

THE INTELLIGENT DISTRIBUTOR



“So much is changing so fast in our business. We are trying to take an integrated approach across all of our value steps, and making headway, but too slowly. It’s hard to set priorities when operations, customer knowledge and sales effectiveness are all under pressure. How do we put intelligence into all of our activities?”

THE INTELLIGENT DISTRIBUTOR

We are already in a new era for wholesale distribution businesses.

Five years from now, perhaps only three, and certainly eight, the leading distributors will be running businesses that look and feel quite different from what they do today. The leaders are en route now. Catching up leaves little time to delay. But you are not late yet.

The emergent business models will offer superior customer and supplier experiences and be more profitable. They will be data-rich digital operations, making faster and better decisions about offers, pricing, and commercial behavior.

The key drivers are better exploitation of rich data held by distributors, improved data interfacing with customers and suppliers often through mobile devices, and an increasing abundance of data from sensors (Internet of Things, or IoT).

Returns will be to smarts, not only scale. We see the biggest threat coming from incumbent distributors in your own sector that move faster to build the intelligence, systems, and operating model needed to compete in this way. They will look much more like **marketplaces** than the traditional upstream-driven distributor. The center of gravity of these models will be technology. They will deploy the assets and activities of the traditional distributor – warehouses, trucks, inventory – only where needed to sustain competitive advantage.

We know this is a provocative point of view. Here's why we think this will happen.

See what you think.

A NEW ERA: THE DISTRIBUTOR AS A MARKETPLACE

Now, the Intelligent Distributor is reacting to all the forces shaping the digital world, using digital to innovate operations and commercial behavior, building more intense relationships upstream with suppliers and downstream with customers.

This paper is about the evolution of the distribution business and the emergence of wholly new models of service provision and performance. First we offer a short history, and then how we see the market is unfolding.

The 1980's was the era of the *logistics* provider. A reliable supply chain with good upstream relationships and good local relationships was the key to success. Every region and city had their own local distributors in virtually every product area.

An era of consolidation followed (from say 1990 through 2010), creating national distributors in most product areas, and the key to success was running large complex networks reasonably well. Local and regional players held up the price umbrella. The advantages of scale meant that there was still some room for the biggest companies to be relaxed about how precisely they needed to run their businesses, and how data-driven their decisions needed to be. Little guys survived in that space through service and relationships. Value-added services have been a focus of the current century; a revenue protector and loyalty generator, but also a margin reducer as competition intensified and customers remained sensitive to headline product prices.

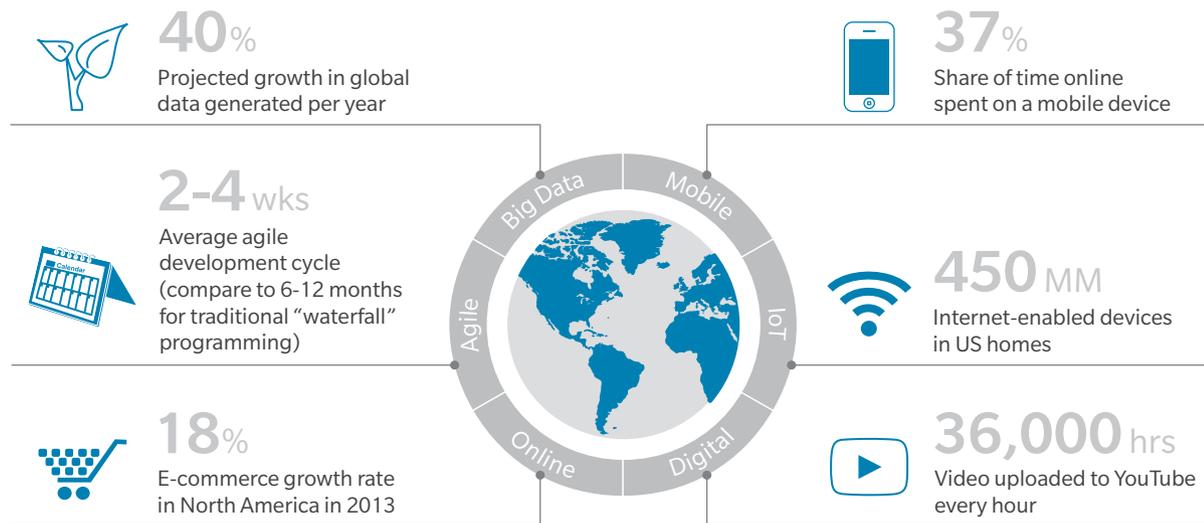
Throughout these phases many distributors have had a bias to be an inside-out in business, moving product from the manufacturer to the end user, from the upstream warehouse out to the end-users site, finding customers who want to buy what the manufacturer makes.

