

Wholesalers in a Nutshell - Will they Deal with You?

What is a wholesaler? In a nutshell, it is a company that buys (usually directly) from a manufacturer in large quantities at a discount, then pieces out the product into smaller quantities that are then sold for a higher price. The usual chain of product goes: Manufacturer > Wholesaler > Retailer > Customer.

Services provided by wholesalers involve both manufacturers and retailers. Producers, once the product is manufactured, begin incurring storage costs as well as logistical issues involved with keeping product onsite. Wholesalers usually pay transportation costs, as well as reducing costs involved with producer storage by removing manufactured product to a warehouse's own utilities, providing financial benefits as well. These costs incurred by a warehouse can be spread among many more products than a retailer or producer, thereby reducing the per-item cost to a retailer. A warehouse also takes the burden off the producer for possible detrimental stockpiling of goods, as the warehouse often has agreements to purchase certain quantities in exchange for reduced product costs, reassuring the manufacturer that there will be a market for certain production levels and allowing manufacture at the most efficient levels possible.

There are three different general classifications of wholesalers, defined by criteria such as whether the wholesaler is independently owned or owned by a producer, whether the wholesaler takes title to the products they handle, or lastly by range of services, the most relevant of which known as Merchant Wholesale will be the primary topic in this article.

"Merchant wholesalers take title [ownership] to product they deal in, assume risk and buy and resell products to other wholesalers, to retailers, or to other business customers" (Ferrell & Pride, 2003). This is further broken down into Full-service wholesalers and Limited-service wholesalers.

Full-service wholesalers include General-merchandise, Limited-line and Specialty-line classifications. General-merchandise wholesalers carry a wide variety of products, but do not specialize within product lines.

Limited-line carry fewer products, but with more specialization in the few product types they deal in. Grocery wholesalers fall under this category.

Specialty-line wholesalers deal in very few products but with high specialization in their chosen product line(s), such as only dealing in pharmaceuticals.

Full-service wholesalers provide the widest range of services, such as quantity breakdowns, financial assistance and credit, marketing services and product availability. Full-service wholesalers usually earn a higher profit margin than other wholesalers, but operating expenses are much higher as well.

Limited service wholesalers specialize in fewer functions than Full-service wholesalers, generally allowing the producer or the customer to provide most functions. These wholesalers include Cash-and-carry companies, Trucking companies, Drop-shippers or Mail-order firms. Limited service wholesalers take title to products but usually do not provide many of the services a Full-service wholesaler does, like marketing, retailer site selection or personnel training. Due to the limited nature of their services, they have lower operating costs but are also limited to lower profit margins as well.

Wholesalers, in order to keep their operating expenses down, often deal only with companies or with clients able to meet minimum orders, whether monetary or by item count. This can make things difficult on a small business or sole proprietorship looking to reduce cost-of-goods-sold. However, there are many wholesalers or wholesaler-like companies that cater to smaller-volume customers. This is where companies like Costco or Wal-mart's Sam's Club come in--as Costco and Sam's Club are not technically wholesalers, but direct-retailers with lower operating costs, buying in smaller bulk volumes from a company that uses this business plan is often a viable compromise between the lower rates but logistical issues of a standard wholesaler, and the lower profit margins of buying from a retailer, and may make all the difference to a small company operating on a shoestring.

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About the Author

William King is the director of [UK Wholesale Suppliers](#), [Wholesale Suppliers](#), [Dropshipping Directory](#) and [Pakistan Property Portal](#). He has 18 years of experience in the marketing and trading industries and has been helping retailers and startups with their product sourcing, promotion, marketing and supply chain requirements.

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