

Wholesaling

Meaning of Wholesaling

Wholesaling is the sale of merchandise in bulk to a retailer for repackaging and resale in smaller quantities at a higher price.

The buyer of wholesale merchandise sorts, reassembles, and repackages it into smaller quantities for direct retail sale to consumers. Due to the quantities purchased, the wholesaler can charge less per item. The retailer sells at a price that reflects the overall cost of doing business.

A wholesaler may specialize in a single product or product category or may offer a variety of goods. It can be anything from milk to electricity.

Some wholesalers are actually acting as middlemen, brokering deals between wholesale and retail businesses that require a variety of goods, or components of goods, that can be more efficiently obtained from a single source.

Most wholesalers do not manufacture the goods they sell. They buy them from the source and concentrate on the business of sales and delivery.

A wholesaler should not be confused with an "official distributor" for a brand's product line. The wholesaler does not generally offer product support, may not be connected directly to the company from which it purchases products, and may even have limited familiarity with the products. Moreover, unlike distributors, many wholesalers sell competing products.

Definitions of Wholesaling

- “Wholesalers buy and resell merchandise to retailers and other merchants and to industrial, institutional and commercial users, but not sell in significant amounts to ultimate consumers”. – E.W. Cundiff and R.R. Still
- “A true wholesaler is himself neither a manufacturer nor a retailer, but acts as a link between the two”. – Evelyn Thomas

- “Wholesaling or wholesale trade includes the sales and all activities direct by incident to the sale of products or services to those who are buying for purposes of resale or for business”. - William J. Stanton
- “Wholesaling, jobbing, or distributing is defined as the sale of goods or merchandise to retailers, to industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services”. – World Trade Organization
- “Wholesaler is a person or firm that buys large quantity of goods from various producers or vendors, warehouses them, and resells to retailers. Wholesalers who carry only non-competing goods or lines are called distributors”. – Business Dictionary

Features of Wholesaling

1. Link between Producers and Retailers

The first and foremost feature of wholesaling is that it acts as a link between the producers of the goods and retailer of those goods because producers of goods cannot reach every retailer as they are scattered all over the city or country and that is the reason why producers of goods prefer to appoint wholesalers for every city or important area of city so that they have to deal with only a few wholesalers and not thousands of retailers.

2. Lack of Contact with End-users

Wholesalers never deal with end users that are the consumers of the goods because wholesalers sell to the retailers and it is the job of a retailer to sell the goods to the consumers who will be consuming the good.

3. Fixed Margin of Profit

Wholesaling is a fixed margin business in the sense that wholesaler gets fixed percentage of total sales and there is no scope of extraordinary profit in wholesaling business. Hence for example if monthly total sales done by the wholesaler is \$100000 and his or her profit margin is 5% then his income will be \$5000 per month. Hence higher sales mean higher profit and lower sales means

lower profit because wholesaler can only play with volumes as the margin of profit will always be fixed.

4. Bulk Sales

Wholesaling is a bulk business implying that you are not selling to individual customers whose requirement is one or two units of a product rather you are selling to retailers who buy quantities in bulk and that is the reason why there is no need of marketing as retailers contact the wholesalers whenever there is requirement of product by them.

5. High Capital Requirement

Another feature of wholesaling is that one needs to have sufficient capital as wholesaling requires purchasing goods in bulk quantity from the producers of the goods and in turn providing those goods in small quantity to the retailers of the area in which wholesaler is serving.

6. Credit Sales

While wholesaler will have to pay cash to the producers for the goods purchased by him or her but when it comes to a retailer they take goods from the wholesaler on credit. In simple words, the majority of time wholesalers have to give goods on credit to retailers and collect payment from retailers after some time which may range from 7 days to 30 days.

7. Space Requirement

A retailer can start his or her business even in a small area but when it comes to wholesaling than you need to have a large area so as to store goods because there is a time lag between wholesaler purchasing goods from producers and retailer purchasing goods from the wholesaler.

As one can see from the above characteristics of wholesaling that wholesalers perform an important function when it comes to providing goods from producer's warehouses to the end users that is at consumer's home with the help of retailers.

Types of Wholesalers

1) Merchant Wholesalers

These are the most common type of wholesalers used in the FMCG industry, agriculture industry or Private label industry. Quite simply, Merchant wholesalers are the ones who buy directly from the manufacturer, store the product and then sell it to the customer. They might sell in any channel and they are not restricted to selling to retail only or to online only.

If there is any loss between the buying and selling of the product, it must be borne by the merchant wholesaler.