Now, the Intelligent Distributor is reacting to all the forces shaping the digital world, using digital to innovate operations and commercial behavior, building more intense relationships upstream with suppliers and downstream with customers.

The world is changing faster now than it ever has. Mobiles have replaced PCs and laptops as the device of choice, data is accumulating at a 40% growth rate per year, and there are 450 MM Internet-enabled devices in US homes (the Internet of Things, IoT). The agile application development cycle is 2-4 weeks versus 6-12 months for traditional software applications.

All of this is changing how distributors work because it is changing how customers behave. The oligarchy of Google, Facebook, Apple, and Amazon is now worth \$1.2 TN in market capitalization. And all of your customers set their expectations based on their interactions with these companies, all driven by data, deep analytics, and fast decision making.

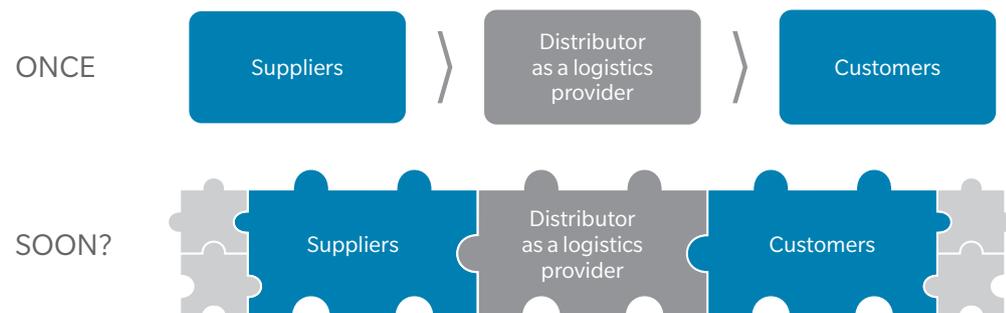
Exhibit 1: The world around us is changing faster than it ever has



Play the movie forward and what do we see? All aspects of your business will change; data sources in the supply chain, analytical software, and mobile devices will abound. That data and its new utility will allow step changes in speed of customer interaction, service quality, offer design, commerciality, and operations. *Smarter nimble players will make more progress than slower big guys, and the playing field will level, for a while.*

Distributors will redefine customer and supplier relationships, and what has been the distributor’s traditional reluctance to share customer data upstream to the supplier will give way to the powerful economics of better information that links back upstream to product design, manufacturing operations, and production forecasting. A back of the envelope analysis of a building products sector suggests that this kind of through-the-value-chain transparency can offer 10-15% cost savings through the supply chain. That benefit is too big to resist.

Exhibit 2: The once and future distributor



SO THE RACE IS TO THE SMART, NOT ONLY THE BIG, AND BIG SLOW GUYS WHO RELY ON SCALE AND TRADITIONAL BEHAVIOR MAY BE VERY VULNERABLE

