Unlocking margin growth for Australian wholesalers

The age-old dilemma of margin squeeze for the middleman is more relevant than ever.

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Key Takeaways

- Australian wholesalers are dealing with slim margins, with manufacturing output prices being structurally higher in 2026 compared to 2021.
- Wholesalers today (exacerbated by the ongoing situation in the Middle East) need to manage recurring margin shocks, driven by energy volatility, supply chain disruptions,
  FX movements, and supplier price fluctuations, directly impacting cost bases faster than they can reprice.
- Our experience finds three levers that, if optimized, can lead to 3-8% uplift to gross profit: 1) monetizing the long tail of products; 2) aligning discounts with customer value; and 3) and commercializing value-added services.

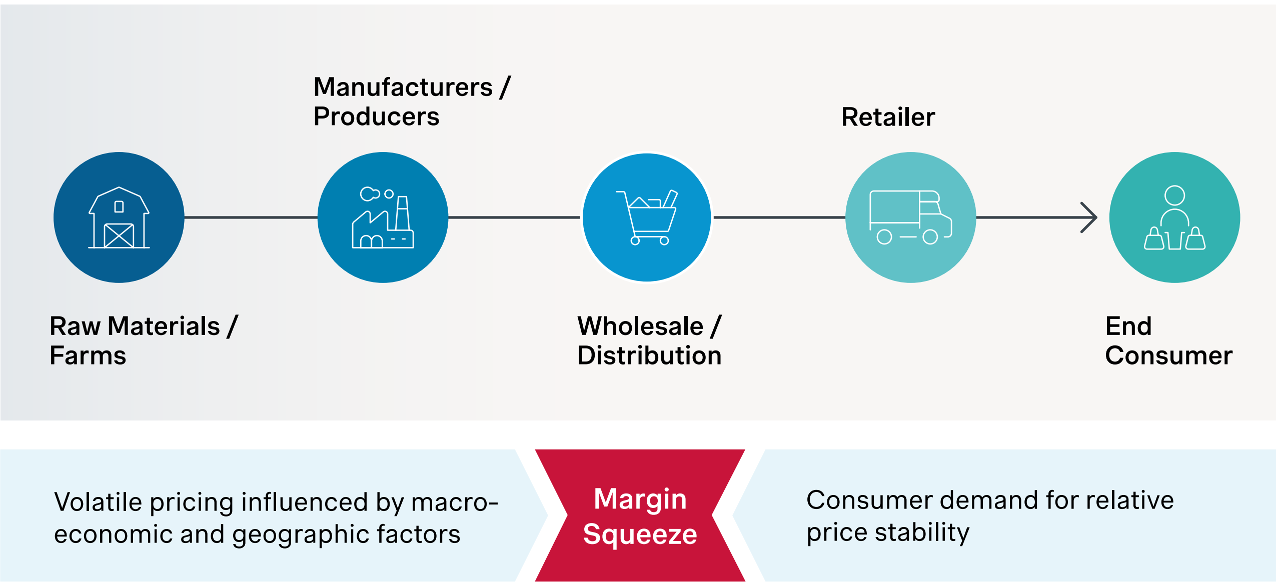
  1) Monetizing the long tail of products: Customers are typically less price sensitive to slow-moving products and care more about availability than price. This creates an opportunity to take margin.
  2) Aligning discounts with customer value: Wholesalers often lack consistent logic between discounts and customer value. Defining value tiers and reducing discounts for low-value customers can unlock margin.
  3) Commercializing value-added services: Wholesalers often lose margin by not charging for value-added services. A clear services framework and proper sales training are essential to ensure costs are consistently recovered and, in some cases, appropriately monetized.

The new normal: Wholesale’s margin squeeze

Across sectors, wholesale and distribution players have long operated with slim margins. Positioned in the middle of the value chain, wholesalers are particularly vulnerable to cost volatility and pricing constraints.