Example – A vegetable wholesaler buys produce directly from the farm and stocks it at his own warehouse. He then sells these products to the local retail outlets or even to end customers. He may also sell to restaurants. However, any loss of the produce due to spillage or any other reason is a cost to the merchant wholesalers.

Even in FMCG, companies like Britannia or P&G use merchant wholesalers. These wholesalers have a greater control in the region they operate. They benefit because they buy in bulk from the company and take charge of the risk they are facing. Plus, they are responsible for the sales targets, however, they achieve it.

2) Full-service Wholesalers – Retail Wholesalers

They are most commonly observed in Consumer Durables or Engineering products. The full-service type of wholesalers is, as the name suggests, giving full service to the end retailer. These wholesalers mainly operate in the retail market and sell products to a reseller (a retailer in this case) everything except service of the product is the responsibility of the full-service wholesaler.

Example – Samsung wants to expand its operation in region A but it does not have a sales office in that region. So it appoints a distributor in region A. This distributor is solely responsible for order picking, delivery, training sales associates, promotions and everything for the Samsung brand. He is now a full-service wholesaler. However, for service of the product, there is a different service franchise opened in the same region.

In real life scenario, Many full-service wholesalers also start a second services related business and start giving services for the products they are wholesaling. Example – A Samsung wholesaler also starting a service center of Samsung.

As a result, they might get both – sales and service orders. However, for theoretical purposes, Servicing and maintenance of the product is not a part of a full-service wholesaler. He is mainly for sales, deliveries, and financing. These are the second most common types of wholesalers in the market.

3) Limited Service Wholesalers

A limited service wholesaler is someone who stocks the products of the company and sells it in a limited channel. He does not have a large turnover or does not cover all channels of the company.

Example – Company X wants to sell its products online but it knows that if it allows local distributors to sell online, there will be a huge price war. As a result, Company X appoints an exclusive online wholesaler. This online wholesaler has only one job – To purchase the product and stock it and sell it online. So whenever an order comes from Amazon or eBay, this wholesaler gives the machine to Amazon or eBay. That's his only job.

The same way – there are other limited-service wholesalers. 2 are mentioned below.

- **Cash and Carry wholesalers** – Strong FMCG products are sold as cash and carry. Immediate payment is demanded on a delivery of material.
- **Logistics wholesalers** – A milk wholesaler who delivers whole trucks of milk across the market. His only work is to deliver the milk and not to get orders for the company.

4) Brokers and Agents

Most commonly observed in the real estate industry or in the chemical markets. A broker assumes no risk. He has the producer or the manufacturer on one side and he has the buyer on the other side. The work of the broker is to get the deal done and he gets a commission on the deal.

Example – A small lab has regular requirement of litmus paper. There is a litmus paper wholesaler in their area who is a broker for several companies and who arranges any lab material in bulk. The lab approaches the broker and wants to purchase huge quantity. The broker then talks to multiple manufacturers and finally, a deal is struck with one manufacturer. The

manufacturer pays 2% commission to the broker for his work and for bringing the enquiry. Similarly, this broker can pick an order of Beakers, Petri dishes or any other equipment. He will keep arranging meetings with the right supplier and keep earning commissions.

A similar example like above is also observed in the retail industry wherein the broker earns a commission to sell an apartment.

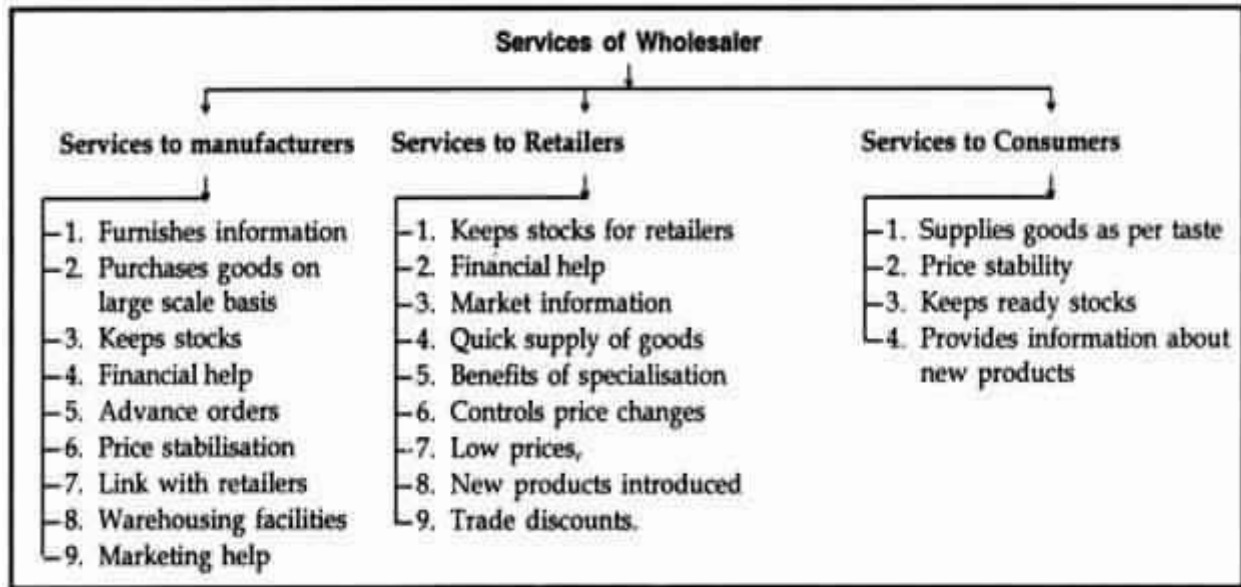
The difference between a broker and agent is that a Broker is short-term and he will be there for a couple of orders. However, an Agent is long-term and specialized in repeated purchase so that he stays for a longer time with the company and specifically works for the betterment of the company. Example – Insurance has Agents (repeated buying) whereas real estate has brokers (single buying)

