Facing the Forces of Change®: Decisive Actions for an Uncertain Economy

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Executive Summary:
This newest version of Facing the Forces of Change: Decisive Actions for an Uncertain Economy aims to empower distributors with the knowledge, tools and insights to be informed, intelligent, and nimble enough to make well informed, rapid decisions, and then to adjust and iterate as necessary. In the following paragraphs, we outline the economic challenges that continue to unfold around distributors; the changing and expanding role of services and their importance to wholesale distribution; the importance of analytics as a tool to help distributors differentiate themselves, better serve customers, and prepare for future demands; the value of “human capital” to the wholesale distribution organization; the vital and ever-growing role of information technology; and two important, evolving trends shaping wholesaler-distributors of every size and in every line of trade: the “green” movement and the growing role of government.

Chapter 1 in this iteration of Facing the Forces of Change addresses the impacts and implications of the New Economic Environment on wholesaler-distributors. Operating as they do at the epicenter of many value chains wholesaler-distributors are one of the most sensitive segments of the economy. Fluctuations in economic activity acutely impact the performance of wholesaler distributors. We could not ignore the momentous forces that swept across the economy and ravaged entire industries over the past couple of years, forces that will continue to restructure companies and industries for the foreseeable future.

Traditionally distributors created value by efficiently aggregating a diversity of products from a multitude of vendors and effectively selling them to an often fragmented customer base. However, the ability of even the most efficient distributors to rely on this model for profitable, long-term growth has sharply eroded.

Operating in the new economic climate requires new ways of thinking, innovative business models, and creative leadership. From the assets they own, to the services they offer, to the customers they serve, to the people they deploy and the capabilities they leverage, wholesaler-distributors are entering an extended period of profound transformation.
In Chapter 2 we discuss the expanding role of services. Most distributors already offer some form of services as part of their portfolio of offerings. Unfortunately, few distributors have yet to truly “crack the code” on services. Indeed, capability gaps remain in a number of important areas, including accurately defining the scope of the service, ensuring the service addresses a specific customer or supplier need, and convincing customers of the value being delivered.

In far too many instances there also remain disconnects between, a) the costs associated with delivery of the service, and b) the customer or supplier’s perception of the value delivered. A common underlying problem is that the distributors themselves often have only a limited understanding of the true costs of providing individual services, let alone their ultimate profitability.

Wholesaler-distributors must take decisive actions to overcome these issues: 1) get closer to customers in order to understand their service needs and their processes; 2) develop a integrated, comprehensive services strategy; and 3) actively manage their portfolio of products and services. Going forward, distributors must not only view services as important, but as the most strategically important component of their value proposition--the one they must master in order to succeed.

Chapter 3 addresses how distributors must embrace analytics to create new forms of differentiation. Indeed, going forward the effective application of analytics will enable distributors to deepen their customer insights, improve and accelerate decision making, identify and respond to market dynamics, and operate more efficiently.

These capabilities will be especially relevant and differentiating as distributors look to manage i) the lingering effects of the economic crisis, ii) an intense competitive environment, and iii) ever-increasing customer expectations. Add to this agenda an increasingly complex portfolio of products and services and a more global and integrated supply chain, and the pressures on the business are, indeed, immense.

A growing number of distributors have already embraced and leveraged a variety of analytical tools and approaches, including Lean and Six Sigma principles, price and inventory optimization, and advanced segmentations of customers, products, and suppliers.

Always important, analytics are now a required core competency that must be embedded within the distributor organization, and elevated to a strategic level. Although analytic technologies and tools (such as price optimization and activity-based costing) can be of great value, it is equally important that a distributor’s people and processes adapt to and embrace analytics.

Chapter 4 focuses on critical human capital issues, including the analytical skills that will be a sought-after capability and source of competition going forward.
The economic crisis forced many distributors to make painful headcount reductions in order to stabilize their businesses. Now however distributors must switch gears and focus on acquiring and building those skills that will differentiate them in today’s hyper-competitive environment.

As much as distribution is about products, services, customers, and vendors, it is also about human capital. In spite of the growing acceptance of online communication tools, *people* represent an essential part of a distributor’s capital base and source of key capabilities. Indeed, the growing acceptance of online tools actually increases the importance of the human dimension by freeing employees from repetitive, non-value-added activities and allowing them to focus on tasks that can differentiate the business.

Our use of the term “human capital” is intended to highlight the critical implications of recruiting, training, managing, assessing, enabling, and rewarding employees; and to reinforce the need for a more rigorous approach to managing this component of the business.

As distributors look to position themselves for future growth opportunities—including online—they must also further elevate the profile of the IT function and create a bold IT strategy to guide investments in infrastructure and capabilities. *Chapter 5* squarely addresses many of the IT related challenges facing distributors today. Unfortunately, many customers, suppliers, and competitors have more mature IT capabilities than their distributor counterparts. Indeed, a great many wholesaler-distributors continue to operate with fragmented, legacy systems that are unable to keep pace with the demands placed on them by customers, suppliers, and supply chains. This dynamic must change if distributors hope to carve out a truly value-added, differentiating role in the supply chain.

Individual information technologies have become a pervasive and integral component of wholesaler-distributor operations—automating low-value, repetitive activities, increasing visibility into and across the supply chain, and creating a common, updated view of the business. As distributors further develop their e-commerce capabilities, expand their Web-enabled services, and leverage advanced analytics to gain insights from the vast amounts of data within their organizations, IT will further cement its position as a business differentiator.

At the same time, new information technologies are creating truly transformative business opportunities for innovative distributors. Offerings such as cloud computing, software as a service (SaaS), infrastructure hosting and outsourcing, and virtualization provide distributors with low-cost, flexible access to the latest technologies. Also, social networking, location-based services, and new ways of collaborating and sharing information online are changing the ways individuals and organizations interact. Leading distributors will understand, prioritize, and harness these trends to transform their business and create lasting competitive advantage.
In Chapter 6 we look ahead we highlight two trends that appear to have sufficient breadth and depth to maintain their relevance to wholesale distribution despite the volatility, uncertainty and complexity that define the current landscape. Those two trends are:

1. The continued expansion of the broadly defined “green business segment,” including renewable energy generation, energy efficiency, carbon and water efficiency, waste reduction, recycling and, in the food sector, organics and sustainability, and,

2. An expanded role of government in areas such as environmental, labor, and safety regulations, international and domestic trade, and of course, taxes and tax incentives.

Distributors of every size, in every line of trade, and servicing every type of customer are seeing opportunities in green business to grow revenues and to realize internal cost reductions and efficiencies. On the government side, the size of the U.S. government in terms of payroll and budget, and its role in business and society, has been expanding for many years. Governments everywhere are now playing a highly influential role in regulating areas such as supply chains, capital flows, labor markets, and environmental impacts.

Wholesale distribution remains one of the most dynamic and vigorous sectors of the economy – reinventing itself while continuing to serve a time tested role in the supply chain. Facing the Forces of Change highlights the trends impacting the industry and discusses the implications of those trends. Additional information and insights are available in the book itself, as well as key charts and tables that summarize the findings from the online survey we conducted as part of our research. Use the book to understand the context and relevance of these trends and to initiate fact based discussions with companies in the wholesale distribution industry.

Copies of this book are available from the following sources (note: IBM’ers should inquire with N.A.W. about applicable corporate discounts)

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