



INTRODUCTION

Even as the U.S. economy gradually emerges from the throes of the worst economic crisis since the Great Depression, many wholesaler-distributors continue to struggle financially. Tremendous volatility, uncertainty, and unpredictability characterize the economic environment and will likely remain the core characteristics for some time to come. The 2007 version of this report, *Facing the Forces of Change®: Lead the Way in the Supply Chain*, noted that “the inertia of customer relationships in business-to-business markets continues to sustain wholesaler-distributors that do not respond to external trends.”¹ We consider this to be largely true prior to the economic crisis. However, the upheavals precipitated by the crisis forced many of those less responsive distributors out of business or into the arms of a competitor. Going forward, responsiveness will no longer be sufficient, and distributors must strive for a predictive and proactive posture. The worst of the crisis may (or may not) be over—either way, now is not the time for complacency.

Facing the Forces of Change®: Decisive Actions for an Uncertain Economy contains a central message about confronting the challenges facing wholesaler-distributors today: charting a successful course in this new economic environment will require a combination of bold initiatives and prudent investment. Striking the right balance will require an intense focus on getting much closer to customers—to better understand their product and service needs; leveraging advanced analytics—to identify and prioritize cost reduction and revenue growth opportunities; and building a highly motivated, capable, energized, and enabled workforce to effectively leverage the latest technologies and methods to delight customers. As they consider decisions in each of these areas and contemplate the “right” information technology (IT) infrastructure to enable those capabilities, wholesaler-distributors must look beyond the next two to three years. Only by considering longer-term implications now—while aggressively managing today’s business—will distributors position themselves for success in the new economic environment.

As we discuss trends, implications, and opportunities for wholesaler-distributors in the six chapters of this book, it is worth emphasizing that while bold strategies and prudent investments will be essential, execution remains the ultimate differentiator.

The best customer segmentations and cost-to-serve analyses will deliver nothing to the bottom line if the organization does not—or perhaps cannot—execute against those recommendations. This only serves to highlight the continued critical role of human capital in the wholesale distribution business. Products, services, technology, and analysis are all mainstays of the organization, but the workforce’s ability to execute its roles and responsibilities will ultimately decide success or failure.

Our first chapter addresses what we call “the new economic environment,” a term intended to capture the breadth and depth of changes to perceptions and realities that now exist globally across industries, sectors, and companies. The crisis was not just an event, but a catalyst that precipitated a series of ongoing, fundamental changes. Things will not revert to the way they were. This new economic environment is characterized by increased volatility, uncertainty, and unpredictability. Any one of these represent a significant challenge to the effective and efficient management of a wholesale distribution company, but when all three exist to a very large extent—and high levels of complexity are also added to the equation—the landscape becomes challenging indeed. Wholesaler-distributors will need to understand and be prepared to capitalize on deep, ongoing shifts in the structure of the U.S. economy, deploy new business models, and explore new sources of capital and funding.

In our second chapter, we look at the continually expanding role of services—perhaps one of the most discussed topics in the industry. Services remain both a significant opportunity and a conundrum for many wholesaler-distributors. Structuring and delivering services that customers are willing to pay for remains a massive challenge, measuring the profitability of service offerings continues to confound a great many distributors, and mastering the organizational changes that an expanded services focus requires eludes all but a very few distributors. And yet most distributors have no choice but to continue focusing precious time, investment resources, personnel, and effort against the services challenge. Customers and suppliers are demanding more services; increasingly agile competitors stand ready when distributors are unable to deliver such offerings; and with continued pressure on product margins, services represent one of the primary levers for growing revenues and profits. We consider some approaches to overcoming the various services challenges in this chapter.

