburg Company, LLC

Proprietary Product Lines and Their Benefits to a Distributor

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Overview of Topics Covered

- Distributors build manufacturers brand awareness
- Distribution agreement overview
- Reasons manufacturers cancel distribution agreements
- Standard distribution model
- Modified distribution model
- How proprietary product lines and brands help a distributor
- Proprietary product lines increase the value of a distribution business

Distributors Build Manufacturers Brand Awareness

- Distributors help build manufacturers product lines and brand awareness in the market
- Distributors are a key part of a manufacturers strategy to market and sell a product line and brand into retail and to the consumer
- Manufacturers consider distribution one of several sales channels for a new product line or brand

Distribution Agreement Overview

- Manufacturer distribution agreements provide limited rights to the distributor
- Distribution agreement is for predetermined time period 1 to 5 years in duration
- Terms of distribution agreement can include:
 - Sales quotas
 - Exclusive sales areas
 - Market development funds and support
 - Exclusivity clauses that restrict a distributor from selling other manufacturer's product lines and brands

Distribution Agreement Overview

- Distribution agreements limit rights
 - Provide no control over discontinuation of product lines and brand
 - May only be assignable with approval from the manufacturer
 - Need to be renewed on a periodic basis
 - Can be cancelled or not renewed without recourse for a distributor

Reasons Manufacturers Cancel Distribution Agreements

- Manufacturers cancel distribution agreements with distributors for:
 - Lack of sales performance
 - Lack of customer service
 - Concern over financial stability of the distributor
 - Sales channel conflicts with manufacturer
 - Manufacturer wants to increase their gross margin and profit by going direct

Standard Distribution Model

- The standard distribution model is based on high sales volume with low product margins
- The standard distribution model is a high risk model for several reasons:
 - No rights to the product lines and brands
 - Inability to control the manufacturer's product lines and product branding strategies
 - Product return liabilities:
 - Customer returns
 - Slow moving inventory
 - Inventory obsolescence, such as: spoilage, new packaging, formula or technology changes
 - New government regulations

Standard Distribution Model

- The standard distribution model has low margins for several reasons:
 - Difficulties in passing through manufacturer's price increases
 - Competitive pricing pressures:
 - Limited sales area
 - Channel conflict with manufacturer
 - New brands or similar product lines in market
- Long cash flow cycle

Modified Distribution Model

- A modified distribution model is based on the standard distribution model, but with proprietary product lines and brands
- A modified distribution model is a lower risk model for several reasons:
 - Ownership of proprietary product lines and brand rights
 - Control of sales channel
 - Control of product line and brand image
 - Control of product quality

Modified Distribution Model

- The modified distribution model provides:
 - Increased gross margin and profitability
 - Ability to pass price increases on to customers
 - Improved inventory management
 - Quicker reaction time to market needs and changes
- Shorter cash flow cycle

How Proprietary Product Lines and Brands Help a Distributor

- With proprietary product lines and brands a distributor controls:
 - Product pricing
 - Product quality
 - Product branding and image
 - Sales and marketing strategies
- Proprietary product lines and brands provide increased gross margin and profitability

How Proprietary Product Lines and Brands Help a Distributor

- Leverage established sales and marketing channels
 - Direct sales force
 - Sales catalogs
 - Website sales
 - Advertising
- Proprietary product lines and brands increase the value of a distribution business

Proprietary Product Lines Increase the Value of a Distribution Business

- Proprietary product lines and brands add greater value to a distribution business by:
 - Ownership of the product lines and brands
 - Enhanced control of customer base
 - Increased gross margin
 - Increased profitability
 - Improved balance sheet control
 - Improved cash flow

Proprietary Product Lines Increase the Value of a Distribution Business

- The standard distribution model sales price is based on the combination of gross margin and before tax income
- The modified distribution model company has improved gross margin, increased profitability and improved cash flow
- Ownership of the rights to proprietary product lines and brands increases a distributor's valuation sales price

Questions or Comments

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