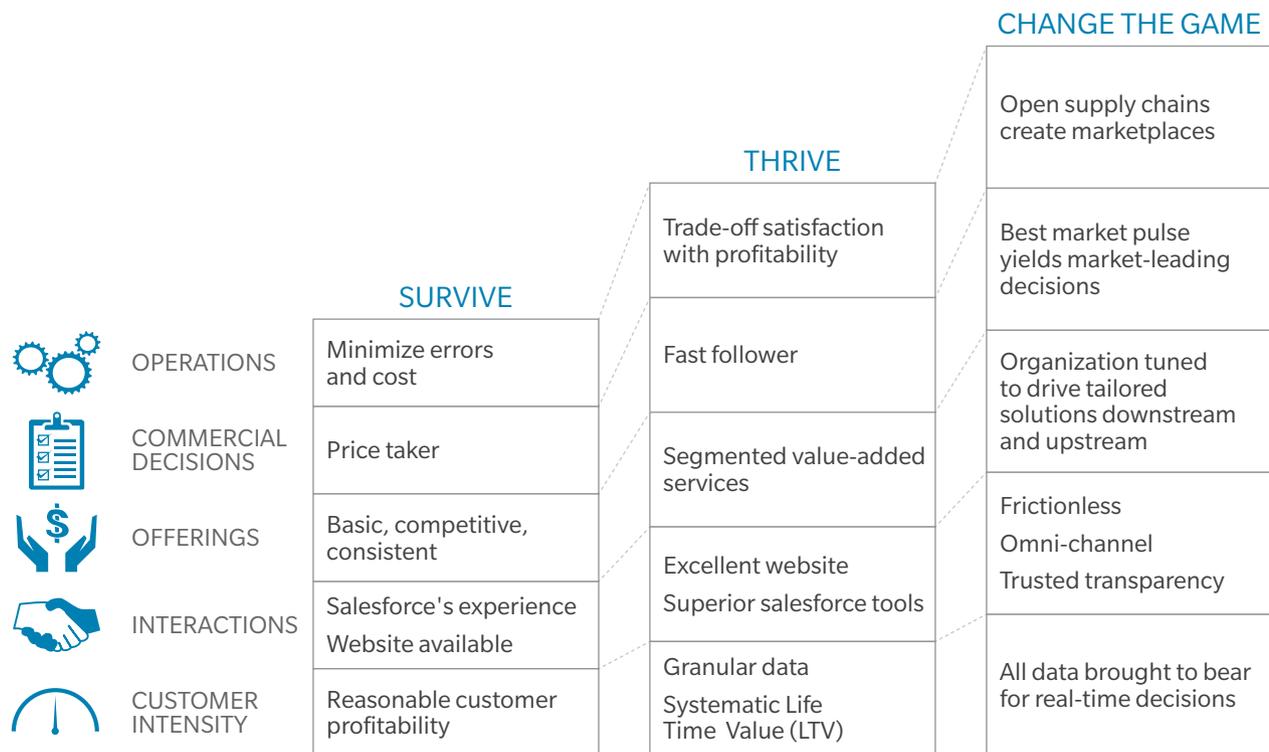
SO WHAT WILL IT TAKE TO WIN

The Intelligent Distributor recognizes changing market forces, adapts and excels, moving proactively and aggressively to build new capabilities. The chart shows a staircase of capabilities in the key categories and how distributors will likely need to evolve. Moving out to the right is the challenge; staying left is risky.

SO WHAT DOES ALL THIS MEAN IN PRACTICE?

To bring this imperative to life we have drawn on real examples happening today in your industry, and some from other B2B industries to illustrate the need for change and what the future could look like.

Exhibit 3: How good do you need to be at what?



