

# LEAD THE WAY IN THE SUPPLY CHAIN

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This article is adapted from the new report *Facing the Forces of Change®: Lead the Way in the Supply Chain*. Copies may be purchased at <http://www.naw.org/ftf07> or by calling 202.872.0885.

A new breed of wholesaler-distributors is emerging. These companies are building deep relationships with customers based on an understanding of the true value created by their services and activities. They are charging customers for new services rather than giving away their value-added for free and hoping to recoup the costs with product margins. These wholesaler-distributors build clout with suppliers through superior performance rather than just through sheer size or volume.

This conclusion comes from the new report *Facing the Forces of Change®: Lead the Way in the Supply Chain* by the NAW Institute for Distribution Excellence ([www.nawpubs.org](http://www.nawpubs.org)). The companies and examples described in the all-new report are not larger or luckier than their wholesale distribution competitors. Instead, the executives running these companies are doing a better job of positioning their companies in the common external environment faced by all wholesaler-distributors.

The difference between the winners and the losers in the future will derive from the ability to link a fundamental understanding of external business trends with an awareness of how to profit from the trends, followed by appropriate strategy execution to deliver results. This article briefly summarizes the major trends identified in the new study and highlights how you can start innovating in response to these marketplace realities.

## FORCES OF CHANGE

The four major trends in *Facing the Forces of Change®: Lead the Way in the Supply Chain* are reaching critical mass in many sectors of the wholesale distribution industry.

### Trend 1: Private Label Products

The use of private label strategies by wholesaler-distributors will expand substantially over the next few years. Private label products—products branded by a wholesaler-distributor—represent a break from the more traditional wholesale distribution approach of reselling manufacturers' branded products. Global sourcing from Asia and South America provides a source of low-cost manufacturing capacity for distributors looking to offer their own private label products.

Wholesaler-distributors with private labels have deepened their knowledge of their customers' true needs by taking on the role of brand developers and marketers. However, a private label strategy requires the courage to walk away from supplier rebates on selected products in favor of increased margins from customers and buy-side sourcing activities.

Wholesaler-distributors will also need to build new capabilities in manufacturing and design in order to create products with unique, premium benefits. They will also have to select the right opportunities for private labels and manage the new supply chain risks associated with their own products.

## **Trend 2: Demand-Driven Channels**

The term *demand-driven* refers to the idea that products are pulled down the supply chain to the market based on actual customer demand data. It also represents a contrast from the more traditional notion of products in a marketing channel being pushed by manufacturers toward the customer. Both manufacturers and distributors will be able to manage their respective inventories better when demand-based information is shared.

The enabling factors for a demand-driven channel will become more prominent over the next 5 years, thereby creating the conditions for demand-driven channels in many wholesale distribution lines of trade.

Moving from the traditional structure to a demand-driven channel requires innovation at every level of the supply chain. Wholesaler-distributors need to send information electronically to suppliers, while simultaneously accepting a new level of visibility and transparency into their operations. Many wholesaler-distributors recoil from the idea of sharing customer information with suppliers, because they fear disintermediation due to direct sales by manufacturers.

Wholesaler-distributors can succeed with demand-driven channels by developing appropriate supply chain data transmission standards in their lines of trade, evaluating new profit streams from data transmissions to suppliers, and applying demand-driven concepts to their own businesses. As the examples in our new report indicate, some distributors have even developed equitable *quid pro quo* arrangements for data sharing that provide new sales or training benefits to their companies.

## **Trend 3: New Profit Models**

Manufacturers will increase their share of a wholesaler-distributor's profit margin from product distribution, leading to greater use of pay-for-performance channel compensation models by manufacturers. Wholesaler-distributors will need to understand whether their companies are truly profitable channel partners.

Nevertheless, wholesaler-distributors can benefit from better measurement of performance and can derive new profit streams in the supply chain. Innovative, successful wholesaler-distributors are willing to provide data conveniently to suppliers so that the supply chain can provide customers with the best fulfillment at the lowest costs. Leaders will welcome a more rigorous approach to channel management by their suppliers, because they recognize the opportunity to further improve their market share and performance.

One example is outsourced fulfillment as a fee-based service to traditional suppliers. This allows distributors to beat back the threat from logistics companies. Similarly, the recognition that certain core services have become commoditized has led innovative wholesaler-distributors to position themselves as suppliers of products with related services instead of only reliably providing goods. Their creative actions will ensure a place in the supply chains of tomorrow.

Ongoing success will require wholesaler-distributors to master the financial dynamics of a services business, which are different from those of a product distribution business. Wholesaler-distributors will also need to monitor new developments at competing logistics companies and avoid their overconfidence in the unique value of their own logistics prowess.

#### **Trend 4: Connected Customers**

Wholesaler-distributors must fully embrace the Internet in their business activities now that it is a normal part of everyday life in the United States and Canada. Internet technology is simultaneously enhancing and challenging the traditional ways that wholesaler-distributors make money.

Customers will continue to question the value added by wholesaler-distributors due to the ready availability of information and more sophisticated sourcing techniques as the Internet becomes fully integrated into society. Customers will increasingly gather information from other customers, thereby bypassing traditional marketing messages from both upstream manufacturers and their wholesaler-distributors. Well-connected, highly informed customers are able to cherry-pick the products and services they need, thereby undermining the basic economic model of a wholesale distribution company.

Innovative wholesaler-distributors are leading in the supply chain by using technology to become more, not less, relevant to their customers. Online collaboration tools, such as online work spaces and virtual trade shows, will emerge as new ways for wholesaler-distributors to interact with their customers. Adoption of self-service technologies, which has grown significantly in the past 3 years, will continue, so wholesaler-distributors must allow customers to gain information, place an order, and solve simple problems themselves when appropriate.

Success in the ever-evolving online business environment will require wholesaler-distributors to use their Web sites as an effective sales lead-generation tool and information resource to respond to their customers and to teach their sales reps to sell and communicate using new technologies. In contrast, less-innovative distributors will have an increasingly hard time convincing Internet-savvy customers of their ability to provide support through the entire buying process, from research to service.

## **LEADING THE WAY**

Wholesale distribution executives who understand the big picture trends will have the opportunity to lead the way in their lines of trade. Each of the major trends described in this report is designed to pull you away from current events and consider the more complex issue of fundamental change over time. *Facing the Forces of Change®: Lead the Way in the Supply Chain* will provide the greatest strategic value to your company when it is used as the starting point for more substantive management discussions.

Ask yourself the following questions as you consider the four trends:

- **What is happening in my industry today?** All the trends in this report are occurring in some part of the wholesale distribution industry. You will be better prepared to innovate by putting day-to-day customer interactions and business responsibilities into a broader perspective of how the industry is changing.
- **What does it mean for my customers, suppliers, and competitors?** The four major trends will have implications up and down the supply chain. You can understand how to profit from these trends by analyzing which companies will benefit or be hurt by these trends. For example, at what point would your suppliers perceive private labels to be a threat to your relationship? What advantages exist for customers if private label products grow or shrink?
- **What does it mean for my company?** After considering the broader trends, evaluate the specific impact on your own company. Take the time to build a fact-based strategy for your company that can take profitable advantage of the trends in the new *Facing the Forces of Change®* report.

The world is changing, and wholesaler-distributors must keep evolving in order to stay relevant in their respective industry's supply chain. The economic environment provides a very favorable context for supply chain leadership by wholesaler-distributors. Wholesale distribution executives who understand the big picture trends will have the best opportunities to lead the way.

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