5) Branches and mini offices

Although branches and mini offices do not come in the various types of wholesalers, these are common ways for companies to start selling their products in a region they are targeting. A branch can also be called a type of wholesaling wherein the branch directly picks the orders from the end customers in bulk and ensures the supply and reorders from the customer.

Example – Paper company like B2B or 3M knows that large companies require a lot of print paper across the month. These companies then establish branch offices which also act as the sales office. They pick a bulk order of paper and the company might transport the complete order from their warehouse to the company.

Services of Wholesaler



(A) Services to Manufacturers/Producers:

- (i) Wholesaler furnishes information to the manufacturer about consumer behaviour, the changes in the tastes and fashions and also the latest demands of the customers.
- (ii) Wholesaler enables a manufacturer to get benefit of economies of large-scale production by manufacturing on a large-scale basis.
- (iii) Wholesalers relieve producers from keeping stock since they usually make forward dealings with producers.
- (iv) Wholesalers render financial assistance to manufacturers and also provide long-term soft loans to them.
- (v) Wholesaler helps manufacturers in maintaining an even place of production by placing advance orders for periods which are usually characterised by slack demand.
- (vi) Wholesalers help in price stabilisation since they stock goods in the slack season and sell them when the demand is high.
- (vii) Wholesalers enable the manufacturers to save their capital by not tying it up in stocks. Instead, capital can be utilised for production activities.

(viii) Wholesalers are an important link between the manufacturers and the retailers.

(ix) Wholesalers provide warehousing facilities for goods till they are required by the retailers.

(x) Wholesalers take over the marketing functions from the manufacturers, thereby enabling them to concentrate on production.

(B) Services to Retailers:

(i) Wholesalers relieve retailers from keeping huge stocks with themselves since a retailer can approach a wholesaler for the replenishment of his stocks whenever they are exhausted.

(ii) Wholesalers provide financial assistance to retailers by selling goods to them on credit.

(iii) Wholesalers provide necessary market information to retailers regarding the type, quality and price of goods.

(iv) Wholesalers enable retailers to obtain supplies more quickly than they could by placing orders directly to manufacturers,

(v) Wholesalers provide the benefits of specialisation to retailers.

(vi) Wholesalers help retailers to take favourable advantage of price fluctuations.

(vii) Wholesalers enable retailers to share the economies of transport.

(viii) Wholesalers bring to retailers in bulk, but charging less prices.

(ix) Wholesalers bring to the notice of retailers new products through advertisements and travelling salesmen.

(x) Wholesalers give trade discounts on the bulk purchases to retailers.

