Chapter Objectives

To define wholesaling and show its importance
To describe the three broad categories of wholesaling (manufacturer/service provider wholesaling, merchant wholesaling, and agents and brokers) and the specific types of firms within each category
To examine recent trends in wholesaling

The Domain of Wholesaling

- **Wholesaling** encompasses the buying and/or handling of goods and services and their subsequent resale to organizational users, retailers, and/or other wholesalers—but not the sale of significant volume to final consumers.
- Manufacturers and service providers sometimes act as their own wholesalers; other times, independent firms are employed.
- Independents may or may not take title to or possession of products, depending on the type of wholesaling.
- Industrial, commercial, and government institutions are wholesalers' leading customers, followed closely by retailers. Sales from one wholesaler to another also represent a significant proportion of wholesaling activity.

The Diversity of Wholesaling Transactions

- Sales of goods and services to manufacturers, service providers, oil refiners, railroads, public utilities, and government departments.
- Sales of office or laboratory equipment, supplies, and services to professionals such as doctors, chiropractors, and dentists.
- Sales of materials and services to builders of offices and homes.
- Sales to grocery stores, restaurants, hotels, apparel stores, stationery stores, and all other retailers.
- Manufacturer/service provider sales to wholesalers, and wholesaler sales to other wholesalers.

The Functions of Wholesalers

- Facilitate local distribution
- Provide a trained sales force
- Provide marketing & research support
- Gather assortments for customers
- Purchase or lease goods
- Provide warehousing & delivery facilities
- Offer financing
- Take responsibility for inventory
- Process returns
- Handle financial records

Selling To vs. Selling Through the Wholesaler

- **Selling To**: Manufacturer/Service Provider → Wholesaler → Retailer
- **Selling Through**: Manufacturer/Service Provider → Wholesaler → Retailer

The wholesaler is viewed as a customer who is researched and satisfied.

The retailer (or final consumer) is the object of the manufacturer’s/service provider’s interests. The needs of the wholesaler are considered unimportant.
The Broad Categories of Wholesalers

There are three broad categories of wholesalers:
- Manufacturer/Service Provider Wholesaling
- Merchant Wholesaling
- Agents and Brokers

Wholesalers have obligations to both suppliers and customers.

<table>
<thead>
<tr>
<th>Control/Functions</th>
<th>The manufacturer/service provider controls wholesaling and performs all functions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>The manufacturer/service provider owns products until they are bought by retailers or other organizational consumers.</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>The manufacturer/service provider does not receive payment until the retailer or other customer buys products.</td>
</tr>
<tr>
<td>Best Use(s)</td>
<td>The manufacturer/service provider deals with a small group of large and geographically concentrated customers; rapid expansion is not a goal.</td>
</tr>
</tbody>
</table>

Manufacturer/Service Provider Wholesaling

<table>
<thead>
<tr>
<th>Control/Functions</th>
<th>The wholesaler controls wholesaling and performs many or all functions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>The wholesaler buys products from the manufacturer/service provider and resells them.</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>The manufacturer/service provider is paid when the wholesaler purchases products.</td>
</tr>
<tr>
<td>Best Use(s)</td>
<td>The manufacturer/service provider has a large product line that is sold through many small and geographically dispersed customers; expansion is a goal.</td>
</tr>
</tbody>
</table>

Merchant Wholesaling

<table>
<thead>
<tr>
<th>Control/Functions</th>
<th>The wholesaler controls wholesaling and performs some functions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>The wholesaler owns products until they are sold to retailers or other organizational consumers.</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>The wholesaler receives payment when products are sold.</td>
</tr>
<tr>
<td>Best Use(s)</td>
<td>The wholesaler is small, has little marketing expertise, and is relatively unknown to potential customers; expansion is a goal.</td>
</tr>
</tbody>
</table>

Agents and Brokers

<table>
<thead>
<tr>
<th>Control/Functions</th>
<th>The manufacturer/service provider and wholesaler each have some control and perform some functions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>The manufacturer/service provider owns the products and pays the wholesaler a fee/commission.</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>The manufacturer/service provider does not receive payment until products are sold.</td>
</tr>
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<td>Best Use(s)</td>
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Full-Service Merchant Wholesalers

1. General Merchandise—Carries nearly all items a customer usually needs
2. Specialty Merchandise—Focuses in a narrow product range, extensive assortment
3. Rack Jobber—Furnishes racks and shelves, consignment sales
4. Franchise—Uses a common business format, extensive management services

Limited-Service Merchant Wholesalers

1. Cash and Carry—No outside sales force, wholesale store for business needs
2. Drop Shipper—Ships items without physically handling them
3. Truck/Wagon—Sales and delivery on same call
4. Mail Order—Catalogs used as sole promotion tool

Producer-Owned Cooperative—Farmer controlled, profits divided among members
Retailer-Owned Cooperative—Wholesaler owned by several retailers
Agents and Brokers

1. Manufacturers’ (Service Providers’) Agent—Sells selected items for several firms
2. Selling Agent—Markets all the items of a firm
3. Commission (Factor) Merchant—Handles items on a consignment basis
   1. Food Broker—Brings together buyers and sellers
   2. Stock Broker—Brings together buyers and sellers

Chapter Summary

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- It examines recent trends in wholesaling.