BSA 2017 Convention

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Facing the Forces of Change® continues to serve as a critical input to distributor’s strategic planning activities
The latest Facing the Forces of Change® report un_masks powerful trends reshaping wholesale distribution

**Macro-economic commentary**

1. **Driving Change in Wholesale Distribution**
   a) The rise of disruptive forces
   b) Six disruptive forces

2. **Leveraging Relationships in a Customer-Centric World**
   a) Distributors as service providers
   b) The outside-in relationship
   c) Mergers and acquisitions
   d) Branding and company image

3. **Using a Changing Workforce**
   a) Understanding millennials
   b) Employee engagement and retention
   c) Recruiting

4. **Advancing with Technology**
   a) Digital commerce
   b) Analytics
   c) Cloud Computing
   d) The Internet of Things

5. **Developing Trends**
   a) Robotics and Industrial Connectivity
   b) Additive manufacturing - 3D printing
   c) 3D scanning
   d) Driverless vehicles, drones and virtual reality

6. **What’s Changed Since the 2013 Report**
What we will cover today:

1. Driving Change in Wholesale Distribution
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6. What’s Changed Since the 2013 Report
Chapters Include...

- Lots of examples
- Moving Forward
- Questions for Management Discussion
- Action Ideas
- Comparison to 2010 and 2013 survey results
Disruptive Forces
Disruptive Forces

- Business
- Government Regulations
- Mergers and Acquisitions
- Technology
- Process
- People
Relationships and Loyalty

➢ Loyal customers now abandon long-standing relationships for companies they perceive as giving them better value for their money

➢ Definition of ‘better value’
  ➢ Price
  ➢ Time

➢ Making it easier for customers to do what customers do
  ➢ Make more money, reduce costs, save time
Incremental Business Opportunities

➢ ‘Making the pie larger’
➢ Beyond products: Services
➢ Who can perform functions most effectively and efficiently
➢ Monetize it
Distributors continue to derive more revenue from services

<table>
<thead>
<tr>
<th>Year</th>
<th>Less than 5% of total</th>
<th>5% to &lt; 10%</th>
<th>10% to &lt; 20%</th>
<th>20% or more of total</th>
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</thead>
<tbody>
<tr>
<td>2020</td>
<td>28%</td>
<td>27%</td>
<td>23%</td>
<td>22%</td>
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<tr>
<td>2015</td>
<td>56%</td>
<td>24%</td>
<td>8%</td>
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<tr>
<td>2010</td>
<td>76%</td>
<td></td>
<td>8%</td>
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Understanding Customer Needs

Consolidate
- Maximize efficiency and consistency
- Customize and integrate with other business activities
- Examples: direct procurement, order entry

Manage as utility
- Special service-level agreements and variable pricing
- Use shared services/partners, low cost of entry, high reliability
- Examples: payroll, indirect procurement

Achieve superiority
- The focus of the business: must become best-in-class
- Invest to gain unique competitive advantage
- Example: Value-added services

Leverage specialists
- Internal capability not unique, best-in-class partners exist
- Seek tightly integrated, exclusive relationships
- Examples: ERP implementation, security, advertising

Efficiency

Effectiveness

Non-differentiating
Importance to company as source of differentiation

Differentiating
Learning About Customers

➢ Understand customer needs from financial perspective
➢ Outside – In
➢ Journey maps, shadowing, ride along, day in the life
➢ Before, during and after ordering
➢ Monetize it
Most distributors say that understanding and assessing profitability and cost-to-serve is important, but few say they are effective in implementing those strategies.

- **Understanding cost-to-serve**
  - Importance: 80%
  - Effectiveness: 36%

- **Assessing profitability of your offerings**
  - Importance: 62%
  - Effectiveness: 32%
Financial Decisions

- Services
  - are differentiating
  - have costs
  - have value
- Provide to customers willing to pay for them
- Understand costs
- Educate sales force
- Review compensation methods
Determining New Service Opportunities

➢ Internet of Things
  ➢ Sensors, monitors
➢ Analytics – progression and capabilities
  ➢ Amount of data
  ➢ Insights
  ➢ Actions
  ➢ Cognition
➢ Mergers and acquisitions
Mergers, Acquisitions

2016 (first quarter) 78 transactions
Source: Supply Chain Equity Partners, Jay Greyson
Nearly three out of four distributors say brand recognition is becoming increasingly important to their business.

<table>
<thead>
<tr>
<th>Importance</th>
<th>7%</th>
<th>19%</th>
<th>74%</th>
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<tbody>
<tr>
<td>Effectiveness</td>
<td>18%</td>
<td>34%</td>
<td>48%</td>
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- Low
- Medium
- High
Branding

➢ First impression
➢ Unnamed proposal
➢ Unique selling propositions
➢ 30 second elevator pitch
➢ Controlling company brand
➢ Communicate value regularly
➢ Value proposals have lifespans
Digital Commerce

➢ Digital transformation
  ➢ Deliver a modern, digital experience
  ➢ Integrated at the back end
  ➢ Whenever, wherever, however
  ➢ Rich with analytical insights and capabilities
  ➢ A way of doing business
  ➢ Leverage capabilities of Cloud Computing
  ➢ Consistent with company brand
The desire to improve IT services is driving businesses to the cloud

What are the top three drivers for upgrading your existing IT infrastructure?

- Reduce infrastructure costs
- Improve IT service
- Improve security
- Shortened time to production
- Improve infrastructure agility
- Reduce physical site costs
- Reduce support staff costs
- Move IT staff to higher value roles
- Shift CapEx to OpEx
- Industry / regulatory compliance
- Country-specific "localization" of data

Source: Saugatuck Technology Inc. Cloud Infrastructure Survey, April 2015, n = 327 (global)
Moving Forward, Action Ideas

➢ Establish outside-in customer relationships
➢ Understand customers from financial perspective
➢ Determine customer value – communicate it
➢ Become a service provider (disrupter)
➢ Differentiate your company – using analytics and cloud computing
➢ Develop and communicate company brand
➢ Embrace digital capabilities
Facing the Forces of Change®: Navigating the Seas of Disruption

Available for purchase at the following website:
http://www.naw.org/ftf16
Questions