

EXECUTIVE SUMMARY

Facing the Forces of Change[®]: Navigating the Seas of Disruption

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Wholesaler-distributors are navigating the seas of a disruptive economy and competitive environment — both of which are marked by long-standing challenges that are only intensifying — and new forces that are reshaping individual lines of trade and the industry at large. *Facing the Forces of Change®: Navigating the Seas of Disruption* aims to help wholesaler-distributors identify the forces at work today and develop strategies to not only combat them, but also become industry disrupters themselves. We do this by examining six primary industry disrupters at work today (business [new entrants into the channel], process, people, technology, mergers and acquisitions, and government regulations); identifying new ways to leverage relationships in a customer-centric world; dispelling myths about the Millennial generation and uncovering truths about today's changing, multigenerational workforce; identifying the best ways to compete with advancing technology; and shining a light on developing trends that have the potential to change the industry as we know it (the Internet of Things, driverless cars, and block-chain technology, to name a few). This newest volume of *Facing the Forces of Change®* also takes a look at what has changed since our last report, in 2013, as well as the economic challenges that continue to shape the industry — areas that help us gauge how far we have come in the last three years and where we are heading over the next three.

Macroeconomic Outlook — The Road Ahead

Economic changes continue to challenge the wholesale distribution industry and are complicated by other issues, including competitive positioning and advancing technology. Over the next few years, a company's profitability — and sustainability — largely will be determined by how successfully

it adjusts to these changes and navigates a disruptive business environment. Leadership, not management, is a crucial part of this equation, as business leaders must be willing to anticipate, embrace, and prepare for change.

To that end, distributors must keep a watchful eye on economic trends as well as monitor the economic indicators that directly affect their business. The economic commentary in this edition (provided by NAW Senior Economic Advisor Alan Beaulieu) offers a look at historical data, current economic challenges, and what is ahead for 2017 in an effort to guide readers through this process. The data show that ongoing challenges persist, especially the slow climb out of the 2008 recession. Low profit margins are also a challenge — the industry posted corporate profits of 3.3% on \$5.297 trillion in sales through March 2016 (sources are the Bureau of Economic Analysis and U.S. Census Bureau). This leaves little room for miscalculation and means that distributors must take a closer look at how to maximize their resources over the next three years.

At the same time, opportunities exist, including a growing manufacturing economy (which is just below its February 2008 record high), positive foreign investment spending, and a large crop of up-and-coming workers known as the Millennial generation. Top-performing companies will embrace these and other opportunities so that they can outperform the market. Perhaps most importantly, they will learn to anticipate customer needs and develop services and processes to address them — issues identified here and explored in the subsequent chapters.

Driving Change in Wholesale Distribution

The wholesale distribution industry is at a watershed moment. Technological advances are creating massive upheavals, with industries converging, new forms of competition surfacing, and new business models emerging. Wholesaler-distributors must navigate these uncharted waters and position their organizations to prosper in this disruptive age — a time when distributors are being bombarded by forces threatening to disrupt the way they conduct daily operations, serve customers, and interact with suppliers. Although these are challenging times, the level of change occurring in the marketplace is providing new business opportunities. Perhaps the greatest opportunity in all of this is the chance to become the disrupter — a role both large and small distributors can fill in their respective markets, initiating disruption to the status quo. There are many paths to take on this journey, and many strategies that can be used to combat today's disruptive forces.

Other key disruptive factors include industry consolidation, which is projected to have less of an effect in 2020 compared to today but will nevertheless remain an important, industry-shaping factor. Perhaps most importantly, the influence of value-added services to wholesaler-distributors' overall value proposition is projected to increase 4% by 2020 to remain in the top three influences today and into the future. This plays an important role in shaping companies' forward-thinking strategies as they prepare to combat and ward-off market disrupters.

Leveraging Relationships in a Customer-Centric World

Some of the most turbulent seas wholesaler-distributors encounter today come from their relationships with customers and suppliers. The disruptive forces discussed in chapter 1 permeate

these relationships, contributing to the changing face of the industry. Although this chapter primarily focuses on customer relationships, many of its tenets apply to supplier interactions as well. Ultimately, managing relationships on both sides of the aisle in these turbulent times means understanding one's own value, meeting others' needs and expectations, and differentiating oneself from the competition. This chapter offers several strategic propositions to help wholesaler-distributors shield their business from and minimize the effect of disruptive forces.

Avoiding the minefield of relationship disruption starts with three basic elements of business: knowing one's own company, knowing one's customer, and knowing the competition. Distributors must plumb these depths at a deeper level than ever before because the very nature of the distributor–customer relationship has changed greatly. Once-loyal customers now abandon long-standing relationships for companies they perceive as giving them better value for their money. Wholesaler-distributors are expanding their product and service offerings to meet a wider scope of needs, becoming full-service providers to many customers. Other companies are turning their competition into also-rans by acquiring technology or expertise and locking it away from the rest of the field. Companies that miss the signals their customers send through feedback and on social media get buried under a tidal wave of negative sentiment and publicity. Distribution leaders who understand that they are now navigating in a customer-centric world are less likely to be caught off guard by these forces because they have probed multiple sources of customer comments and feedback to quantify their value to those customers, ascertained their customers' needs and how they can meet them, and determined how they can potentially become the disruptive forces with which their competitors must contend.

