

Changing the Game in Industrial Distribution

How Industrial Distributors are Changing their Business Models

A new generation of Industrial Distributors is defying convention. Rather than buying into the traditional rule book—scaling back investments during challenging economic times—innovative distributors see the upside. Leveraging technology and innovative approaches, a new generation of management writes new rules for the sector, extending their business models to gain market share.

In this article we will look at the trends that are impacting the Industrial Distribution sector and the strategies they are employing for growth.



ChainLink Research

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Introduction — Seeking the Upside

The last decade has been one of high economic drama. The conventional value chain model in industrial sectors has been turned inside out. The need to compete globally has put pressure on the entire sector to lower prices and do more for less, just as the global economy went through some very turbulent times. Outsourcing, reshoring, and increasing competition from manufacturers to gain more share of the end-customers' spend has put the squeeze on distributors.

In the broader markets a new generation of customers, employees and management ideas are changing 'how things are done,' borrowing techniques from both consumers and industrial sectors. We are witnessing some of the most powerful new technologies that have quickly established themselves and become table stakes, even for traditional businesses.

Let's look at several companies that exemplify this new breed. But first we will share with you the results of research and these interviews reviewing the major forces and trends driving change in the distributor's model. In our research, we asked executives what they saw as the most significant trends, and therefore, what initiatives they were engaging to modernize the business. The Table below shows the top seven.

Trends In Distribution	Initiative
Changing Business Models	<i>Extending the business model—</i> New product processes and services, light manufacturing and field services to customers.
Financial Fitness	<i>Making the business fit financially for longevity and competitiveness</i> by focusing on profit, inventory management and leveraging technology for productivity and performance.
eCommerce	<i>Omni-channel and Mobile Sales.</i> B2B Omni can be different than B2C. Business Priorities research indicated revitalizing the ecommerce technology as the number one investment for both B2B and B2C enterprise.
Product Portfolio & Inventory Mgt	<i>Inventory management and better forecasting to support demand.</i> For industrial distribution, inventory is the major investment. Distributors need to assure smart stocking strategies and rapid turns to avoid tying up working capital.
Distribution & Logistics Excellence	<i>Distribution-warehouse, transportation advances.</i> Automating the warehouse as companies grow is critical to improve speed and accuracy of fulfillment. Lost orders or errors in picking mean lost operating dollars, revenue, and customers. Distributors carry a formidable transportation challenge. Overall transportation costs are rising. Customers want a total cost for an item, and when they see these costs rising, they want a break somewhere. Distributors need to address these costs by maximizing the value they get for the expense.
Human Resource Transformation	<i>Attracting, skilling and retaining Human Resources.</i> Re-skilling—new material sciences, processes, service and technology may be a challenge to existing workers. More guided automations (Auto-ID, voice, and mobile apps) were cited as key strategies. New generation workforce—Young workers are looking for interesting jobs with modern workplace technology.
Servitization	Capturing customer dollars through services is a hot competitive arena. Past models of many manufacturers were often to support the channel in order to extend the product's market share.

Another important element in the Industrial Distribution sector is the velocity of mergers as well as Private Equity acquisitions. Executives can exercise choice by leading the change or forcing companies to change post merger.

Seizing the Upside: Transformation in Industrial Distribution

Conventional thinking in the industry is to reduce prices, keep the business lean and the catalogues fat. However, conventional thinking doesn't differentiate your company in a competitive world. Your customers are always looking for something more. You have to respond—even lead—if you want to keep the reins. Innovative execution of these concepts, enabled by technology, has provided the competitive edging, allowing companies to find the upside opportunities for growth vs. price and cost squeezing. Here are some examples of companies that have seized the upside:

iAutomation — Outside In

[iAutomation](#), a distributor of advanced industrial automation¹ systems, is the new breed of distributors we are talking about. They don't just source and stock—the traditional model of distributors. Rather their vision is to provide a complete automaton solution for their customers, from designing to integration, implementation and service.²

With a cloud enterprise ERP foundation from NetSuite, iAutomation is able to provide an information platform accessible for mobile field personnel who spend most of their time outside the office at the client site. Rather than spending administrative time inside the office, chasing down paperwork and information, field engineers spend time adding value to the customer.



With minimal back office requirements, iAutomation can free up working capital to invest in growth. “Innovation really drives the marketplace, and we’ve built our company around that fact, solving our customers’ most difficult problems,” said Josh Walters, iAutomation Marketing Manager. “Such innovations and initiatives include a “sales force restructuring to enhance technical service delivery. This is a customer-focused innovation that’s paying off in client satisfaction and repeat business.” Here the cloud supports communications and collaboration across engineering, manufacturing, sales and service to develop and assemble complex solutions and fulfillment for customers.