(C) Services to Consumers:

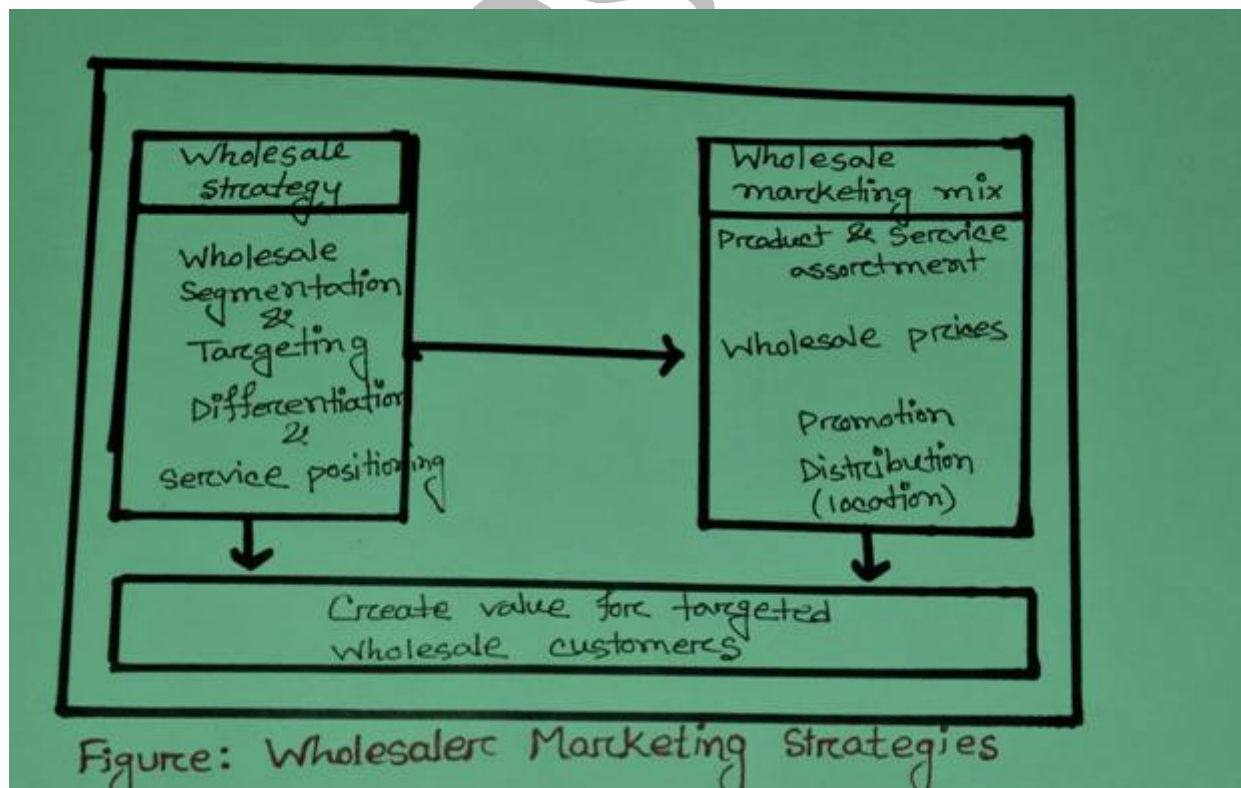
(i) Wholesalers make available the goods according to consumers' needs, tastes, fashion and demand.

- (ii) Wholesalers maintain stability of price by adjusting demand and supply and factors in the economy.
- (iii) Wholesalers make large-scale production of goods possible, thereby keeping the overall price level low.
- (iv) Wholesalers have always ready stocks with them and the consumers do not have to wait for the replenishment of stocks.
- (v) Wholesalers provide knowledge of new products to consumers.

Wholesaler marketing decisions

Wholesalers also face growing competitive pressures, new technologies, more demand, direct buying facilities, retail buyers. As a result, wholesaler needs to adopt some strategies & effective marketing decisions.

See the below figure:



Segmentation, targeting, differentiation & positioning decisions

Like other businessman, wholesalers also divide their market segment, define their target segment & effectively differentiate & position it. It's true that wholesaler can't serve everyone. They can choose a target segment to serve by the group of customers, types of customer, customers need, want & demand. Within their target customer, the wholesaler can make more profit.

Marketing mix decisions

Like other business, wholesalers also adopt marketing mix decisions. They must decide on their product & services, prices, promotional activities & convenience place. They try to delivered customer value.

Setting price is also an important decision for the wholesaler. If they set fewer prices than others, they may fall into losses. Promotion in wholesaling business is very critical. Maximum wholesalers aren't interested in adopting promotional activities. Distribution is very important for the wholesaler. They need to select a convenient place where the entire customer can easily visit.

Wholesale Distribution Trends

1. Business Costs Will Rise

The number one concern on every business owner's mind is **rising business costs**. Ironically, this is particularly so for US-based businesses. They face higher tariffs on imported raw materials and goods for sale. Shipping costs are also expected to spike upwards. Customers will scramble to rush shipments and stock up ahead of yet another round of tariffs.

