



Should we use a wholesaler?

A common cliché is “let’s cut the middleman”. Removing the middleman from the channel will provide a higher per unit margin for the manufacturer, but will it result in a higher profit overall?

Please help the manufacturer to decide if they should use wholesaler or not.

Olive’s Olives

Olive’s Olives is a producer of olives in several different varieties. Their products are retailed throughout smaller supermarkets, fruit and vegetables stores and delicatessens. Traditionally they have used a wholesaler. On average, they sell a jar of olives to a wholesaler for 1EUR, who resells it to a retailer for 1.5EUR. Olive’s Olives sells around 1 million jars annually, and they are now considering cutting out the middleman and selling their products directly to retailers (thus generating cca. 500000EUR).

One of their managers identified that they need to do (in case they remove middleman):

1. Organize the transportation of products to the retailers.
2. Set-up ordering team to handle orders from many retailers.
3. Set-up sales team to maintain existing retailers and generate new ones.
4. Establish a warehouse.
5. Be able to withstand a reduction in short-term cash-flow.
6. Be able to deal with smaller quantities of the product.

Questions:

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