

Should We Use a Wholesaler?

A common business cliché is 'let's cut out the middle-man'. Removing the middle-man (a wholesaler) from the channel will provide a higher per unit margin for a manufacturer, but will it result in a higher profit overall?

For this activity, help the following manufacturer decide whether or not they should use a wholesaler?

About Olive's Olives

Olive's Olives is a producer of olives in a number of different varieties. Their factory is located in a large city and their products retail throughout smaller supermarkets, fruit and vegetable stores, and delicatessens throughout the country.

Traditionally they have used a wholesaler. On average, they sell a jar of olives to the wholesaler for \$1, who resells it to a retailer for \$1.50. As Olive's Olives sells around one million jars of olives each year, they are now considering cutting out the middle-man and selling their products directly to the retailers (thus generating around \$500,000 in extra revenue).

One of their senior managers has identified that for the firm to do this they would need to:

- Organize for the transportation of the product to the retailers,
- Set-up a ordering/billing team (to handle orders from many retailers)
- Set-up a sales team (to maintain existing retailers and generate new ones)
- Establish a warehouse area for the storage of stock (as it is normally stored by the wholesaler)
- Be able to withstand a reduction in short-term cash flow (as most retailers will take longer to pay their invoices, as compared to the wholesaler), an
- Be able to deal in smaller quantities of the product (as opposed to simply sending full truck loads to the wholesaler).

Student Discussion Questions

1. What appears to be the main advantages of using a wholesaler?
2. What appears to be the main advantages of dealing directly with the retailers
3. Would you recommend that Olive's Olives start dealing directly with a wholesaler? Why/why not?
4. What kind/type of manufacturers would probably benefit the most from dealing directly with retailers?