

## Do the Math

Suppose that you are a manufacturer that has just made an innovative device for hospitals. Do the math and see how specialty distributors lower your costs.

Cost of selling direct		Cost using Specialty distributors		Comments
<b>Cost of sales</b>				
		Distributor's margin (% X estimated sales) = \$ _____		Specialty distributors receive higher margins for selling new technologies than mature products.
Sales reps' salaries/benefits, commissions, bonuses, expenses, etc. \$ _____		\$ <u>0</u>		Specialty distributors serve as the manufacturer's sales force, helping the manufacturer avoid the cost of fielding a direct rep -- \$100,000 or more per year.
Sales managers' salaries/benefits, commissions, bonuses, expenses, etc. \$ _____		\$ _____		Typically, the ratio of sales managers to direct sales reps is one to 10. With the cost of a sales manager approaching or exceeding \$150,000, the manufacturer using specialty distributors enjoys substantial cost-savings.
Administrative assistants' salaries, benefits, etc. \$ _____		\$ _____		With few or no field salespeople to support, the manufacturer incurs few administrative costs.
	Subtotal \$ _____		Subtotal \$ _____	
<b>Cost of marketing</b>				
Local trade shows (exhibit, expenses, time, etc.) \$ _____		\$ <u>0</u>		Specialty distributors promote vendors' products at trade shows.
Direct mail/advertising \$ _____		\$ _____		Advertising expenses may be shared with distributors.
Contributions to clinical providers \$ _____		\$ <u>0</u>		Specialty distributors financially support providers through sponsorship of local events.
	Subtotal \$ _____		Subtotal \$ _____	

<b>Cost of A/R, inventory, distribution</b>				
Receivables (\$ ) X days outstanding ( ) X daily interest rate = cost of A/R  \$ _____				Direct-selling manufacturers often wait 45 to 90 days for payment, but specialty distributors usually pay in 30 days.
Collection costs  \$ _____				Using specialty distributors involves collections from just a handful of accounts.
Average inventory value (\$ ) X interest expense = opportunity cost  \$ _____				Specialty distributors provide an additional reserve, so manufacturers can operate with less inventory.
Warehouse expenses (wages, rent/mortgage, forklifts, fixtures, etc.)  \$ _____				Manufacturers relying on distributors store less inventory, hence, they finance less space, less equipment, fewer people.
Packing materials, freight, personnel, etc.  \$ _____				With few ship-to locations and larger shipments, manufacturers using distributors reduce shipping expenses.
	Subtotal		Subtotal	
	\$ _____		\$ _____	

<b>Transaction costs</b>				
Customer service reps (salaries/benefits, office expenses, etc.)  \$ _____				Using distributors, manufacturers have fewer customers, purchase orders, etc.
Cost of returned goods  \$ _____				Fewer direct customers mean fewer returns and their associated costs.
	Subtotal		Subtotal	
	\$ _____		\$ _____	

Total cost of selling direct  \$ _____	Total cost using specialty distributors  \$ _____	When you do the math, you'll see that specialty distributors are the most cost-effective way of bringing innovative medical technologies to market.
--	---	---