Using a Changing Workforce

Many business leaders assume that the difference between the Millennial and Baby Boomer generations is an unbridgeable chasm thanks to differences in technology acceptance, personal values, workplace expectations, and work–life experience. In between these generations sit the Gen Xers, who represent the upcoming leadership generation. These three forces are converging to create one of the most varied and complex workplaces most industries have ever seen.

This chapter explores how wholesaler-distributors can make the most of the changing workforce by implementing employee engagement strategies and innovative recruitment programs. We will discuss three important aspects of the changing workforce: understanding Millennials, which focuses on recent research that uncovers hidden strengths and little-known facts about the newest generation in the workforce; employee engagement and retention, which offers strategic advice and examples of companies that have successfully implemented new human resources strategies involving all generations in the workplace; and recruiting, which discusses strategies for finding much-needed workers in wholesale distribution and offers examples of distributors that have seen success with innovative programs.

Advancing with Technology

In many ways, technology is at the center of our business and personal lives as software and devices become less expensive, easier to access, and more necessary for a wide range of functions. It is no different for wholesaler-distributors, for whom technology is increasingly becoming a critical weapon in the fight to maintain their position in the industry — especially given the importance of a good

web presence, the competitive advantage of analytics in today's data-driven world, and advanced connectivity solutions provided by the Internet of Things. What's more, customers, suppliers, and competitors now have very sophisticated information technology infrastructures of their own, and they expect a similar level of sophistication from the companies with which they do business. Moving forward, industry disrupters will lead their trading partners in the use of technology — both by example and by the value-added services technology allows them to bring to the table.

E-commerce has been the focal point of technology discussions in the business world for many years, but that is changing. The ubiquitous influence of technology today has caused e-commerce to morph into digital commerce — which refers to more than a transaction, but a way of doing business. Product searches, reference videos, online customer service, as well as transaction capabilities must be accessible from any device, anywhere. This is digital commerce. Today's omni-channel approach to doing business — the idea that customers can gain access to their suppliers in any way they want, whether by traditional methods or online — begins with the web as the first customer-facing entity. What's more, as data grow exponentially, companies are finding new ways to collect and analyze data to garner insights that will help them tailor the service experience to each and every customer. This is digital commerce as well. New technologies that can comprehend and analyze the vast amounts of structured and unstructured data that exist within companies of all sizes are helping wholesaler-distributors better understand their business so they can take the best path forward. Such capabilities are disrupting the status quo and allowing opportunities for wholesaler-distributors to create new value propositions and service offerings.

Developing Trends

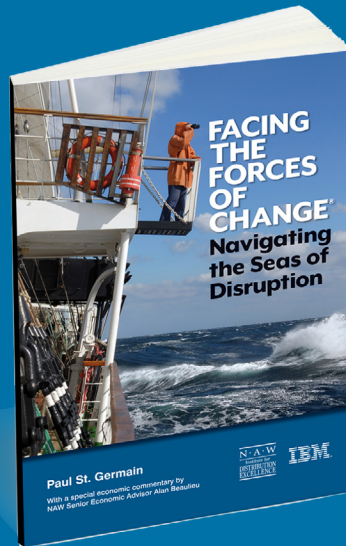
This chapter describes some of the developing technology trends that wholesaler distributors must be aware of and how they can use those technologies to avoid disruption — or to become a disruptive force in the industry. Some trends and technologies are in their infancy while others have started to reach a tipping point beyond which any company that lags behind will find themselves lost at sea. Other technologies have been around for a while, but businesses are now using them in new and different ways. Distributors should consider these technology evolutions as they develop their strategic plans; over the next three to five years, many of the developing trends identified here will have a considerable effect on wholesale distribution, presenting disruptive opportunities in business models and processes. Many of the technologies outlined here were chosen because of their potential, as yet mostly unrealized, to exert a major influence on the wholesale distribution industry.

Not all of these technologies will mature or become accessible from a cost perspective, and not all are relevant to every line of trade or every individual company. However, the potential exists for them to radically change business models, organizations, staffing models, and value propositions across a wide range of industries, including wholesale distribution. Distributors may be tempted to dismiss some technologies as irrelevant to their business for a number of reasons. Some might reject technology that, while it has been in use for some time, has only been applied in non-commercial activities such as the military. Others might ignore the technology because it is still in the lab or because current applications for the organization remain limited — even where the technology has made the leap from lab to market. However, forward-thinking distributors are already considering, and in some cases investing in, these innovations because they see their potential.

Facing the Forces of Change®: What's Changed Since the 2013 Report?

Looking back at the 2013 report, *Facing the Forces of Change: Reimagining Distribution in a Connected World*, we see that many of the themes and issues raised in that volume have intensified while others have remained constant, and still others have surfaced to challenge the wholesale distribution industry on many levels — technology, human resources, and branding being among the prime areas of concern. The economy remains challenging across all lines of trade and will likely continue under a cloud of uncertainty — although bright spots exist and better times are ahead in 2017, as Alan Beaulieu points out in his opening economic commentary for this volume. Here we also will point to changes in the online landscape, shifting attitudes about differentiation and brand awareness, and the growing disconnect between the importance of analytics and distributors' ability to use analytical data successfully. We will also outline how many of the developing trends affecting the industry have changed since 2013.

Indeed, change is the only constant, as he also points out in his opening commentary — and as this series underscores. Embracing change and finding ways to anticipate what's coming around the next corner are never easy steps. This newest volume of *Facing the Forces of Change®* aims to help you along that journey.



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