CUSTOMER INTENSITY

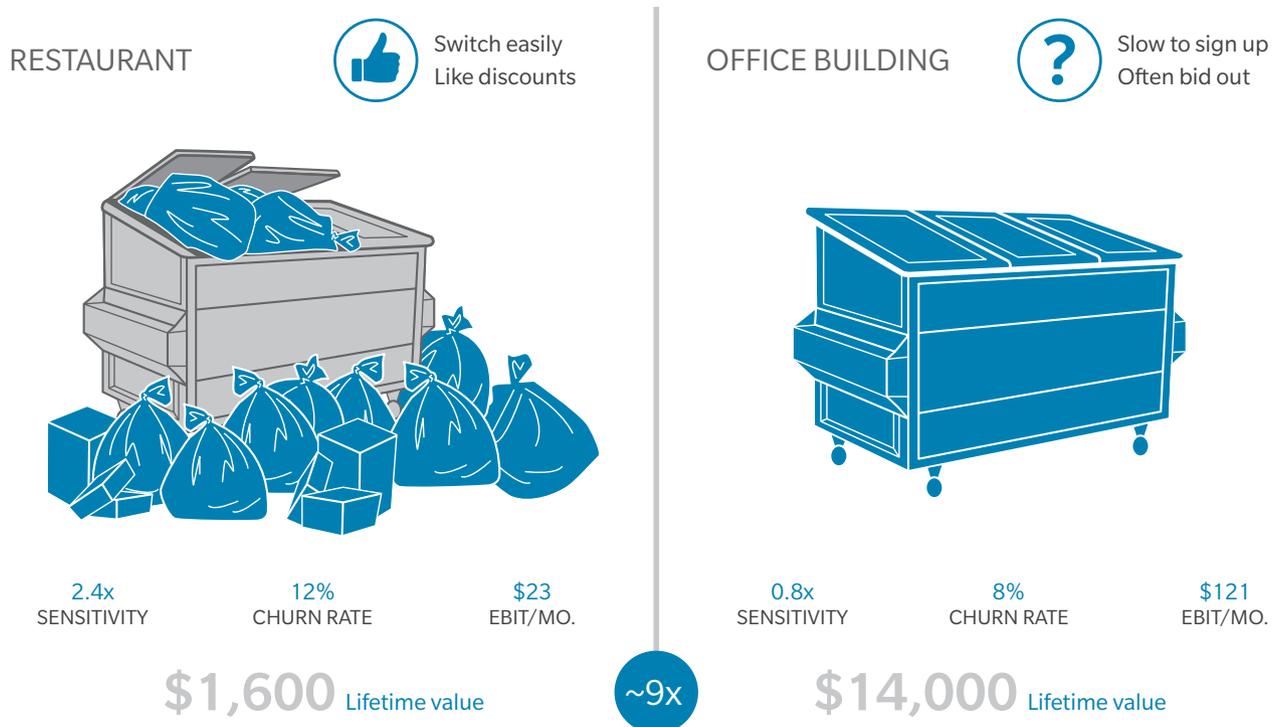
While most distributors are getting increasingly focused on customer service, even today many operate without a deep enough understanding of their customers. What do customers care about? How do they behave and perform? What is their true profitability to my business? How price sensitive are they? How likely are they to churn? This kind of information is not often captured and used. Guessed at and assumed, yes, but not *known*.

As a result two questions critical to running the business remain unanswered for many distributors: who are my most valuable customers, and how do I win with them? In our experience, the answers are very often a surprise, not consistent with the guesses or assumptions that frequently drive behavior.

The waste industry has been an excellent example of how powerful data can completely change customer selection and priority. Our favorite story is about the plethora of small customers that are essential to the success of the business, and our example compares restaurants to small office buildings.

Sales reps are often able to win and acquire restaurants because restaurants are always looking for a lower price and churn easily. But owners of office buildings are usually slow to sign up, often bid out, and so require some patience and tenacity from a waste company's sales force.

Exhibit 4: Comparing customer lifetime values



And when you dive into customer behavior, the sales effort required, the churn rate and the margins, you see that, actually, office buildings as a target segment are **9x** more valuable than restaurants over the lifetime of the relationship. Restaurants dump heavy waste, have a very high cost to serve, and are also much more price sensitive so you can't raise prices and churn quickly. Not a good place to be, however easy they are to sign up.

In the era of the Intelligent Distributor, this kind of data, insight, and impact is increasingly accessible and therefore increasingly necessary.

Until now, this kind of data and analysis has required a major one-off effort. Going forward this capability will be built into everyday behavior. Slow movers will suffer, will be quickly out mixed by the competition and left with the less valuable customers.