But, that's only part of the story. In the past, iAutomation was relying on operators to manually locate and pick products. “With parts numbers that have 16 digits or longer, it is easy to make errors,” said

¹ Machine and motion control, actuators, pneumatics, pumps, and sensors.

² Manufacturing, distribution and a powerful service arm.

Ryan Dean, Materials Manager, at iAutomation. Now iAutomation utilizes [Oz Development](#), a NetSuite partner, for bar-coding and scanning which integrates directly into NetSuite's order management. The Warehouse's order fulfillment processes have improved inventory management and shipments to customers.

With OzLink, locating and picking inventory has improved, allowing them to "...assemble the work order, across four locations with 85,000 parts in stock. To operate in the cloud allows us to have real-time tracking of our parts, which means cutting down on unnecessary phone calls and emails. We see what is happening in real-time with pick, pack and ship so that really improved our response time to our customers. This accuracy has limited the need to do physical inventory counting, which we did for over ten years," Dean said, with their inventory accuracy going from 83% to 99%.

Overall inventory management strategies are critical to distributors. Responding to demand is key—stocking what's frequently needed and minimizing exposure on slow moving parts. For iAutomation, where once it took a week to replenish needed inventory, now it's one day. Rapid cycle times mean that *inventory is put to work*, creating revenue vs. tying up cash.



FactoryMation — Downside Up

Conventional thinking is top down: build a business, design the process and then, lastly, get technology. But then along comes a company like [FactoryMation](#), who turned convention upside down. The cloud and ecommerce was the kernel of thought: why not *start* the business leveraging the internet—online catalogues, and customer services on the cloud platform? No doubt, in the consumer market, this was not new thinking, but in industrial markets³ this was—and is—very unconventional.

Unlike iAutomation who took the 'service' route to growth, FactoryMation, in contrast, decided they could use their industry know-how and leverage technology to create a low overhead business, passing those savings on to customers. For FactoryMation, rather than looking at the gloom and roiling of the industrial sector, they saw the upside opportunity. The company purchased NetSuite's cloud ERP application *right from the start*, "...because it was affordable for a small business yet also had the capability to scale up later if needed," said Stephen Smithwick, Director of Operations for FactoryMation. *Later happened sooner* it turns out, with rapid, successive and successful implementation of financial, mobile sales, ecommerce, and warehouse fulfillment.

Accurate picking and rapid shipping is critical to FactoryMation's customer base. "The ability to get parts to customers is critical to the customer. Many of them are businesses who may be sitting on a broken piece of equipment waiting for the fix to arrive. A customer might have a \$20 to \$30 part that goes

³ FactoryMation was launched in 2005.

down, and because of it they're losing thousands of dollars per minute because a machine isn't functional," Smithwick said. Using OzLink they implemented warehouse locating and bar code scanning to track and pick products and integrated this to the company's inventory sales modules.

Accuracy and speed mean that customers pay on time, increasing the cash position of a business. Efficient operations free up employees to work on growth, rather than chasing problems. FactoryMation's success and improvements have allowed them to launch a second warehouse site in Austin, Texas. Leveraging their cloud infrastructure and multi-location inventory management, they can see customers and inventory across locations and service a broader customer base. Regionalization of distribution helps to address those rising transportation costs, as well as provide rapid service to customers. Growth also includes innovative sales methods such as mobile showrooms—vans outfitted with a range of product samples—where they can take orders with mobile CRM capabilities. "The vans are out on the road much of the week," Smithwick said. "With the system being cloud based, we can share information in real-time with folks back in the office. So, even if we have outside reps scattered throughout the country, the office always has real-time information."

Tacoma Screw — Inside Out

Tacoma Screw, a family-owned distributor took a hard look at themselves and decided they *could compete against the giants*. The way forward was to revitalize the ecommerce processes through leveraging technology to enhance their market presence and channels. Beyond conventional thinking that Omni-channel is for B2C companies, Tacoma Screw implemented a rich commerce solution to support all their channels. Their Omni-channel strategy with online, catalogue, mobile, in-store (they have 15 retail sites) and click and collect (order on-line, pick up in store), as well as advanced search capabilities to help customers find products, assures they can support customers any way the customers want it.



