

HOW TO **BUILD HEALTHY** **VENDOR-RESELLER SEM PARTNERSHIPS**

An Analysis of How Brands Are Successfully Balancing Advertising Strategy



We Turn Browsers Into Buyers

Table of Contents

What Is A Vendor-Reseller Relationship?	3
How Vendors & Resellers Can Avoid Increasing CPCs.....	7
4 Questions for Vendors to Consider in Reseller SEM Relationships	10
Expert Insight from Award-Winning Vendor Partner of the Year	16
Final Takeaways	22

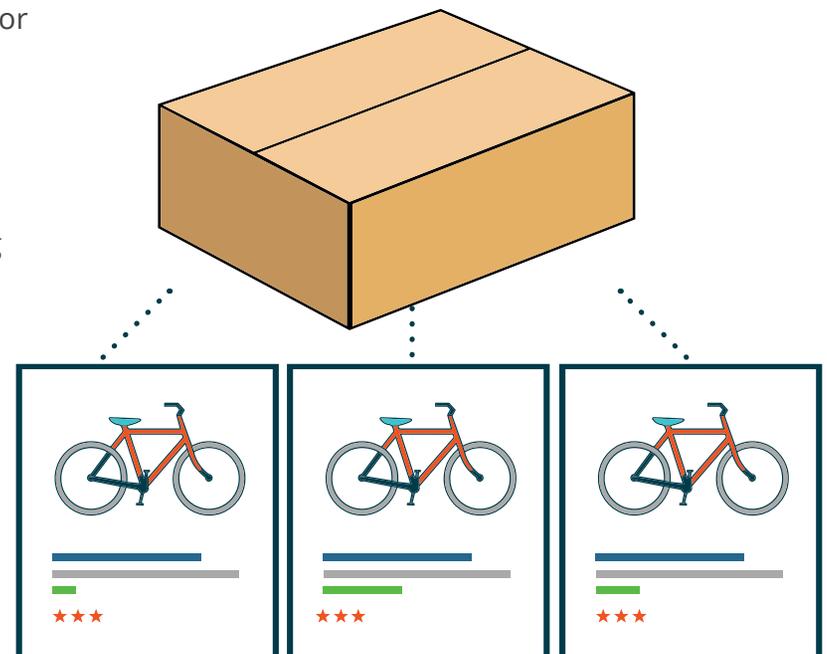
What is a Vendor-Reseller Relationship?

Since vendors rely on resellers for a significant amount of revenue, and resellers rely on vendors to stock them with products — both parties, if done properly can benefit professionally and financially from maintaining a well-balanced search engine marketing (SEM) relationship.

Developing and maintaining a healthy relationship requires vendors and resellers to continually check-in with each other to reassess procedures, policies, objectives, goals and to avoid competition within the same ad space.

Fundamentally, **communication** is going to be the most determining factor throughout a vendor — reseller collaboration. Like any healthy personal relationship, both parties must remain open to sharing their ideas and concerns to avoid independent tunnel-vision or egocentric tactics.

The first step in finding the balance between two parties is understanding what defines a vendor and a reseller.



Defining a Vendor

A vendor (or supplier) is the party or company paid for their goods that are provided to a reseller. However they can also act as both the manufacturers and the supplier of the goods.

Large retail stores, both online and offline (ex: REI) usually have a vast list of vendors who they purchase and resell goods from. Sometimes, vendors sell directly to their customers or they provide select parts that are used to make a larger final product to be sold after production.

Below are examples of some of REI's vendors:

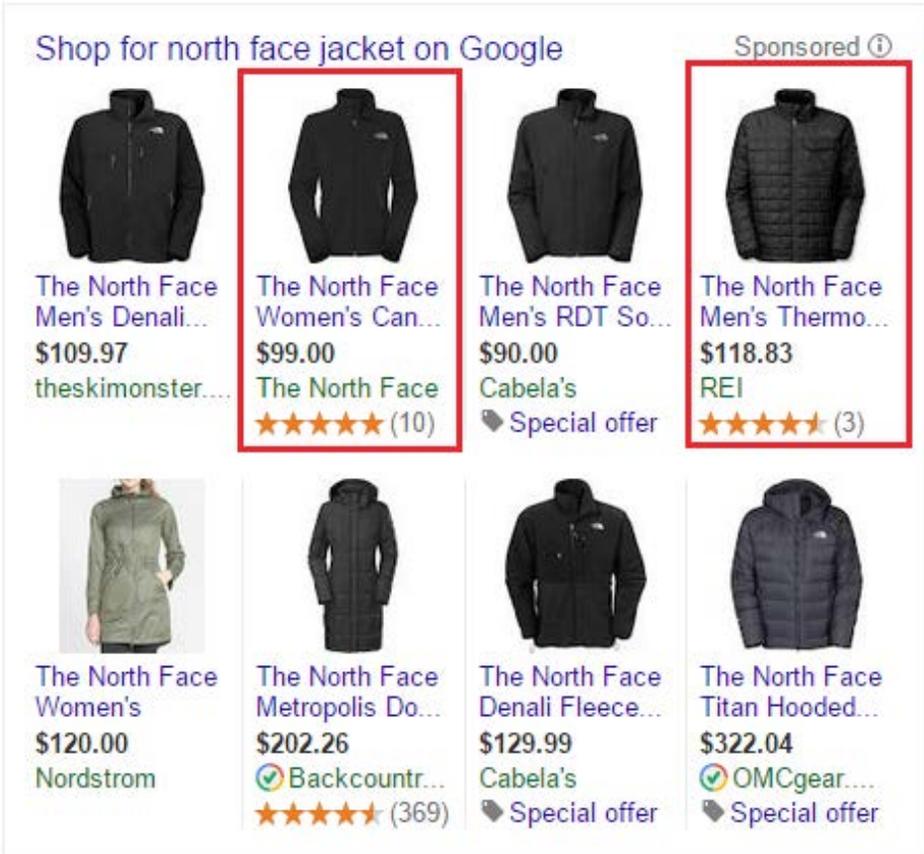


Defining a Reseller

A reseller is a broad term that can be used to describe a variety of methods to earn revenue from a service or product that is not owned or manufactured internally.

Typically, retail resellers purchase a product and resell it through a website or shop to make a profit. This includes both online and offline retailers but for this guide we will only be exploring the relationship between *retailers and resellers in the ecommerce realm*. Retailers can resell a wide variety of products including clothing, food, home goods and more.

In the example to the right, both The North Face (vendor) and REI (reseller) are advertising similar products (The North Face jackets) within the same advertising space. This relationship between vendors and resellers can be delicate as both parties want to avoid conflicts or increased CPCs.



Shop for north face jacket on Google

Product	Price	Retailer	Special Offer	Rating
The North Face Men's Denali...	\$109.97	theskimonster...		
The North Face Women's Can...	\$99.00	The North Face		★★★★★ (10)
The North Face Men's RDT So...	\$90.00	Cabela's	Special offer	
The North Face Men's Thermo...	\$118.83	REI		★★★★★ (3)
The North Face Women's	\$120.00	Nordstrom		
The North Face Metropolis Do...	\$202.26	Backcountr...		★★★★★ (369)
The North Face Denali Fleece...	\$129.99	Cabela's	Special offer	
The North Face Titan Hooded...	\$322.04	OMCgear....	Special offer	

How Vendors & Resellers Can Avoid Increased CPCs

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Often vendors want to grow their B2C business while having the least amount of negative impact on their B2B business as possible.

“Issues usually lie with the reseller. Brands need to make sure that this topic is covered in the contract so that they don’t bid against each other and drive up the CPC costs.”

- Rachel Rosenthal | Ecommerce Executive

HUDSON



When it comes to avoiding increased CPCs, it largely depends on the ROI retailers can get from these campaigns as well as the margins that are available for products at a B2C level vs. a B2B level.

According to Jason Bell, Senior Retail Search Manager at CPC Strategy, if a vendor can capture more B2C business at an ROI that makes sense then this can help the vendor begin to own more customers themselves. Additionally, they can also potentially own a larger piece of the pie when it comes to profit since the margins are likely better for them when going direct to consumer.

However, this will largely depend on if the vendor can get a ROI that is better than their B2B transaction **including advertising costs**. Vendors should always factor in advertising costs, since resellers are typically the ones fronting those costs to get orders for a vendor's products.



"When it comes to a Reseller and Brand Manufacturer working together, I could see them potentially doing so to keep the average CPC low, but what's to say another reseller doesn't come along and juice their bids to become first and capture the order volume?" Bell said.

"I feel like it depends on the goal of vendor's PLAs and if they see value in owning the customer. I would say it isn't realistic to expect all their resellers to keep bids lower, especially when the goal of their advertising campaigns will always be more order volume as long as the ROI makes sense."

4 Questions For Vendors to Consider in Reseller SEM Relationships

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For this white paper, we will use two fictional companies based off real retail organizations to help demonstrate common vendor-reseller SEM scenarios:

- **Company A:** An established furniture brand
- **Company B:** A nationally-recognized sporting goods brand

1. What are the margins on a product sold B2C vs. B2B?

In most cases a vendor will find they are able to get more margin from selling direct to consumers but there is an advertising cost associated with this.

