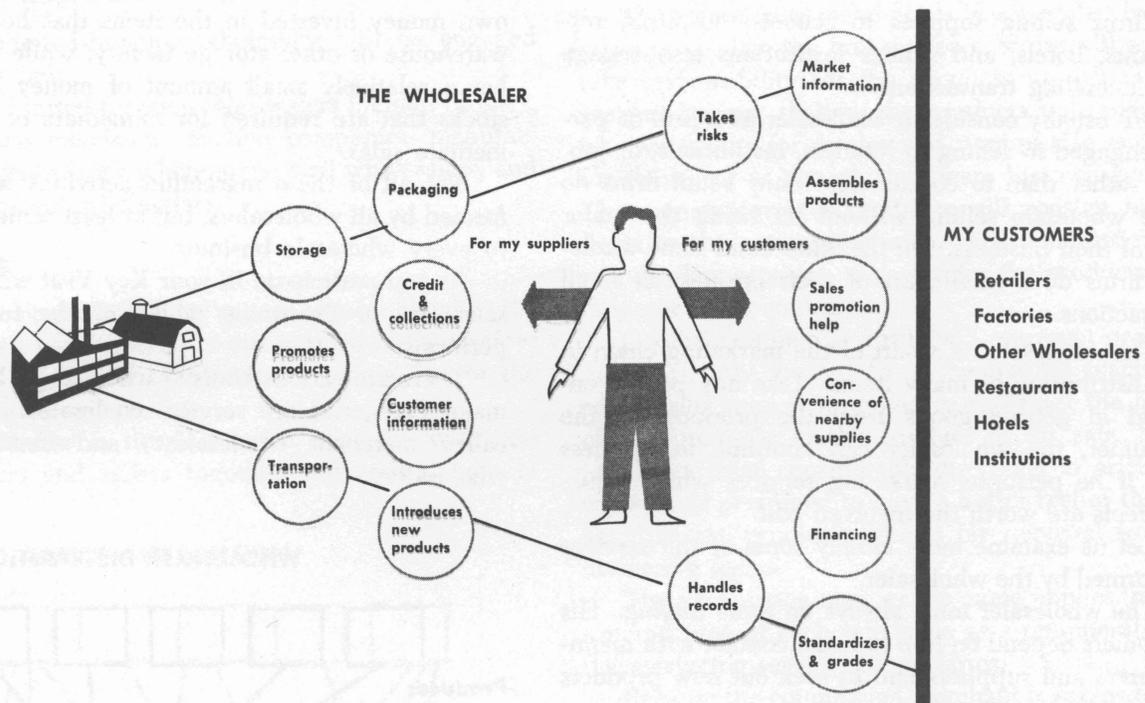


# Town and Country

## BUSINESS PROGRAM

### Wholesaling



#### What is Wholesaling?

A wholesale transaction is one in which the buyer makes a purchase to resell at a profit, or to use the purchased item to conduct a business. Wholesaling usually involves more goods than are usually purchased by an ultimate consumer.

When a friend offers to get you a tire at "wholesale," he really means that he'll get the tire at a lower price. It is not a true wholesale trade, because it is

a purchase for private use; it involves only one tire, and is not intended for resale.

On the other hand, a service station operator orders a number of tires from his supplier to fill the needs of retail customers. This order is a wholesale transaction, since the purchase is intended for resale at a profit. You sometimes will find instances of wholesale deals involving a limited number of items; for example, a drugstore might make a wholesale order of certain rarely used pharmaceuticals in very small



amounts. This procedure, too, would be a wholesale transaction, since it is a purchase for resale at a profit. Usually, wholesaling involves relatively large volumes, especially in wholesaling of agricultural and food products. Indeed, the word "wholesale" itself implies the selling in "whole" lots or "unbroken" lots.

Farmers engage in wholesaling when they sell apples to a processor, milk to a dairy, or cut flowers to a chain store. The apple processor engages in wholesaling when the company makes case-lot shipment of apple sauce directly to a chain-store system or to a wholesale house which services several grocery firms.

In the broadest use of the term, the manufacturer in selling a pasteurizer to a dairy plant engages in a wholesale transaction. The dairy plant is merely using the machine for its own profit motive.

Firms selling supplies to schools, hospitals, restaurants, hotels, and similar institutions also engage in wholesaling transactions.

We usually consider a wholesaler as a firm or person engaged in selling to retailers, institutions, or jobbers rather than to consumers. Many retail firms do some wholesale selling without its being the major part of their business. On the other hand some wholesale firms do a small part of their business in retail transactions.

The wholesaler is a part of the marketing chain in the distribution of many items. Like any people engaged in getting goods from the producer to the consumer, the wholesaler can continue in business only if he performs marketing services which someone feels are worth the involved cost.

Let us examine more closely some of the services performed by the wholesaler.