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INTERACTIONS

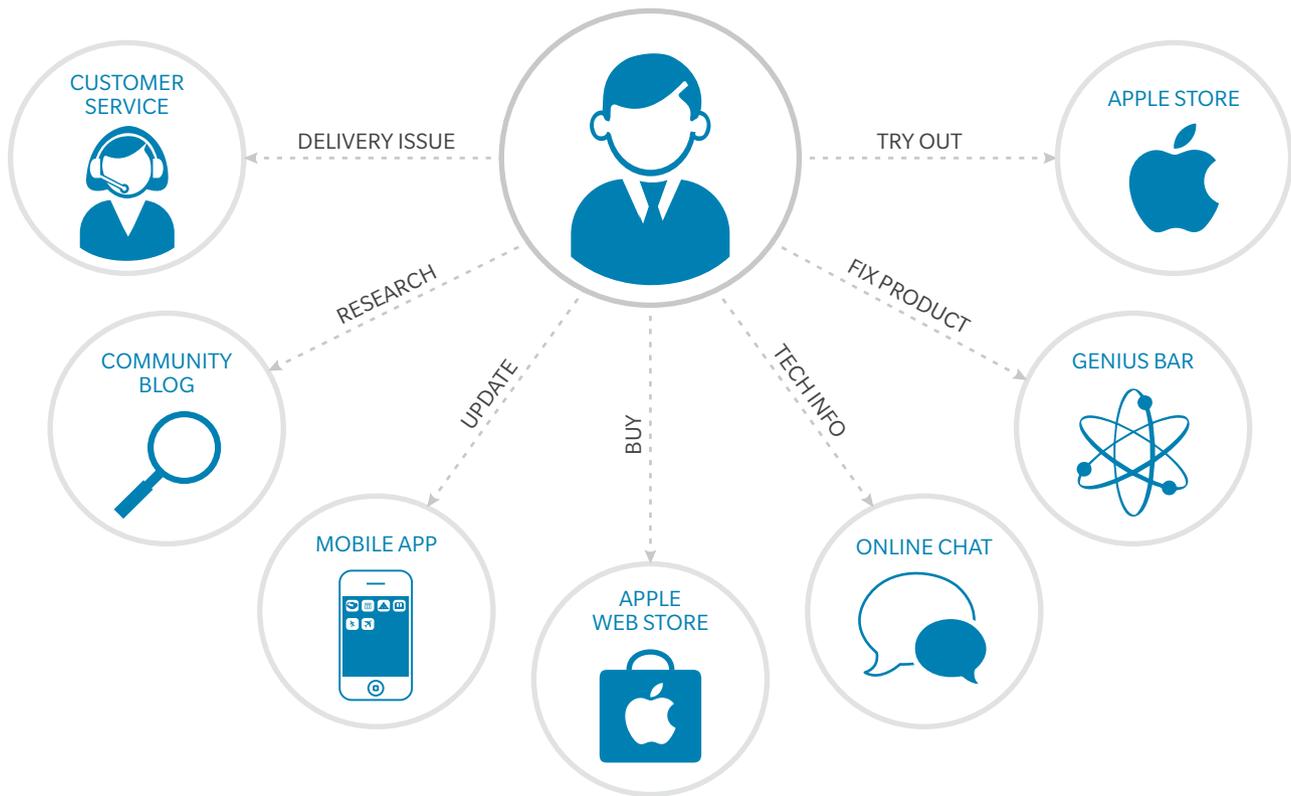
In many B2B distribution businesses today the sales person is the primary touch point for the customer. Channels, customer service, e-commerce, and online self-help often have significant "friction." The easiest way to interact with the distributor may be to call the sales rep. As a result many businesses are heavily reliant on the sales rep's individual relationship with the customer.

But this is changing.

Customers are starting to expect the sales rep to be deeply knowledgeable about their business. They are looking for market and industry insight, future outlook, demand generation help, and guidance on how to run their business better. Customers want the salesperson to be a performance consultant. And the salesperson probably needs some support to do that.

In this new era distributors will deploy new tools and capabilities to help the customer succeed, tools that capture, analyze, and deploy information from and during all interactions in much more powerful ways. And B2B customers expect interactions with distributors to feel a lot like what they have in their personal lives; one-click ordering, click and collect, product information at the fingertips, and mobile status updates is just the short list. The competitors who change the game will craft seamless omni-channel interactions which extend traditional relationships and build cost efficiency as customers are naturally incentivized and seamlessly directed to lower cost, higher utility channels. Exhibit 5 describes Apple's omni-channel behavior which we expect to set the standard for B2B businesses pretty soon.