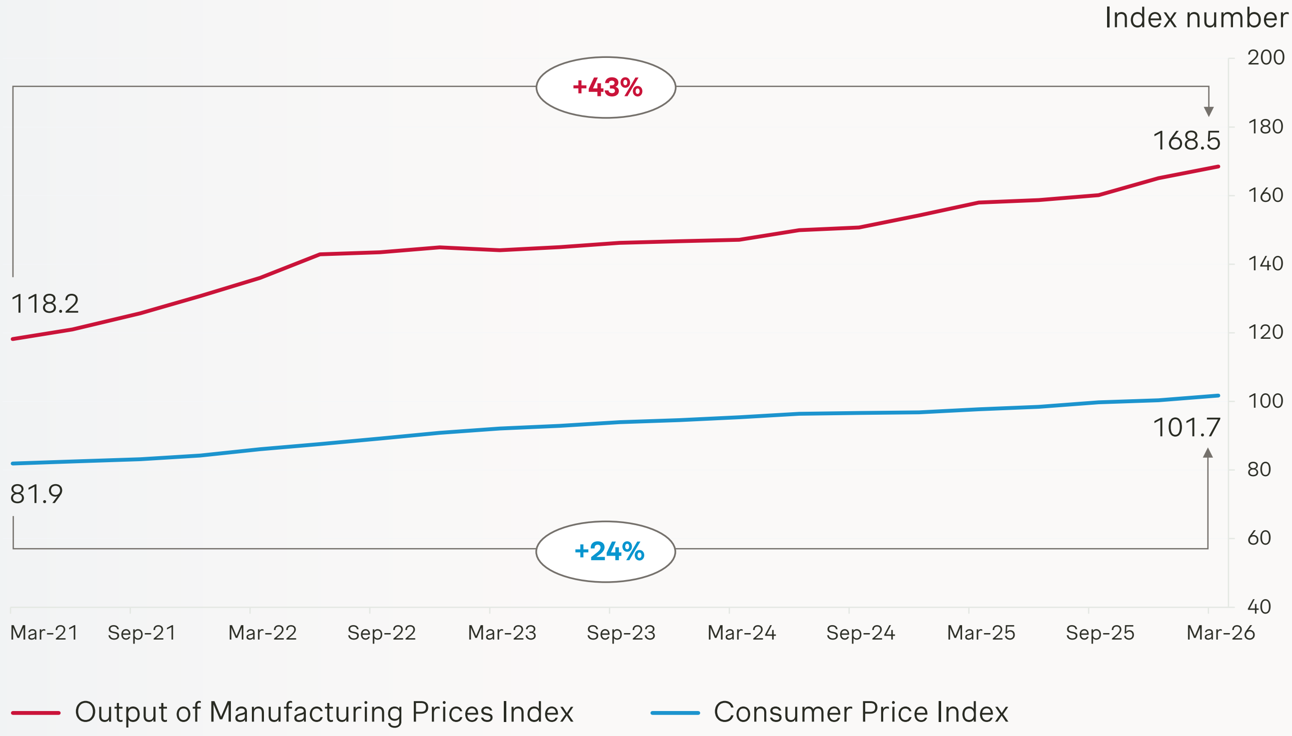
Wholesalers sit in the narrowest part of the value chain, exposed to supply side pressures, but constrained by retailer and end-customer price sensitivity. Even during stable economic conditions, wholesalers typically experience margin squeeze.

Australian Goods (typical) Value Chain



In Australia, manufacturing output prices have risen materially faster than inflation since 2021, indicating a growing disconnect between input costs and what end customers are willing to pay. For wholesalers, this can make it increasingly difficult to pass through cost increases to retailers, leaving those unable to do so exposed to sustained margin pressure. With no sign of input price rises slowing down, this dynamic points to a new normal: structurally higher input costs and sustained pricing pressure throughout the value chain.

Output of manufacturing prices index vs. CPI
(Australian Bureau of Statistics)



Australian producer prices remain structurally higher than in 2021: the ABS March 2026 Producer Price Index shows the Output of Manufacturing Prices rising 43% over the last 5 years, while CPI has only risen 24% over the same period.

The ongoing situation in the Middle East has added another layer to an already volatile cost environment. The conflict has driven higher energy costs, nearly doubled fuel bills, and up to an additional USD 500 million in monthly costs for shipping operators like Maersk, which it has sought to recover through higher freight rates.

