# Broker is not a Dirty Word

BY JIM PREVOR

**Avoiding the middleman has become an obsession.**

*Real life situation #1:* A fourth-generation produce firm is satisfactorily supplying a major chain store with many millions of dollars of produce. The company so successfully meets the quality and service standards — always making delivery, even when product is very short, having rejections far below acceptable levels, etc. — that the company is rewarded with additional distribution centers and asked to handle more product lines. This supplier also has a reputation for highly competitive pricing.

One day someone from the buying office at the chain calls the CEO of the vendor, explaining that someone high up has noticed the word "brokerage" appears in the name of the vendor firm. The chain doesn't deal with brokers and so it has to stop this mutually profitable business.

The CEO explains that the firm is almost 100 years old and was started by his great-grandfather as a broker, but the firm hasn't been a pure broker in almost 30 years. Nonetheless, the CEO is informed, the very word is deemed sufficient reason to dismiss a valued supplier.

A solution is found. The vendor sets up a separate corporation, without the word "brokerage" in the name. The high ups at the retail chain are blissfully ignorant of what happened but are pleased not to see the word "brokerage" appear anywhere on their approved vendor lists. The actual buyer can still buy from his best vendor and the vendor can stay in business.

Of course, this chain, which trumpets driving costs out of the system, just made a vendor waste money on lawyers, accountants, duplicative PACA licenses, office signs, letterhead, possible tax inefficiencies — all without any substantive change in the way it does business, simply to banish the word "brokerage" from its sight.

*Real life situation #2:* A company that grows produce, represents growers and buys a lot of produce finds itself the victim of a competitive smear. A big chain is told that this firm is not actually growing the produce. The retailer is successfully doing tens of millions of dollars of business with this vendor.

As a result of this smear, the retailer sends a group of people to inspect the farm for three days. None of these people have any substantial knowledge of agriculture and have no idea if a farm must be 100 acres or 100,000 acres to supply the chain, nor do they know what 100 or 100,000 acres looks like. Even if they had substantive knowledge of agriculture, it wouldn't help because they know nothing about the vendor's grower-partners and so can't possibly know if the actual product this chain buys will come from this particular farm.

Why should it matter anyway? If a supplier provides the best product, at the best price with the best service and does it while consistently meeting all metrics to which vendors are held, such as percentage of out-of-stocks, shorts, rejections, etc., why in the world should anyone care who the actual grower is?

One of the revolutions we are addressing in our educational system is that you can't evaluate a school by looking at inputs — how much money is spent, how many books are in the library, how many teachers are on staff. Instead, we have to evaluate quality of a school by looking at outcomes. How do reading scores change over time?

The same goes for a produce vendor. Sure, everybody wants to drive costs out of the system, but conflating costs within one company does not necessarily reduce them. If a grower wants to focus on growing, a packer on packing, and both elect to use brokers as their sales force, that is not necessarily more expensive than having an in-house packing and sales operation. The small profit these steps might produce can often be more than compensated for by the expertise and dedication of having owners working at each level of the business.

Besides, the old standard for a broker — one who doesn't take title to product but sells it for a small brokerage — is a very tiny portion of the industry today. Instead, today's brokers are likely to put their own money on the line by signing a contract with a retailer at a fixed price. They then meet that contract in a variety of ways — they grow some product, buy some on the trees or in the field, represent some growers, buy some on the spot market. They are high-tech traders utilizing a kind of arbitrage in different markets to meet the needs of large retail and foodservice buyers.

In many senses, this is the only way to conduct business. After all, no honest grower can claim that every single day he has the best produce out there. And most will admit they are sometimes short of product. So even the biggest grower/shippers wind up buying from others to cover shortages and to provide the right product for the right customer.

But avoiding the middleman has become an obsession. I once saw a prominent grower/packer/shipper opening boxes of a competitor's product, pulling the product out and putting it in his own cartons. I asked the packer if he was concerned about the customer learning the name of another supplier. No, he said, but this chain only wants to buy direct, and if they see the other name, they will think of him as a broker and he would lose the account.

So he stood there, hurting the produce and spending money to keep up appearances. **pb**