Distributors:

Interviews with distributors indicated that approximately *70 percent hold stock of the items they sell.* Products held in stock covered a wide range of prices. Distributors generally expect to negotiate a firm sales agreement with the supplier company. The sales agreement will be based on the distributor's own evaluation of the product offered for his market. One distributor, for example, may base his evaluation on projected annual sales of 2,000 floppy disk drives. Manufacturer and distributor will agree that the distributor will receive a structured discount or credit at the end of a set sales period. If the distributor sells at least the full quantity projected, he will receive the maximum sales discount. The selling agreement is usually structured to provide reduced discounts and credits for smaller than projected annual sales. This type of distribution agreement is common when the supplier company has a definite market presence and brand name acceptance.

Distributors are a good solution for companies entering a new market area with little or no brand name acceptance. Lack of capital or marketing expertise could be other reasons for selecting an established distributor. The distributing company itself will have made a critical evaluation of projected salability before agreeing to distribute. One marketing group we talked to advised that they are only interested in selling new products if their market evaluation indicates that the new product could gross a million dollars in sales in the first year.

Canadian companies can use the following as a guide when estimating prices for their products which include distributors' margins: If the product is to be resold in its current form, the list selling price should include a 40 percent margin (10 percent distributor's margin and 30 percent reseller's margin), e.g. list selling price of item = $168.00, less distributor's margin ($16.80) and reseller's margin ($51.20) = ex-factory cost $100.00. If the product is being purchased as a component by another manufacturer, the list selling price need only include a distributor's margin of 10 percent, e.g. list selling price = $111.00, less distributor's margin ($11.00) = ex-factory cost $100.00. Canadians should also note that distributors may elect to increase their margins with new or untried products. Distributors frequently commented that Canadian companies should consider reducing their prices for an initial period in order to establish their market presence. It may be advisable not to produce a firm printed list price until margins have been thoroughly discussed with prospective distributors.

Non-stocking Distributors and Sales Representatives

Distributors are usually fairly selective about the items they hold in stock. Price is not always the determining factor. In those cases where stock is not held, the distributor essentially acts as a sales representative. Normal procedure, in these cases, will be for the manufacturer to invoice the sale directly to the customer under the direction of the selling organization. Distributors and sales representatives we talked to indicated that suppliers should include 3 – 7 percent selling commission. The actual commission paid will depend on the size of the order. Distributors indicated that in the case of a sale where they are not directly involved but where their influence has assisted the sale, they would expect a 4 percent commission. Additionally, the commission rate is always negotiated for exceptionally large sales which are not covered under the day-to-day selling agreement. A manufacturer may well be known nationally and internationally yet it is frequently to his benefit to use the specialized contacts a distributor has developed in his market territory. Over 45 percent of the selling organizations we contacted restrict their selling activities to the western U.S. or a smaller portion of the territory specifically to build up their local expertise.

Specialty Retailer

Dealers who specialize in a specific branch of the computer industry often work out of showrooms or offices. This can be the case where the equipment being sold is too large or involved to be demonstrated easily by a salesman on the road. One dealer we talked to had handled a Canadian manufactured CAD/CAM system intended primarily for involved design and drafting work. He found that the only solution was to attract his customers to visit him. Dealers' margins are generally similar to distributors. Dealers usually hold systems samples for demonstration purposes and sometimes stock.

Turnkey Systems Companies

There are approximately 700 turnkey systems companies operating in the Southwestern United States. These companies undoubtedly form an important link in the distribution chain for many computer products and can offer substantial sales or access to additional sales. Most turnkey systems companies would like to purchase computer products directly from manufacturers. This report will clearly demonstrate that turnkey systems companies operate across the complete spectrum of business, professional, and scientific enterprise. The problem for the Canadian supplier seeking distribution by this method, how-- ever, is to determine which turnkey systems companies could be suitable to act as distributors. In our opinion, the extreme variation in the numbers of systems installed by the companies we interviewed for this study would make effective selection extremely difficult for Canadian suppliers. The only exceptions could be those turnkey systems companies which operate on a national basis. We suggest that turnkey systems companies should only be approached initially through established regional distributors.

Retailers:

The retailer is a rapidly growing force in the computer distribution cycle. The rise of this industry segment is related primarily to the remarkable success of the microcomputer. Several of the leading retail