

Topic:
CAD/CAM
Resellers

On the Margin

Trying to unravel the mystery that is reseller and distributor margin...

iCAD is produced by Business Advantage, a B2B research, business development and marketing consulting practice operating in the global IT, Digital and Telecommunication sectors.

“5 % margin” claims the first reseller, “35% margin” claims the second one. Yes, we are definitely talking about the same product in the same country! Margins quoted in a country can vary from 5% to 50%.

One has to wonder how reliable and accurate the information is, when faced with such a wide variation. Business Advantage, a specialist in competitive analysis, has often been challenged with the inconsistency in reported margins. Although the percentage mark-up inevitably varies from one category of goods to another, one would expect to have greater consistency across the channel.

Inconsistency

The following table illustrates the inconsistency in margins.

	Respondent 1	Respondent 2	Respondent 3
Distributor's margins	2-4%	5-10%	20-25%
Reseller's margins	Average 5%	15%	Over 36%

(note: information gathered for the same product in the same country)

There are obviously several existing academic theories that could be found in books. However this article is intended to provide some “real-world” insights given to Business Advantage during the course of various projects.

Talking the same language?

It is important to understand that there is more than one way to calculate margins. Is it a percentage of the retail price or the actual selling price, which may not be the same as the retail price, or is it a percentage of the buying price?

Margin Calculation used by Business Advantage
The difference between the 'buy' price and the 'sell' price expressed as a percentage of the buy price.

Who sets the margins? Does the partner buy direct from the vendor, or does he buy from the distributor, and add on a margin before selling on to the end-user? It is quite common that a vendor produces a catalogue for its partners on a monthly basis that shows wholesale price, and suggested retail prices. However these are merely suggested prices, and resellers are entirely free to set their own prices. "Resellers determine the margin that they add – but no limits are set" indicated a manufacturer. This results in a very disparate approach to the level of margin added; there does not appear to be any clear structure. Margins would be more consistent were there to be some direction, and a clear structure given by the manufacturer.

Country Variations

Interestingly, there are often some significant differences between countries.

The table below represents some of the variations that have been registered during the course of projects:

	France	Germany	UK
Vendor 1 - Distributor's margins	3-4%	15-20%	50%
Vendor 1 - Reseller's margins	17% (resp. 1)* 45% (resp. 2) 34% (resp. 3)	5-200% (resp. 1) 30-35% (resp. 2)	40% (resp. 1) 25-40% (resp. 2)
Vendor 2 - Distributor's margins	12% (resp. 1) 0-5% (resp. 2)	50% (resp. 1) > 20 % (resp. 2)	5% (resp. 1) 15-20% (resp. 2)
Vendor 2 - Reseller's margins	25-30% (resp. 1) 20-30% (resp. 2)	20-30% (resp. 1) 10-15% (resp. 2)	15-20% (resp. 1) 25-40% (resp. 2)

* resp. stands for respondent

Furthermore, when asked what margin they made on a specific product, an Italian distributor claimed about 2-3%, while a Spanish distributor indicated 30-40%. On further investigation, the Italian distributor stated that he instead benefited from rebates and sales incentives offered to supplement margins e.g. car annual rewards. Therefore a low margin may mean additional benefits, and vice versa.

Relationships

Throughout various projects, it has been confirmed that margins often vary depending on the nature of the relationship a reseller or a distributor has with the vendor. Accredited partners have different levels of discount, which in turn may lead to better margins. Therefore different levels of qualification or accreditation would have an impact on the margins, and would help to explain the wide degree of variation.

Volume

The differences in margins are also volume and customer-related. A French reseller stated that he adjusts prices according to customers' requests, while a Spanish reseller indicated that margins vary according to the nature of the customer i.e. he makes smaller margins on larger customers.

Additionally there are always external factors that would affect the final price. A UK respondent once explained that margins are determined by what the market will take, often in a broader context, for example, changes in the Euro.

Throughout the course of projects, information on margins proved difficult to establish. Despite numerous in-depth interviews, there is still an indeterminate element of variation within results – this can be explained by variations based on market conditions, volume, machine type, customers, etc.

In considering various research projects conducted over a long period of time, a wide degree of variation does not mean the information is invalidated. Rather, one simply needs to be careful when interpreting the data, and remember that there is always an element of variation within the results.

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