For Australian wholesalers, in addition to higher ocean freight charges, there are other risks as higher oil prices flow through local transport, packaging, plastics, energy-intensive manufacturing inputs, supplier surcharges, and working capital requirements.

Given the margin strain that wholesalers must contend with, this paper focuses on often-overlooked quick wins to drive margin growth.

Unlocking opportunity: Where the extra margin lies

In our work with wholesalers across Australia and abroad, we have observed recurring themes around margin opportunities that often go untapped. This paper focuses on three practical and widely applicable levers that can help unlock hidden value:

1. Monetizing the long tail of products

2. Aligning discounts with customer value

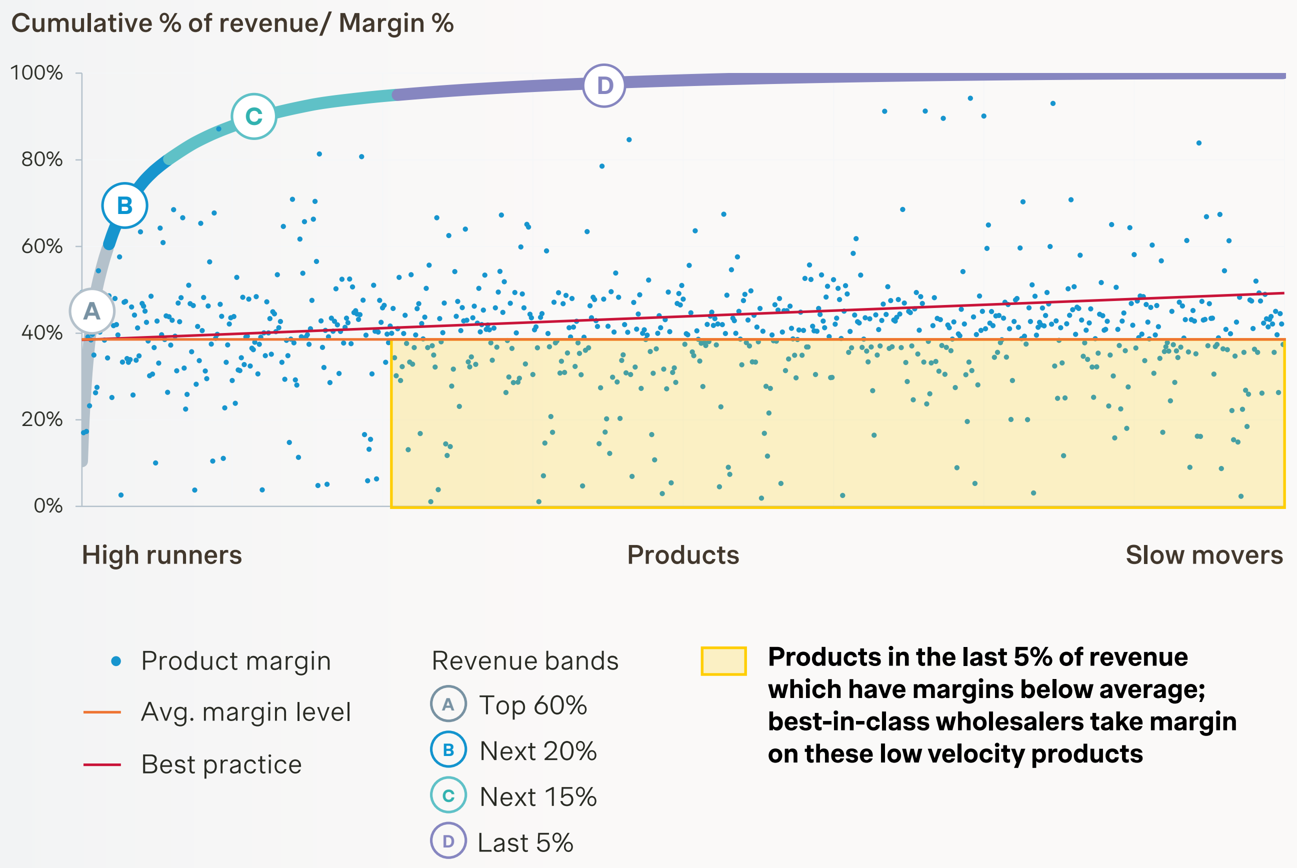
3. Commercializing value-added services

In our experience, optimizing these areas can lead to a gross profit uplift of 3-8% - all from what are essentially quick wins with limited investment required. For wholesalers already under pressure from slim margins, these gains offer valuable wiggle room to reinvest in the business or absorb cost volatility more effectively.

