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The Many Advantages of Partnering with a Hybrid Supplier

Hybrid suppliers combine the best elements of a manufacturer, distributor, and consultant to improve their customers' bottom line.

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Introduction

Some companies like working directly with manufacturers because they're good at making things. Certain firms prefer to do business with distributors because of their flexibility in shipment sizes, while others favor partnering with brokers or consultants because of the attention they receive. Wouldn't it be great if there was someone who could do it all? Actually, there is. Meet the "hybrid supplier."

A new hybrid supplier model has emerged as customers look to improve efficiencies and get more value for their money. Hybrid suppliers take the best elements of manufacturers and distributors and avoid their potential biases and inefficiencies.

First, however, let's address the fundamental question of why intermediaries are needed at all.

The Need for Intermediaries

Markets with many participants — that is, with many sellers and many buyers — are complex. These complex markets often require special mechanisms to run efficiently.

Amazon is an example of an intermediary that matches millions of sellers (manufacturers and others) with millions of buyers (consumers). Amazon adds tremendous value to its entire community of participants and captures some of that value in the fees it charges.

An Amazon-like aggregator is not needed in every market. Indeed, larger, more sophisticated customers can form alliances with the biggest suppliers to their market. But for the midsize, smaller, and emerging players, using a market facilitator makes sense.

The packaging market provides an excellent illustration. A lot of packaging is bought by a small group of companies like Coca-Cola, P&G, Merck, and Honeywell. Because of the massive scale of their purchasing, companies like these have direct relationships with the largest packaging manufacturers for their marquee products. But a huge volume of packaging and a vast number of purchase scenarios don't fall into this direct-relationship model. Examples of these situations include:

Emerging customers with little purchasing power that want to buy from big packaging manufacturers, who are not structured to serve the small guy.

Midsize and upstart customers that want to buy from smaller, niche packaging manufacturers, who may not have the resources to provide all the services needed.

Customers with unique needs that are best served by specialty packaging manufacturers. But these customers may have difficulty finding the right ones.

As a result, tens of thousands of customers and hundreds of manufacturers benefit from having intermediaries in the packaging space. Packaging distributors and brokers act as market facilitators — billions of dollars of rigid packaging in the U.S. flow through distributors every year.

But this doesn't mean that packaging distributors are the best answer. Indeed, packaging distributors are sometimes unsophisticated and add little value for the fees they charge. The smart supply chain executive may see that doing business with a distributor can be a mistake. And the same executive may also see some pitfalls with how manufacturers approach their business.

To make this case clearly, let's meet each of the players in the supply chain, starting first with manufacturers.

Meet the Traditional Manufacturer

A traditional manufacturer owns assets — machines and buildings — to generate the output ordered by its customers. These manufacturers are usually adept at selecting the proper machine platform, material, and location to produce an order and in running their machines efficiently.

A manufacturer's physical assets represent a huge amount of invested capital. It's common for total property, plant, and equipment to be over 30% of the total assets of a manufacturer. Consequently, manufacturers want to reap the highest return on these assets and machines.

This creates some bias and inefficiency that can be at odds with the customer's best interests. To get the highest return on assets, the manufacturer wants to run its machines all the time with minimal downtime. For the customer, this means either buying a stock product (which may not help the customer stand out in the market) or committing to long production runs or inopportune lead times.

And since the manufacturer has so much capital tied up, it's reluctant to add more buildings to house inventory (even for a limited time) for customers. Thus, the manufacturer wants to ship product as soon as it comes off the production line. For most customers, this is not ideal since it means they have to invest in warehousing and endure extensive inventory carrying costs and negative impacts on cash flow. Furthermore, as manufacturers strive to eke out the last efficiencies from their operations, they tend to scrimp on value-added services and customer support.

So unless you are a huge customer with very long production runs, you will pay higher prices, get inconsistent service, and be offered "take it or leave it" propositions from most manufacturers. This is why many customers turn to distributors for their added flexibility.

Meet the Traditional Distributor

A traditional distributor "breaks bulk." They make one large purchase (allowing the manufacturer to enjoy long production runs), and then they break up these truckloads/pallets/cases and make many smaller "sells" from this one purchase. This model adds value by creating convenient quantities and by having items in stock.

A related model is that of a broker. Brokers usually don't take title to the product; they simply act as agents who match buyers and sellers.

Both of these intermediaries earn modest profit margins; this "extra mouth to feed" is evident. Distributors and brokers capitalize on the inefficiencies of the marketplace. The problem for buyers is that not all distributors are looking out for your best interest. They want to sell you what they have in stock.
After all, having all that cash tied up in inventory and buildings is expensive.

Distributors tend to live deal-to-deal and are usually running a precarious business despite the margins they earn. As a result, most distributors either resist or have trouble investing for the future. They generally don't innovate, offer customers attractive payment terms, hire the best (and more expensive) people, or look for ways to offer their customers anything better than a slightly more convenient proposition than a manufacturer.