2. Supply Chains Will Be Redefined

A secondary concern in most of our customers' minds is finding **alternative countries** for their goods and raw materials. It's hard enough to gauge and evaluate wholesale suppliers in China. Just imagine how much harder it would be to do that in another country that you're not familiar with. And in another language.

In 2019 global supply chains will **pivot slowly away** from China and make inroads into other nations with a manufacturing base. And Chinese companies will spearhead much of this change. Armed with their experience and know-how, they will set up joint venture companies or build new factories.

3. Drop Shipping Will Face a Decline

For EMERGE App customers who engage in drop shipping, they gave us a **grim prognosis** of the year ahead. E-commerce retail is competitive, fast-moving and margins are slim. Hikes in tariffs and shipping rates will erase whatever profit margin they had in mind. They're likely to leave drop shipping and expand other sales channels. Or find alternative businesses.

Drop shipping has enjoyed a hot decade. It was fuelled by **cheap products** at gargantuan trade shows, historically **low shipping costs** and the **growth of marketplaces** such as Amazon. It spun off an industry that produced home businesses and software to support drop shipping. However, the good times are over.

The **perfect storm** of tariffs, higher shipping costs and the need to find alternative suppliers will dampen the drop shipping party. Historically, China could be depended upon in a drop shipping workflow. It could supply goods at an acceptable quality on time. China and the United States even created a new shipping class to facilitate orders.

Today, **there is no end** in sight to the trade wars. Tariffs are arbitrarily announced and applied to thousands of classes of products. There's no second-guessing which will be next and which will be exempted. A double-digit percentage jump in tariffs will erase whatever profit margin you have.

4. Some Countries Will Face Short-Term Pain

Other customers expressed concern about being **caught out** in the Chinese value chain. As orders from China wind-down or are scaled back, they need to find replacement customers quickly. They suggested they may **diversify** into other products or **open offices** in other Asian nations they may benefit from increased manufacturing activity.

If Chinese exports to the States see a fall in demand, then it is likely to have a **knock-down effect** on China's imports of **intermediates and raw materials** in the value chain as well. And these suppliers are typically East Asian companies because of their proximity to China and their historical expertise in producing micro-electric parts.

A study suggested that a drop in Chinese exports will affect **Taiwan** and **Malaysia** the most. They are major suppliers of parts for electronic and optical equipment, and electrical machinery. Less affected are Singapore, South Korea, and Thailand. Cambodia, Indonesia, and Vietnam may see a negligible effect because of their low participation in the Chinese production chain.

All in, wholesalers, distributors, and exporters in these countries are likely to see a **slowdown in orders**. Chinese manufacturers will scale back on their exports. But arguably any short-term drop in business is likely to be offset by a pick-up in orders as Chinese manufacturers relocate to these very same countries.

5. Trade With East Asian Countries Will Accelerate

As production diversifies itself away from China, it is likely that Asian nations, in particular, will pick up the **manufacturing slack**. This shift won't happen overnight. But it's already happening as wholesalers, distributors, and importers source alternatives from other countries and place tentative orders.

It has been suggested that the replacement potential of Chinese exports by emerging economies is **significant**. Vietnam, for example, may stand to gain the most from products that it already supplies to the States. The same study concluded that every \$10 million of Chinese exports that it takes over is estimated to be 4.4% of Vietnam's GDP alone.

The study also mentioned that other countries *may* benefit from a potential replacement of Chinese exports. These include the Philippines, Cambodia, Taiwan, Singapore, Malaysia, and Thailand. They produce similar goods that China exports to the United States. Only South Korea, Indonesia, and Myanmar may see a muted effect in switching away from Chinese exports.

6. Technology Will Continue To March On

Despite the churning geopolitical backdrop, one thing is for certain from us. **Technology will continue to advance and march on.** Small and medium-sized businesses may not have the budget and need for automated picking by robots. But they can count on their everyday software being faster and smarter with every release.

Inventory management software, in particular, is critical for all players in the supply chain: importers, exporters, wholesalers, and distributors. New features and building out of existing ones are likely to depend on the needs of these businesses. So 2019 is likely to see e-commerce and drop shipping features stay the same while **trade-related features** gain more prominence.

6) Specialized wholesalers

These are wholesalers who do wholesale of specialized items only. Example – A used car wholesaler who sells directly to customers or to other used car dealers. He is specialized in used cars and knows the ins and outs of selling a used car to consumers or refurbishing the used cars.

Similarly, there are other specialized wholesalers who are known for the specific product that they sell.

The above were the various types of wholesalers in the market. As E-commerce rises in sales, there is a lesser requirement of Wholesalers in developing economies. However, emerging markets still use various types of wholesalers to their advantage.