1. Monetizing the long tail of products

In many wholesale categories, it is common to find that over 80% of SKUs account for just 5–10% of total revenue. These long-tail products are often overlooked in pricing strategy, with many wholesalers lacking a systematic approach to setting margins based on a product's role in the portfolio. In theory, as product velocity declines - meaning the product is purchased less frequently - the margin should increase. However, this logic is rarely applied in practice.

Product margins ordered by sales contribution



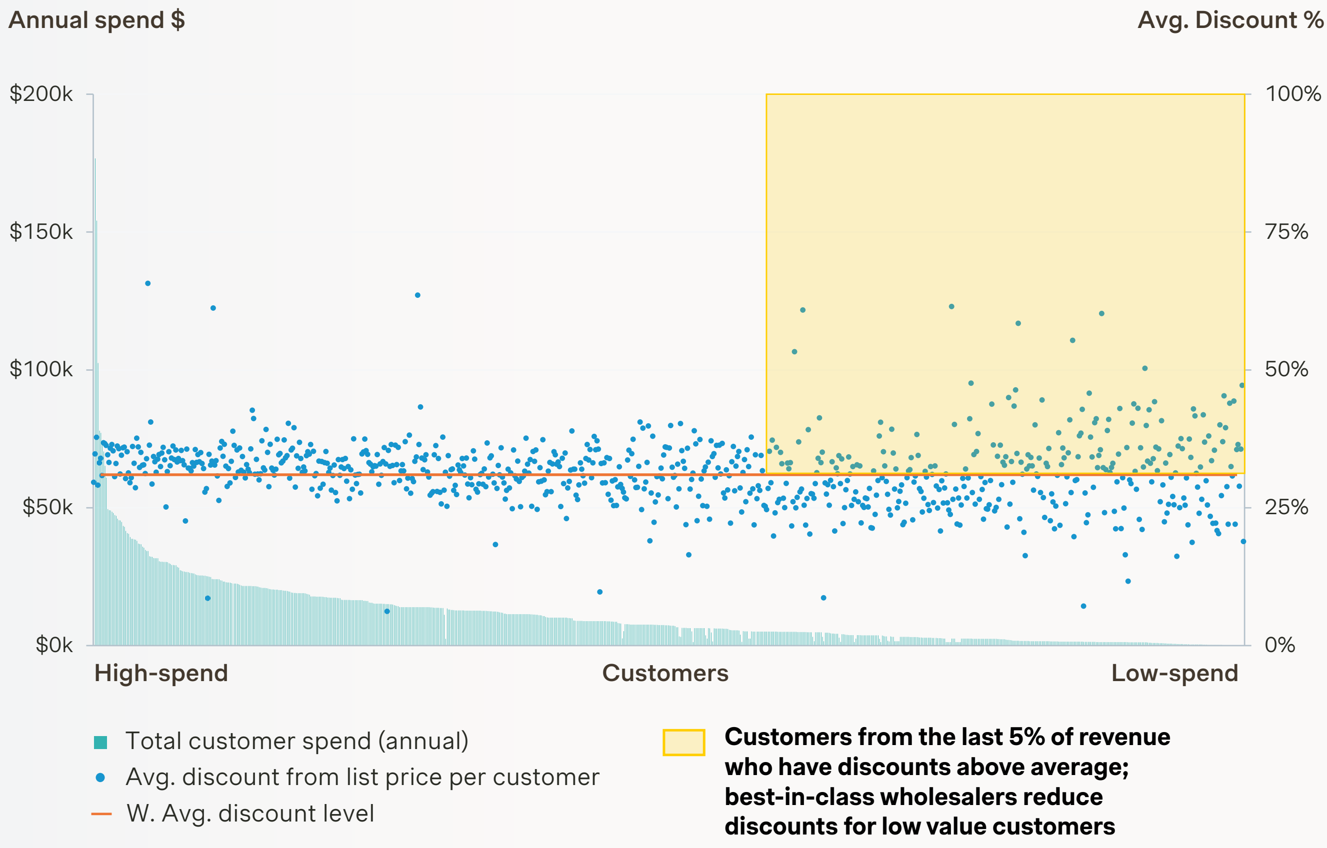
Slow-moving SKUs present an opportunity to improve profitability. These products are bought less frequently, are not usually subject to intense price comparison, and often serve niche or one-off needs. Customers purchasing them may be more focused on availability than price, which opens the door to capturing additional margin. Unlike high runners, where price competition is fierce and visibility is high, slow movers offer more pricing flexibility due to their transactional nature.