Meet the Hybrid Supplier

The term "hybrid" means combining elements from different things and making a mixture. A hybrid car takes the best characteristics from gasoline (long-range operation) and electric (less pollution, quieter operation) propulsion systems. A hybrid corn plant can generate a sweeter taste while also being resistant to pests.

In the environment in which traditional manufacturers and distributors operate, a hybrid supplier is a beacon for the customer. Hybrid suppliers combine the best of what manufacturers and distributors have to offer, along with services and customer care that help boost their customers' bottom-line growth. And they do so without the biases and inefficiencies often exhibited by the traditional participants.

Hybrid suppliers bring together three fundamental elements that make them indispensable in the supply chain.

Best Elements
of a Manufacturer

Distribution &
Logistics

Value-Added
Specialty Services

Best Elements of a Manufacturer

They are highly trained product experts; they oversee production; they can engineer custom solutions; they have in-house quality teams. Hybrid suppliers, however, don't own manufacturing assets and machines. Instead, they contract out manufacturing as needed to the manufacturer best suited to the project. This means that hybrid suppliers don't get bogged down with keeping a specific machine running or force-fitting customers into currently available molds. As a result, hybrid suppliers effectively have unlimited capacity and are not handcuffed to a particular technology, equipment, tool, or material.

Distribution and Logistics Services

They have warehouses, manage inventory, handle inbound and outbound logistics, and deliver product when needed. Hybrid suppliers go beyond the traditional distributor model with superior inventory acumen and proven operational excellence. A hybrid supplier seeks to lower total system costs by consolidating inventory across the entire supply chain, including taking inventory off customers' floors. A hybrid supplier has a core competence in inventory management that can help customers control inventory levels and expenses and deliver product to customers on a just-in-time basis. Hybrid suppliers can also provide data to prove their operational and cost-saving track record.

Extra Services and Value-Added Offerings

They consider ways to improve their customers' revenues, lower their customers' costs, and improve their suppliers' results. Every sector will have a different set of opportunities that a hybrid supplier will embrace.

Hybrid suppliers go far beyond what a classic manufacturer or distributor does. The difference is driven by what their balance sheets look like and their expertise and attitude. Hybrid suppliers embrace innovation, efficiency, and a maniacal focus on customer thrill.

Benefits for Both Buyers & Manufacturers

Integrating a hybrid supplier into the supply chain can benefit buyers and manufacturers.

Improved Cash Flow for Buyers

Companies can see their income statements and balance sheets improve as a consequence of buying from hybrid suppliers. A hybrid supplier can help you (the buyer) by:

- **Delivering products that accelerate growth:**
  With access to a vast array of manufacturers and a mindset around growth, hybrid suppliers can locate the latest innovations and bring them to you. These innovations can help reduce expenses and/or accelerate revenue growth.
- **Providing expertise that unlocks profit:**
  Hybrid suppliers can assemble a portfolio of value-added services (like those mentioned in the examples above) that create differentiation. They can also uncover hidden savings through experience, analysis, and access to a wide array of applications for different customers. These capabilities can help you be more efficient and/or boost your growth trajectory.
- **Taking assets off your balance sheet:**
  With expansive logistics networks, hybrid suppliers can hold inventory and deliver product when you need it. Moving inventory off your balance sheet frees up cash flow and reduces the risk of obsolescence.
- **Taking expenses off your income statement:**
  Moving inventory to another party also has the benefit of freeing up the resources that previously oversaw housing, handling, insuring, and administering the inventory. This cost avoidance can be dropped to your bottom line or reinvested for growth.

- **Accumulating volume to lower purchasing costs:**
  With greater buying power achieved by consolidating volume across many customers, hybrid suppliers earn cost concessions from the manufacturers from whom they purchase. This helps offset the hybrid supplier's operating costs and margin and can result in a net improvement in your pricing.
- **Adding flexibility and speed to market:**
  Hybrid suppliers have lower minimum-order sizes and often have in-stock availability. This allows for faster time-to-market for you.
- **Consistent supply:**
  Through inventory management and multi-sourced product, hybrid suppliers can provide supply assurance often unavailable from single manufacturers.
- **Delivering turnkey services and coordination:**
  For customers requiring multiple manufacturers and agents, hybrid suppliers can be the glue that binds the supply chain together. One call can replace many while also limiting quality fluctuations and ensuring accountability. The same consolidation role can benefit geographically-spread organizations, where hybrid suppliers can bring consistency of offering across a company.
- **Simplifying your operations:**
  With a wide array of products, valuable services, and flexible solutions, a hybrid supplier can replace many single-purpose vendors. This "One Call Brings It All!®" or one-stop-shop approach allows you to cut back on administration and focus on what you do best.