Exhibit 5: Your customer's interaction and contact options



OFFERINGS

The winners in this new era will focus relentlessly on answering two questions: *What hassles most trouble my most valuable customers? And how can I resolve them?*

Bloomberg's history and break-away approach offer a terrific example of solving the trader's primary hassle, designing a new product and building a new business model around it. Bloomberg saw that there was huge frustration with how traders in financial markets accessed the trading information they needed minute to minute. And they built a magnetic product and a successful business by solving it.

Bloomberg saw that it was time consuming and expensive for a trader to get the basic and necessary information to do the job. The trader had to connect to up to 200 exchanges, communicate with thousands of brokers, subscribe to countless news and research sources, and hook up voice communication to keep abreast of everything going on in the market.

They had to deal with multiple logins and subscriptions. Pricing was a la carte, confusing and unclear so it was really hard to tell what you were paying for and how much you were getting from it. A typical trader also needed many screens and computers to display the full picture with all the data and, when this was done, often there was conflicting and incomplete information. Data comparison was hard, there were often download problems, and traders sometimes built ad hoc excel models to compare and reconcile information. It was a mess, as shown in Exhibit 6.

Bloomberg created one single comprehensive platform with one consolidated view for current and historical pricing for 5 MM financial instruments on 200 exchanges, along with 250 K other subscribers. It also has a sleek dual screen terminal that shows reconciled information with easy-to-execute functions to download and export data. Of course several of these features are commonplace now given the digital revolution, and the Bloomberg terminal has also progressed significantly, but at the time it was quite revolutionary for the trader and solved the biggest hassles they faced.

This bold, disciplined and relentless focus on solving customer hassles helped Michael Bloomberg build one of the most magnetic products the industry had ever seen (and then he became Mayor).

The hassle map in Exhibit 7 highlights how Bloomberg simplified their customer's life.

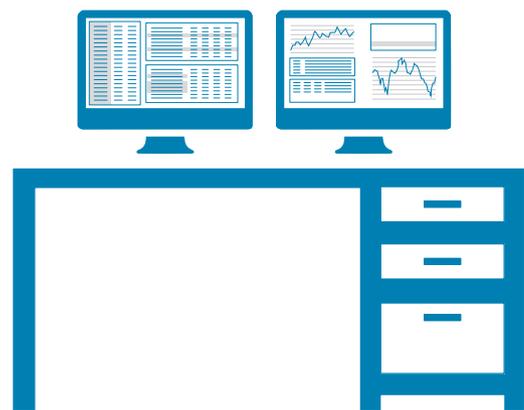
Exhibit 6: Financial trading customer hassle

BEFORE



MULTIPLE SCREENS AND INPUTS

AFTER



CONSOLIDATED AND EASY

Exhibit 7: The financial trading “customer hassle”