The third chapter addresses the absolutely critical role that analytics will play in effectively and efficiently managing a wholesale distribution business going forward. Distributors must master the vast amounts of data flowing into and around their organizations, leveraging the available information to create actionable insights. We look at customer segmentation; cost-to-serve analysis; and price, inventory, and optimization. We also look at how distributors are leveraging Lean and Six Sigma concepts to reduce waste and inefficiency, while at the same time innovating and delivering exceptional service to customers and suppliers alike. A key concept within the chapter is that there are two types of complexity—one that is essentially non-value added, non-differentiating and should be reduced or outsourced wherever possible (examples include unwarranted variations in repetitive processes, such as application of

payments); the other is complexity that creates a meaningful value point of differentiation with customers and/or suppliers (examples include differentiated product and service offerings).

Our attention then turns to human capital in chapter 4. Throughout the interviews for this report, wholesaler-distributors emphasized, reiterated, and confirmed the importance of effectively managing their workforce. Distributors face some unique challenges as they look to capitalize on emerging business trends and technologies; embrace the next generation of employees; and leverage the skills, talent, and knowledge resident in the existing workforce. A heightened focus on training is a key point in this discussion, and we highlight a number of leading college and university programs, as well as some innovative internal approaches companies have developed for ongoing training and education of their workforce. We also highlight the growing appreciation for the limited awareness of the wholesale distribution industry among key groups of potential employees—for example, college graduates, MBA students, and others with specific skills such as analytics and engineering. To empower distributors as they move forward in addressing this critical area, we explore some of the new approaches that will be required to identify and encourage top performers, along with the tools available to maximize employees' impact across a range of functional areas. We also discuss how to reallocate and best use scarce human capital resources within an organization, using an innovative approach to assessing the relative importance of different roles within the company.

Next, chapter 5 tackles the complex and sometimes contentious issue of IT. Distributors have long been investors in differentiating technologies, especially in the supply chain and, in particular, in the warehouse. What has become abundantly clear, however, is that IT is now viewed as an essential component of a distributor's business—an enabler of the company's growth strategies, a tool to help capitalize on the complexity we highlight in chapter 1, an accelerator of core business processes, and a weapon to leverage for competitive advantage. Distributors must craft an IT strategy that positions them for the future (managing complexity, reducing costs, and enabling growth) and is aligned with their business strategy. IT is not a separate part of the organization, but an integral part of the distributor value proposition. Strong leadership, business knowledge, and innovation must be hallmarks of the distributor IT function, positioning the company as not just “easy to do business with,” but the preferred solution provider and business partner.

In our final chapter, we explore two key trends wholesaler-distributors must capitalize upon for future success: growth of the green business segment and the expanding role of government. We also take a look back at the emerging trends highlighted in the 2007 version of *Facing the Forces of Change*[®], namely acquisition activity, the changing U.S. workforce, and a slowdown in commodity prices. We consider how relevant those trends are today, some three years after the last publication, as well as the factors that influenced their realization.

And finally, a note on terminology: throughout the book, we refer to five key product categories wholesaler-distributors represent—MRO, OEM, Equipment, Resale for Retail, and Resale for Service. We define each of those categories as follows:

- **MRO:** Maintenance, Repair, and Operations. This category includes the wide range of products used to keep a manufacturing plant or other similar organization up and running. Products include everything from fasteners to safety supplies to electronic components.
- **OEM:** Original Equipment Manufacturing. This category includes products and supplies distributors would sell for use in the manufacture of products (everything from airplanes to toasters). Products could include fasteners, hydraulic and pneumatic components, hose and tubing, and so on.
- **Equipment:** This category encompasses distributors selling various capital equipment products. That is, most likely finished products (items such as bulldozers, excavators, forklifts, and printing presses) that the customer will apply in construction or manufacturing.
- **Resale for Retail:** Distributors selling finished products sold to retail customers for resale to household consumers. This would include many of the food and food-service distributors. Products would include packaged food and beverages, specialty apparel, and lawn and garden equipment.
- **Resale for Service:** These are finished products used by customers to provide a service (such as installation or repair) to the customer's customer. This would include distributors selling to residential plumbers, electricians, and contractors.