The wholesaler must always do some *buying*. His customers depend on him to make contact with manufacturers and suppliers and to seek out new products to meet their particular needs.

Another marketing activity of the wholesaler is that of *transportation*. Since the wholesaler buys in large volume, he often is able to take advantage of reduced cost of full-carload shipments.

Wholesalers do a lot of *storage*, too. Many times their warehouses and storage facilities represent a major aspect of their investment. They are thus in position to store goods for longer periods and often at a lower cost than the manufacturer or retailer. Because wholesalers have specialized storage operations, the retailer has to take only the quantity required to fill his short-time needs. He knows his wholesaler will be able to supply additional units on very short notice.

*Grading* is done especially by wholesalers of agricultural products. In these instances the wholesaler might buy from producers who have given the com-

modity only a "rough" grading. A wholesaler who handles tomatoes will sometimes grade his purchases to meet the standards agreeable to him and his respective customers. A grain merchant will grade wheat and other commodities prior to resale.

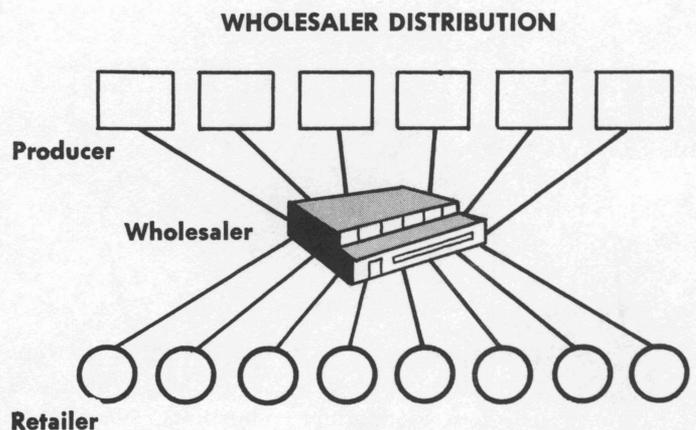
Since the wholesaler is in day-to-day contact with both retailers and producers (or manufacturers), he often is a vital link in the *market information* network. He passes back to his suppliers the response of his customer to products, prices, and marketing policy. The wholesaler also passes news to retailers about new products and other changes in the industry. The service wholesaler also performs advertising and merchandising services.

Another function performed by the wholesaler is *financing*. Wholesalers will extend credit to the retailer on a wide variety of terms. Also, he has his own money invested in the items that he has in his warehouse or other storage facility, while the retailer has a relatively small amount of money invested in stocks that are required for immediate or nearly immediate sales.

Not all of these marketing activities will be performed by all wholesalers, but at least some will apply to every wholesale business.

As you participate in your Key Visit with a wholesaler, try to determine which of the functions he performs.

There are various kinds of wholesalers, but the two major categories are service wholesalers (sometimes called merchant wholesalers) and limited-function wholesalers.



Use of the wholesaler simplifies the flow of goods to retail outlets. It often assures more complete coverage of local markets. Deciding whether to use wholesalers or other methods of distribution is the job of marketing management.

## Service Wholesaler and Limited-Function Wholesaler

The service wholesaler will perform all of the functions discussed earlier. Here are some examples of the fields in which service wholesalers operate.

Sporting Goods	Grocery and Goods
Automotive	Hardware
Chemicals	Jewelry
Paint	Lumber
Clothing	Paper and Its Products
Coal	Petroleum
Drug	Plumbing and Heating
Dry Goods	Supplies
Electrical	Tobacco
Fruits and Vegetables	Waste Materials
Home Appliances	

The limited-function wholesaler will be engaged in only a few.

Some limited-function wholesalers include brokers, commission merchants, auction companies, manufacturers' agents, truck wholesalers, mail wholesalers, and drop-shipment wholesalers.

### Brokers

Not every marketing expert would classify the broker as a wholesaler. For our purposes let's consider him as a wholesaler that performs only a few of the marketing functions.

The broker in simplest terms is a man who gets the buyers and sellers together and assists them in

arranging a sale. A broker may represent either the buyer or the seller. The broker makes his money by charging a fee or a percentage of the price agreed upon by the buyer and seller. He gets no remuneration unless the deal is closed. Because of this arrangement the broker will often act as a go-between, attempting to induce both parties to come to terms on the trade. Usually the broker does not take possession of the goods involved in the trade; he may not even see the goods.

Brokers are especially active in the marketing of agricultural commodities: fruits, vegetables, cotton, grain, and livestock.

### Commission Merchant

The commission merchant is like a broker in many respects. Unlike the broker, however, he will actually take responsibility for the products for which he is seeking buyers; that is, the products will come into his own facility for display and storage. He must care for them just as though they were his own property. The manufacturer or producer will consign his products to the commission man. The commission man will display, promote, and care for the products while they are in his control.