BEFORE



AFTER



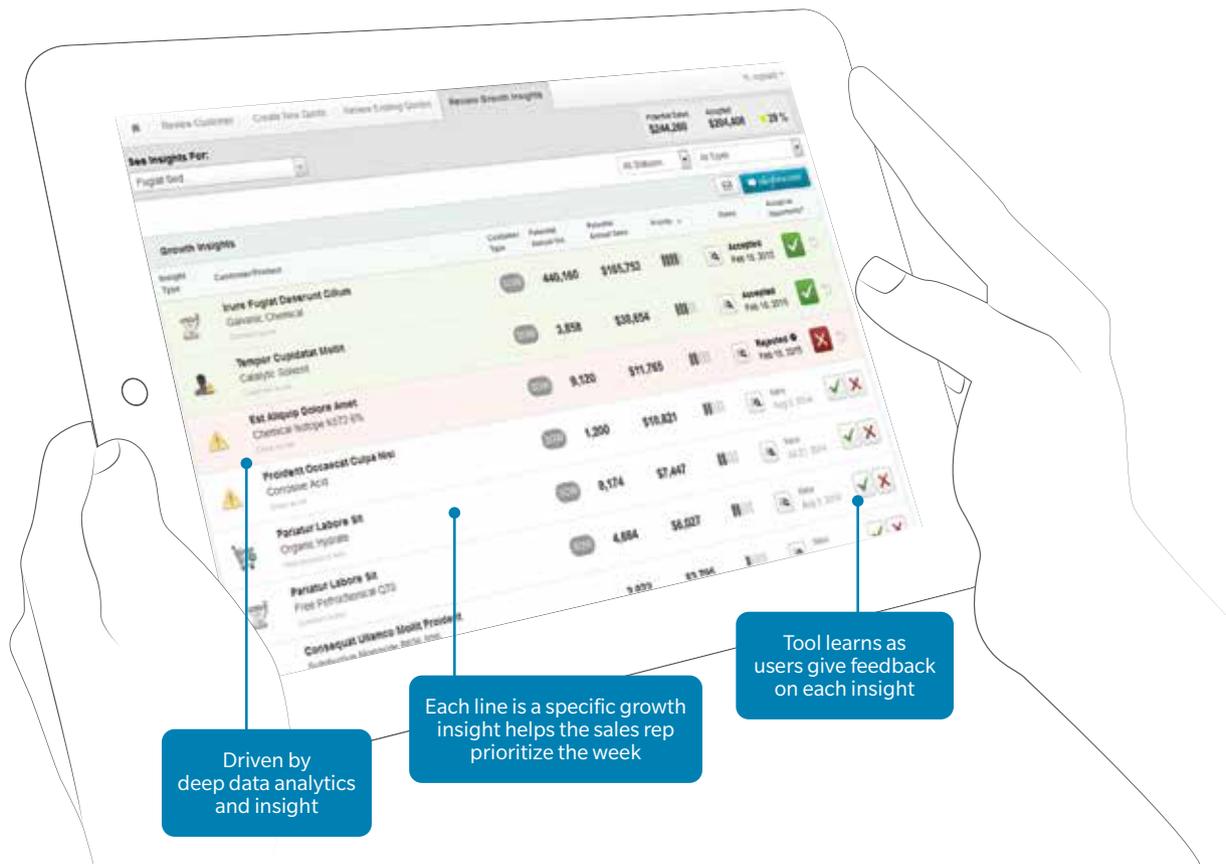
COMMERCIAL DECISIONS

Running a billion dollar distribution business means processing thousands of commercial decisions every day. How do I price *this* customer, where should *this* salesperson spend priority time, which service package do I give to *this* customer? Often these decisions are made with limited insight and decision support. Often they are based on history, gut feel, or legend.

In this new era, winners will find the right way to support these decision makers in making smarter, faster, and collaborative decisions. Decisions will be supported by data-driven insight, analytics and virtually real-time field tools. Winners will build and deploy tools and processes that are rapidly adopted by the field and create deep collaboration between users and technology. We call this principle “for the field by the field.” This is not just anticipation. There are a few examples of distributors doing this today and putting dynamic tools in the hands of the sales force.

As displayed in Exhibit 8, one national chemicals distributor has created a Monday morning dashboard to help to identify the highest value opportunities and suggest how people spend their time *this* week. The tool uses deep analytics to identify and prioritize opportunities but encourages, even requires, collaboration. It asks the salesperson to accept or reject insights and action recommendations, and improves its performance as it learns each user’s priorities and preferences. The more the tool is used the smarter it gets and the more it aligns with *each* user.

Exhibit 8: Some players are already doing this...



OPERATIONS

The Internet of Things is having two important effects on distribution operations.

First, sensors and tracking technology are becoming cheaper and easy to use. As a result *datafication* is easier and companies are able to capture data that just wasn't available previously; i.e. live location of inventory and vehicles. Second, platforms to analyze and *make the data useable* are becoming available, affordable, and easier to use.

Deploying both together, the intelligent distributor will be able to think about its operations in a fundamentally different way, i.e. "customer-in." The game-changing distributor will be in a better position to answer a crucial question – what is the lowest cost way to flex my operations?

The possibilities here start to become quite attractive quite quickly. Twenty-four/seven availability, low fulfillment time, real-time inventory visibility – all without stressing or challenging the supply chain. Distributors will start to track and identify and tackle customer disappointments before the customer knows they have happened, not having to wait for customer complaints to get the resolution started.