Improved Cash Flow for Manufacturers

Manufacturers properly see distributors as competitors; a distributor, as it resells product, can overlap with a manufacturer's selling efforts and create conflicts in the market. A hybrid supplier, however, can bring new sources of value to manufacturers that defuse this conflict and take the issue entirely off the table. A hybrid supplier can help you (the manufacturer) by:

- **Augmenting feet on the street to accelerate growth:** Hybrid suppliers have more sales and commercial resources than you do, and hybrid suppliers can deploy them more effectively. Instead of focusing on just a small number of large customers (if you have a sales force at all), hybrid suppliers allow you to have a broader group of agents selling your products to a broader group of prospects.
- **Providing access to new channels:** Hybrid suppliers often have a presence in omnichannel sales platforms (online, catalog, warehouse, etc.) as well as expertise in direct marketing. This opens doors that are locked to most manufacturers because they lack competency in these areas.
- **Providing expertise that unlocks profit:** As with the discussion of buyers above, hybrid suppliers can offer value-added services that help attract and retain customers through differentiation. As a result, hybrid suppliers can penetrate and keep accounts that manufacturers can't.
- **Taking expenses off your income statement and balance sheet:** Most manufacturers don't like to hold inventory; inventory is a drain on cash and space. Hybrid suppliers can be an important inventory buffer, taking inventory off the floors of both the manufacturer and the ultimate buyer. And hybrid suppliers go further than traditional distributors by excelling at customer service, order management, and logistics activities. For you, this reduction in activity will have a corresponding reduction in people and operating expenses. These benefits can be dropped to your bottom line or reinvested for growth.

In sum, hybrid suppliers can help buyers and manufacturers by letting them focus on their core competencies. Unless your company is expert at both selling and logistics, hybrid suppliers can handle those functions and let you devote your resources to what you do best.

Meet Berlin Packaging

Berlin Packaging is a leading supplier of rigid packaging and the world's largest Hybrid Packaging Supplier. We are not a distributor, manufacturer, or packaging consultancy. Instead, Berlin Packaging is all of these things at the same time.

Berlin Packaging has built an enterprise dedicated to helping its customers succeed. It all starts with our mission: to increase our customers' net income through packaging products and services. Berlin Packaging is in the profit business, and packaging is the currency we use to deliver the profit to our customers. Berlin Packaging knows that it will benefit when our customers make more money, and so will our suppliers.

Over the past several years, Berlin Packaging has added more than $200 million in profits to our customers as a direct result of working with us. Quantifying this income is part of our ISO certification.

An array of supporting capabilities makes this mission come to life, including:

- **Deep product and sourcing expertise** – billions of components produced under contract with manufacturers annually, overseen by a dedicated team of sourcing experts.
- **Large network of manufacturers** – over 1,700 qualified packaging manufacturers worldwide.
- **In-house quality advocacy team** – dedicated resources that work proactively and reactively/correctively.
- **Significant warehouse presence** – more than 6 million square feet of inventory space around the globe, with a commitment to add locations close to customers as warranted.
- **Logistics know-how** – over 300,000 annual shipments delivered.
- **Wide array of value-added services** – custom packaging design and brand strategy, profit-oriented consulting, and financing services, all offered at no additional charge in exchange for packaging business.

Berlin Packaging is the largest hybrid supplier in the packaging industry. We have excelled with this model, achieving a long-term growth rate five times that of the packaging industry. Year after year, Berlin Packaging has been able to win market share away from traditional distributors and less nimble manufacturers.

Optimizing Your Supply Chain

Whether you have a distributor in your supply chain today or not, there are four questions you can ask to assess the best way to configure your supply chain and the right players to put in each role.

1. **Who are all the players in your supply chain today?**
   Consider all the suppliers, partners, and agents — upstream and downstream. Think about sales, marketing, manufacturing, operations, finance, etc. This complete list will show you how much you are, or are not, relying on intermediaries and service providers, and it will be the starting point to understand if you're working with the right players in the right roles.
2. **What is inhibiting your growth or cash flow?**
   This is a hard, broad question. Some of the barriers and opportunities may be obvious. But some may be hidden behind broader strategic issues. A clear strategic road map for your company will make this question easier to answer.
3. **Are there hybrid suppliers in your industry that can help?**
   Consider how the best hybrid suppliers behave, as described in this paper. Assess if a hybrid supplier could help you take better advantage of your strategic opportunities (to drive profit growth) or reduce the array of partners you work with across the organization (to simplify operations and reduce expenses).
4. **Which candidates have the right track record?**
   One simple way to find out is by asking current and potential partners how well they thrill their customers and constituents. The Net Promoter Score is a useful mechanism to do this, and good hybrid suppliers will be armed with Net Promoter Score data that show how well they engender loyalty to those they serve.

Of course, any changes to your supply chain should be made carefully. These four questions are a great way to begin the process.

Summary

Whether you are a buyer or a seller, a hybrid supplier can help you boost your bottom line by bringing together manufacturers' best elements, providing top-notch distribution and logistics services, and delivering a suite of value-added services.

You must view your supply chain in the context of your strategic and practical goals — improving internal operations, using the right suppliers and external partners, and making useful acquisitions. In this process, you can select the best partners based on the merits of each player, the strength of the entire supply chain, and, ultimately, your bottom line.