2. Aligning discounts with customer value

Customers with higher spend, consistent purchasing, or demonstrable growth potential (ideally supported by a track record of strong growth) should receive more favorable pricing. Deeper discounts must be reserved for these high-value segments, while lower-value customers receive limited or no discounting.

Discounts may be delivered through different mechanisms, such as price tiering systems, customer-specific contracts, or year-end rebates. But, regardless of the method, they should always be measured against the list price. This allows wholesalers to clearly understand which customers are receiving the most favorable terms and ensure discounting is aligned with actual customer value.

Customer discounts ordered by total customer spend



Unlike products, repricing at the customer level presents added complexity. Product pricing is often centrally managed, but customer pricing tends to be managed individually by sales representatives. This decentralization means that changes cannot be implemented or felt immediately. Moreover, while wholesalers may view it as reducing a discount, customers perceive it as a direct price increase, making conversations more sensitive and outcomes less predictable.

To address this, we typically recommend a staged approach to realigning discounts with customer value. Start by adjusting pricing for the lowest-spend customers, where the risk is lower and the scale of change is minimal. This allows sales reps to build experience and confidence before engaging with more strategic accounts.

Equally important is to clearly communicate what defines a high-value customer: is it purchase volume, frequency, or breadth of range? When customers understand what drives better pricing, it creates a transparent incentive structure that can function like a loyalty program, encouraging smaller retailers to grow their business with the wholesaler.

3. Commercializing value-added services

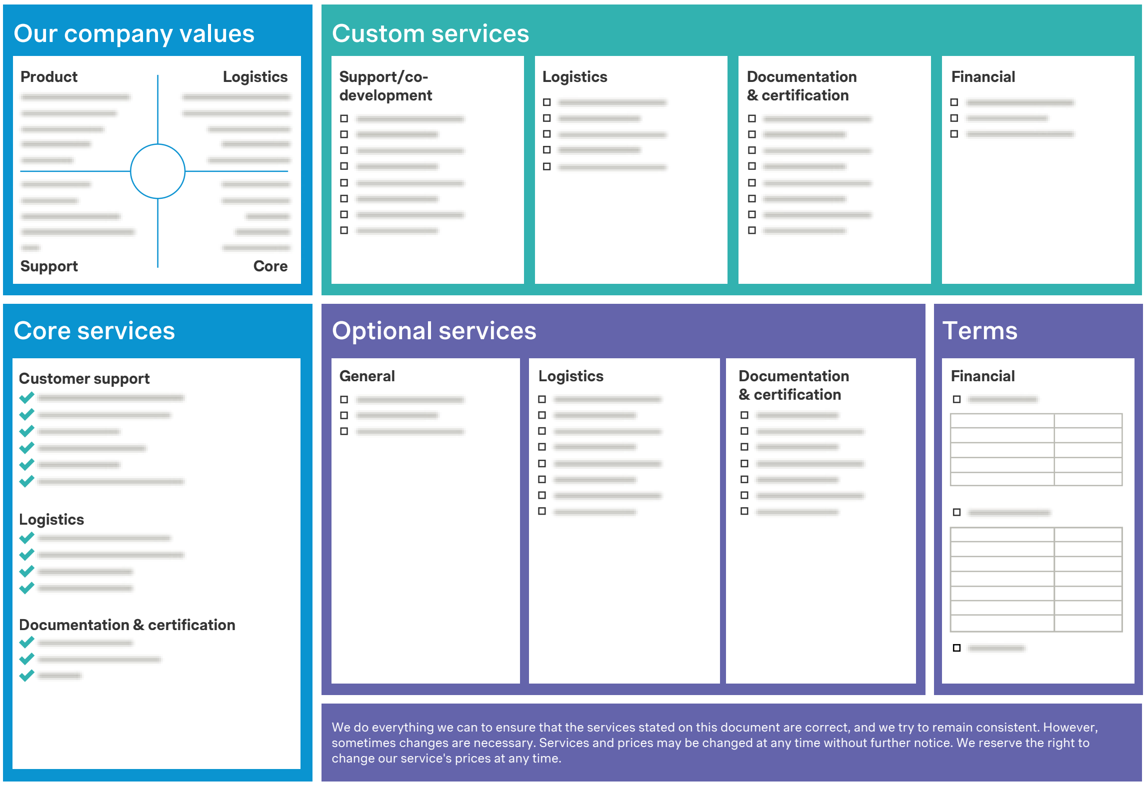
Wholesalers often provide additional services – such as specific delivery requirements, dangerous goods handling shelf stocking, and more – to meet customer needs, either internally or through third-party providers. Our experience finds that these services can cost a wholesaler in the ballpark of 5-10% of total revenue. However, wholesalers struggle to recover these costs effectively, largely due to two major challenges:

- The cost of providing these services can vary widely, especially when third-party providers are involved. For instance, one logistics partner may charge a flat $20 fee for handling dangerous goods, while another may apply a weight-based fee, such as $5 per 10 kg. From the customer's perspective, differing charges for the same service - based solely on which provider is used - are seen as unfair and confusing, making it difficult to apply consistent charges and allocate costs accurately across the customer base.
- Sales representatives underestimate the financial impact of waiving service fees, viewing these charges as optional add-ons and the easiest concessions to offer during negotiations.

Successfully commercializing value-added services starts with understanding their cost structure and defining a clear framework that distinguishes between services offered for free and those charged to customers. Once in place, the focus shifts to training the sales team to confidently position and sell these services in negotiations.

Typically, the framework includes three areas: core services that are always free and help differentiate the wholesaler from competitors; optional services that involve additional costs - such as remote delivery or special handling - and are consistently charged to customers; and custom services, which can be flexibly used in negotiations to balance pricing or service expectations.

Our promise & services



Customer promises: We just do them, it is our DNA
(example: "We always deliver fresh, high quality products")

Negotiation elements: Use in negotiations when customer wants a lower price or better service
(example: Flexibility in order calling)

Services to be charged: List of services with a price tag
(example: time specific delivery)

When commercializing value-added services, there are a few important considerations:

- Benchmarking against competitors: Highly visible free offers on competitor websites - i.e., free delivery over $300 - should be matched to stay competitive and avoid customer churn.
- Leveraging customer insight: Use feedback to identify which services customers value and are willing to pay for, versus those they expect for free.
- Keeping it simple: Ensure the value-added services framework is easy to understand and equips sales to confidently explain which services are chargeable.

How we can help

Identifying top-line margin opportunities requires deep analysis tailored to your business and a strong understanding of what is working across the industry. Simon-Kucher brings global expertise in commercial strategy, with extensive experience supporting wholesalers across Australia and beyond.

As margins continue to tighten for wholesalers, acting quickly is critical. Leading players are already moving to optimize pricing, discounting, and service recovery – balancing margin gains with customer satisfaction.

Ready to unlock hidden margins in your business?
Contact us for personalized advice on the best next steps for you.

About Simon-Kucher

Simon-Kucher is a global leader in pricing and commercial growth. With more than 40 years of experience, we help organizations unlock better growth that is sustainable, profitable, and grounded in customer value. Combining deep sector expertise with data, analytics, and advanced AI, Simon-Kucher enables clients to translate commercial strategy into measurable impact.

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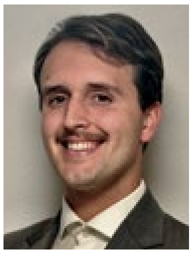

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