An example: a leading chemical manufacturer has aggressively pursued a proactive and preemptive IoT strategy to track transport issues with specialty chemicals. Many high performance or hazardous chemicals require monitoring during movement. Historically this was done manually at multiple points in the supply chain, requiring significant time and effort. Non-compliance and quality issues were often only identified by the customer after delivery. The IoT strategy uses RFID, GPS, and various sensors to continuously monitor temperature, humidity, breach of container, etc., and issues automatic alerts. Operators can now proactively identify and address customer issues before they arise.

Still playing the movie forward, there is a lot of innovation happening in B2C that will transfer across to B2B at an accelerating pace. Warehousing, robotics, and even futuristic concepts like drones are starting to seem more plausible. So the distributors who thrive will carefully watch B2C, benefit from the experimentation, then be fast followers on ideas that work.

TECHNOLOGY STACK

Last but not least, the Intelligent Distributor will need to be a technology-led business. This will require significant capability upgrades within the IT function to be at the forefront of innovation in the business, as opposed to a “service provider.” The rate of IT innovation relative to your competitors will be one of the biggest factors in determining whether your performance circle is virtuous, or vicious.

In particular, new capabilities required of the technology stack in distributors will be:

- The ability to store and process much larger quantities of data including from IoT devices. For example, telematics from trucks, sensors in warehouses, web logs from internet and mobile sites
- The capability to interface upstream with suppliers’ data systems and downstream to customers, in a fast and cost-effective way. For example using “API” interfaces into and out of the distributor’s core systems
- Processes that allow agile development of new technology-led propositions and internal improvements vs. long “waterfall” IT methodologies
- The ability to innovate with the front-end interfaces with the customer, in particular on mobile devices

SO WHAT DO YOU DO?

Understand that your customers today and tomorrow drive everything else. Do the homework to understand them intimately. It is the foundation for everything else. **Get the content you need.**

Don't kid yourself about strengths and weaknesses. You will overestimate one and underestimate the other, and either will kill your chances. **Be ruthless here.**

Plan the playbook to get from where you are to where you need to be. **Put your best people in charge.**

Figure out how to keep doing what you're doing to pay for learning how to do what you have to do. You have to do both at the same time. **Set your course and commit.**

This is not a paced marathon, it is a series of short races you can't afford to lose. **Get used to sprints, mid-course corrections, and hold your nerve.**

SPECIFICALLY, ANSWER THESE QUESTIONS QUICKLY AND COMPREHENSIVELY

HOW SHOULD BUSINESSES LIKE YOURS GO TO MARKET IN THE FUTURE?

- Which of your customers can you absolutely not afford to lose, and which competitor customers should you absolutely seek to acquire?
- What customer hassles will you solve better than the competition? How will your product and service offer differ (radically?) from today?
- What sales model should we deploy to what segments? How "far up" the customer chain can a full digital model go?

Key success factor: The homework and the business definition you need 2/5/10 years out, and intensity to make customers love it.

HOW DO YOUR BUSINESS CAPABILITIES COMPARE TO WHAT YOU THINK YOU NEED TO WIN?

- Are you allocating your A-team or B-team to your transformation initiatives? How aggressively are you looking to fill talent and capability gaps through partnering, M&A, thinking differently on recruitment?
- Is your tech stack able to balance agility, resilience, and cost appropriately? In particular, do you have enough agility in the parts of your business likely to change dramatically in the coming years: sales, pricing, connected assets?
- Can you learn by copying best practice either from competitors or by sharing with non-competing players in adjacent sectors or geographies?

Key success factor: Candor on your starting point; humility in closing gaps by any means available.

HOW CONFIDENT ARE YOU THAT YOU CAN HOLD THE COURSE?

- High-speed business reinvention is not cheap. Is your board on board? Have you allocated adequate funding for the journey?
- Is the pace and sequence right with visibility of continual progress in a series of short sprints? Have you decided how to run your transformation program: integrated with the core business or a separate clean-slate approach?
- How bought-in is the business on the need for change? Will breakthrough innovation be seen as a threat and “killed by the line?” Is your team convinced? Do you have a plan to do it in the field?

Key success factor: A robust plan deliverable in many stages, each yielding tangible improvements to the business. No “cathedrals of IT.”

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Distribution and Wholesale practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we’ve built our business by helping distributors and wholesalers build theirs.

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