Historically, it also can be challenging if customers are used to going to other larger chains to purchase their product and don't always think to go direct to the source to get the item. This can be especially prevalent if it is sold in the large stores such as a Nordstrom or Urban Outfitters.





Example

Company A

Company A sells high end modern furniture. Their B2B side of the business is huge. When it comes to margins, they make **significantly** more margin having the consumer purchase directly from them. Most of this is due to the AOV of their products.

In this instance, they stand much more profit to gain if they can grow their B2C side of the business and own the customer directly. This is not without its own pitfalls especially because of their MAP enforcement and how big the B2B side of their business is.

Company B

This company also gains more when their product is sold directly to consumers (as with mostly any business) but obviously this comes at the cost of advertising. In this instance, Company B cares less about the margin and more about growing their B2C business and venturing into online marketing.

2. Is there a MAP price involved?

Vendors should be aware of their instore and online pricing. Resellers have been found to price vendor products below the MAP (Minimum Advertised Price). In some cases, vendor products found online were not authorized to be sold by the reseller in the first place. Pricing can be an area of concern all too often slipping through the cracks if vendors don't keep a close eye on their market and products.

If a vendor does come into contact with a list of MAP violators, they can contact the reseller directly and provide templates for suggested “cease and desist” letters.



“I have found that when it comes to enforcing MAP, some clients like to stay at the MAP pricing as to not hurt their B2B partnerships by showing a lower price and ultimately putting a dent in the conversion rate of their resellers listing of their products.

This can understandably cause some friction between the relationship if vendors tell resellers they can only sell their product for (example: \$100) but instead resellers undercut them and sell for \$95. It’s typically considered a no-no.”

Example

Company A

This is one example where a vendor **will not** go below their MAP on their own listings and they **strictly** enforce their MAP pricing to resellers. As I mentioned above, the B2B side of the business for Company A is huge and they don’t want to jeopardize these lucrative relationships. While MAP pricing can be restricting, vendors can offer other perks such as financing or quicker shipping times for these items. These types of perks are less likely to directly interfere with resellers.



Company B

In this example, Company B has MAP but it's loosely enforced. Since most customers go directly to Company B one way or another for customization, it's not a big issue between the vendor and the reseller.

3. How large is the vendor's B2B business currently?

In most cases, B2B is a significant factor for vendors so pushing for more direct market share without hurting reseller relationships can be a delicate situation.

Example

Company A

They have a plan in 3 years to own more of their current customers directly due to the larger margin (given their huge AOV). Right now they piggyback off of their B2B resellers because Company A is new in the B2C space. Halting their current resellers would likely lead to a decrease in order volume and overall traffic/brand awareness if their resellers were to stop advertising their products for them.

Company B

Company B offers much more customization options and are already a huge brand name and own a large amount of market share in the protective soccerball gear space. In this scenario, they just want to grow their B2C business and get their feet wet in online advertising.



4. Is the vendor trying to grow their B2C side of the business in an effort to own the customer themselves?

This can be a long term goal for some B2B weighted companies. If company can convince their customers to go directly to them to purchase an item there are a variety of potential benefits including larger margins and direct brand growth. Essentially, they cut out the middleman.

This of course, isn't without its downfalls such as advertising costs, potential loss in order volume and / or B2B business if a vendor happens to snub their resellers the wrong way before they are able to generate a solid brand awareness.

Example

Company A

For this company, their main goal in the next few years is to own their customers without the dependency of third party sellers. If they can manage to sell direct, they will have huge margins so they are investing a lot of effort to direct advertising while avoiding any potential friction too early on within their B2B relationships.

Company B

Although Company B would like to grow their B2C as well, they know their main source of revenue will continue to come from resellers because of the sheer amount of bulk orders from programs and official leagues. In this case, they will need to continue to maintain a healthy vendor-reseller relationship long term.

Expert Insights From Award-Winning
Vendor Partner of the Year

Expert Insight from Award-Winning Vendor Partner of the Year

REI Awards Eagles Nest Outfitters Inc. Vendor Partner of the Year (2014)



About REI's Vendor of the Year Award

REI is a \$2 billion national multichannel retail co-op headquartered outside of Seattle. With more than five million active members, REI serves the needs of outdoor adventurers through innovative, quality products; inspiring classes and trips; and integrated customer services. REI has 138 stores in 33 states, REI.com and REI.com/outlet.