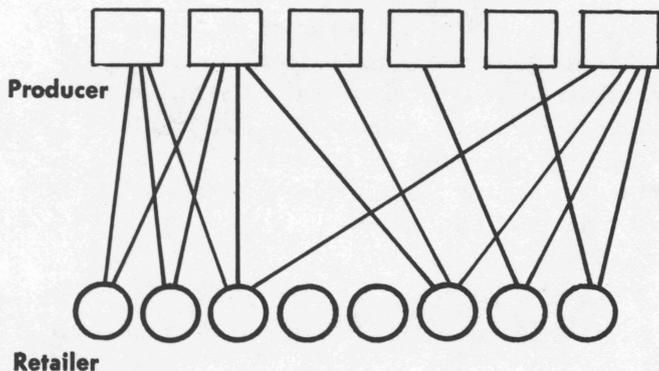
Commission men as a rule will represent producers more distantly located from the market place. The commission man is supposed to represent the interest of the producer in the conduct of his sale, but he usually is given considerable discretion in pricing because he is presumed to have a better feel of the market than the producer who is far removed from the marketing scene.

The commission man, as the name implies, receives a percentage of each sale price as a remuneration for the marketing services he performs.

Because the commission merchant is entrusted with the handling of goods that he does not actually own, considerable suspicion sometimes has been directed toward his operation. Indeed, there have been instances of malpractices; these are relatively insignificant, considering the volume of business done through commission merchants.

Today producers are protected by federal and state laws which impose certain requirements upon brokers and their business operations. The Perishable Agricultural Commodities Act is one of the laws regulating commission merchants. This law requires that the commission merchant be licensed. The law also makes subject to punishment by fines those operators who violate provisions of the act concerning fraud, misleading statements, and destroying or mishandling consignments.

### DIRECT DISTRIBUTION



The manufacturer or producer is often far removed from the local market. This means that direct distribution might not service some retail outlets. There are some products, however, in which direct distribution is the most practical means of selling.

## The Auction Company

One could never consider the marketing of agricultural commodities without giving attention to the important role of auction companies. They are of major importance in wholesaling of livestock, tobacco, fruits, and vegetables.

The auction company provides the facilities—warehouse, cattle pens or yards—according to the commodity being handled. It will also provide facilities for buyers. The auctioneer is hired by the auction company to incite bids from potential buyers. He, of course, is a master at this type of salesmanship.

Some auction companies in the fruit and vegetable business extend short-term credit to their regular buyers.

Auction companies make their income for performing these services by getting the buyer and seller together in a market transaction. For compensation they usually deduct a commission from the selling price.

## The Manufacturer's Agent

Among those who facilitate the wholesale trade are agents or agent middlemen. The manufacturer's agent is a good example of this type who make a living through a limited sort of wholesaling.

To best illustrate the way a manufacturer's agent operates, let's consider the way a typical manufacturer's agent goes about his job.

Charlie Riesch is a relatively young man, but his income as a manufacturer's agent is considerably above average. Charlie's office is a desk in his home, where his wife acts as secretary in addition to pursuing her usual household duties.

Charlie is on the road most of the week calling on dairy firms engaged in the manufacture of ice cream. He represents for selling purposes several manufacturers who produce items needed to make ice cream. Among his lines are chocolate and other flavoring, gelatin, special sugars, a line of special packages for ice cream novelties. He is considering taking on a new

line for a manufacturer of detergents and special cleaning materials for ice cream machinery.

On all of these lines, Charlie has exclusive sales rights within his territory which covers the western half of his state. Several different companies produce the lines he handles, but none of them competes. The manufacturer specifies the price and terms of sale, and Charlie does the selling for which he receives a commission. The manufacturer ships directly to the buyer.

The manufacturer's agent is important in the distribution of machinery, equipment and supplies, clothing, metals, and dry goods.

Manufacturers often choose this means of sales because they feel it lowers costs. They do not have to operate with a full sales force, yet the manufacturer's representative provides an individualized selling service.

## Drop-Shipment Wholesaler

In the lumber, building, and coal industries you will find the drop-shipment wholesaler. He is a salesman who takes orders and then sends them to manufacturers. The manufacturer sends directly to the buyer. The drop-order shipper is paid for his selling performance but does not maintain supplies of the product. You can see that this method may be applied effectively to bulk items that are purchased in large quantities of carlots or more, such as coal and lumber. Because of the nature of this business, the facilities required by the drop-shipment wholesaler are very simple. Therefore, the men in this business are sometimes called "desk jobbers" or "hat jobbers."

Wholesaling is an important and necessary part of the marketing system. The wholesaler is sometimes criticized as being unnecessary and a needless cost of marketing. It should be recognized that his existence depends upon performance of services to those with whom he deals. The fact that he has been a part of the marketing system for years indicates acceptance of his role by the people he serves.