The Vendor Partner of the Year awards program was established in 1993. Each year, companies are nominated by the co-op's three merchandising divisions — camp/travel, action sports and outdoor wear — for their efforts to build a strategic and successful relationship focused on meeting member and customer needs, and to bring quality, innovation, outdoor stewardship and performance to the industry. REI retail employees vote on the slate of nominees.

About Eagles Nest Outfitters

ENO, was founded in 1999 by brothers Peter and Paul Pinholster. From a two-man, one-van operation, the company has grown significantly to become one of the highest quality relaxation product distributors for outdoor enthusiasts including parachutes hammocks and other travel accessories.



"Eagles Nest Outfitters redefined the hammock category and saw amazing growth in 2014.

They are the consummate vendor partner. With their highly engaged, collaborative and strategic approach, they worked closely with REI to continue to deliver product and maintained above-market performance through the year."

- Susan Viscon | Senior Vice President | REI Merchandising

Best Practices of an Award Winning Vendor

Bobby Jackson, Vice President of Sales at Eagles Nest Outfitters shares insight on how to improve and maintain a healthy vendor - reseller partnership.

Out of hundreds of vendors, REI selected Eagle's Nest Outfitters based on the following criteria:

- ✓ **Quality** - Integrity of products and branding
- ✓ **Innovation** - Creative products and practices
- ✓ **Sustainability** - Environmental awareness, packaging, etc.
- ✓ **Retail Support** - How well vendors work directly with the reseller



"In the outdoor industry, this is one of the most coveted awards. They [REI], of course is always looking for something extra. So above and beyond all of this, we were the number two selling SKU out of the whole company for the year. It's obvious sales performance was a huge factor as well."

Overcoming Vendor-Reseller Challenges



The growth curve for our little company over the last four or five years has been steep. So while REI is growing with us and we're enjoying a great partnership — we also have 700 other independent dealers (ex: Dick's Sporting Goods & Bass Pro Shops). Our biggest challenge was making sure that we were able to deliver on time as close to 100 percent as possible. We were facing inventory challenges and it's still that way today."



Every year Eagle's Nest Outfitters forecasts for the upcoming year what would be a healthy growth curve. Basically, they attempt to determine what and how much they can manage in the near future.



"When retailers are demanding more and more - I'd say that was the biggest challenge was keeping REI in stock and making sure they had enough product to be selling at all times. As far as the relationship: I wish every retailer was what REI is to us. There is a true relationship and a partnership there that goes beyond what we're doing here — which is selling."

On a personal level and a professional level, Jackson refers to REI as "the cream of the crop, filled with top notch individuals".



Advice for Vendors

Although no one has a crystal ball, Jackson shares his company's best practices to maintain healthy, balanced reseller relationships:

- ✓ **Contingency Planning**
Have back-up procedures in place to avoid chaotic pitfalls.
- ✓ **Constant Communication**
Keep an open point of contact at all times.
- ✓ **Cross Channel Support**
Provide easy access to quality product images, descriptions and videos for B2B use.
- ✓ **Participated in Collaborative Work & Sustainability Issues**
Ensure factories and supply chain meets (or exceeds) industry standards.
- ✓ **Personalized Support**
Staff available for in-store clinics, daily visits, after hour calls, and in general sales support.
- ✓ **Look Beyond Business**
Vendors should look beyond the business and professional relationship and find some common threads. It's kind of why we are in this industry because we all love what we sell and making sure that that is always in the back of our minds is also very important.

Final Takeaways



Lewis Brannon

Paid Search Manager

CPC Strategy



Final Takeaways

Brands/Vendors with multiple re-sale/wholesale agreements and embedded MAP policies face a unique challenge. On one hand, there's the need to nurture the profitable wholesale relationships — on the other, the challenge of policing MAP violations and maintaining a firm grasp on the pricing landscape.

Often, vendors lose track of the latter which puts them at a disadvantage in their PPC efforts. Brands want to advertise their products and drive direct-response conversions at solid return. But if you aren't aware of which segments, collections, categories, etc. of your inventory are in price parity, it's tough to be successful against the throng of re-sellers with potentially lower prices.

Brands have a perception that consumers searching for their products will prefer to buy from them, since they are the brand, but in today's price-driven consumer landscape, ultimately the low-price usually wins. This is why brands/vendors with keen comprehension of the above discussed factors will be in best position to pivot with agility and focus their PPC dollars on the specific products, lines, etc. that are best positioned to drive conversions and impact their bottom line.

What Now?

Identify the Weaknesses in Your Account

CPC Strategy's Retail Search Audit is a complimentary **60-minute analysis and assessment** of a retail advertiser's existing AdWords account, product pages, product feed attributes, and business KPIs.

Schedule My Audit