Their NetSuite deployment is "...providing the next level of customer service," said Eric McGregor, Ecommerce and Operations Support Manager at Tacoma Screw. "With SuiteCommerce, our customers can browse and purchase online." In addition, customers can see their order history, pricing, as well as inventory status. Often buyers hop from site to site. Providing inventory status and pricing now reduces this phenomenon, increasing Tacoma Screw's sales.

"We ...added some bells and whistles that a smaller company like us normally doesn't do," said Gary Myers, IT Manager at Tacoma Screw. Advanced search capabilities that allow customers to search through a category with thousands of items, using a visual and knowledge-based technology to emulate the in-person user experience, allows for rapid drill-through to select the *relevant* options. Behind the scenes, a natural language search engine, a SuiteApp from NetSuite partner [EasyAsk](#), was incorporated to improve search precision.

Silver Lining in Those Clouds

These and other forward-thinking Industrial Distributors had some common yet important lessons to share:



-Challenge conventional thinking. Against conventional thinking, and using technology as a foundation to *start the business*, new generational entrepreneurs see innovative technologies as the missing strategic part of the puzzle that they can now leverage to start a new venture.

-Pick partners who can go the distance. Selecting the technology partner with whom you can go the distance takes study and attention; but it's one of the most important decisions the business will ever make. These companies, and many others we talked to, who started several years ago with cloud ERPs, saw the future in the cloud—and in the relationship.

-Build on your market/customer expertise. Distributors have their place in the value chain due to their knowledge of the needs of their market and understanding how to fulfill the requirement of customers in the sector. But they have to make their move and not be left behind. “We saw many of our manufacturers looking to rethink their model. We had to be part of their future and not wait for them to lower the boom,” one distributor told us.

Today distributors should emphasize their knowledge and closeness to customers in order to forge more meaningful relationships, offering additional services beyond just stocking parts. In order to do that, they have leveraged technology to provide services that make money—not just offer ‘freebies’—in order to retain a customer.

-Keep your smartest people in front of and available to the customer. Designers and field people who are buried in paperwork won't be happy workers, and also are not adding value to the customers—or the company. Back them up with information, expertise and technology. A firm like iAutomation's employee ratio is high on field personnel, rather than non-value add positions.

-Make your inventory work for you. Stocking parts is the mainstay of the distributor. But without visibility to what you have, employees can't sell it, can't assess its value and profit potential, nor can they stock high-demand items. Too much cash tied up in underperforming inventory is an anchor that impedes the velocity of the business,” one distributor told us.

-Make ecommerce work for your sales team—not against it. Work with call centers, web and direct sales to blend processes. Tacoma Screw's 50-person outside sales force utilizes the site and sees it as an aid to their sales process. Smart organizations create incentives for sales that reflect that the customer may also use multiple channels. Not only self service, but customer preferences and discounts also need to

Conclusions — Beyond Silver to Gold Linings in those Clouds

Conventional distributors often miss investment in new ideas. They lack inclusion and incentives for employees to propose ideas and perform in new ways to serve the company. Many times, this is just conservatism or a cost-cutting mindset, but the fact is, many distributors truly don't know *where they really make money*. Which customers, products and processes are—or could be more—profitable? What is the customer's install base, which we can service, upgrade and extend to gain more revenue per customer? What intriguing new products are entering the market that might be interesting to new customers? Without a cohesive view of the enterprise, determining the answers to these critical questions is beyond all size companies.

Traditional thinkers often suffer from product proliferation, thinking that bigger catalogues, at cheaper prices, is all they need to do. But that comes at a cost. Stocking parts surely works as part of the game plan, but underperforming inventory ties up cash.

A bolder plan is required. Our case studies were enterprises with the courage to implement those bolder plans.

iAutomation is gaining double-digit year on year growth. Their ERP allows them to see those revenue upsides in higher margin customers, broader services, and ability to see cross-sell opportunities. Said Al Morrison, iAutomation's Vice President of Manufacturing, the software's "...tremendous ability to mine data" as well as having "...everything all in one platform—that total integration was huge."



Many companies think technology and change is beyond their reach, but these examples challenge that notion and show that it can be done! Tacoma Screw's Omni-channel is actually more advanced than many major organizations today. And that's paying off with a national presence and greater sales. "A lot of people might have just thought of us for fasteners, but now they go online and see all the other products we offer," said Eric McGregor. "We had a traditional footprint in the Pacific Northwest, and now we take orders from all 50 states."⁴

⁴ Originally quoted in Industrial Distribution June 2nd 2014



And FactoryMation has built out its business with 20% annual revenue growth and now boasts mobile showrooms, real-time inventory with barcode scanning, and plans for two-day shipping anywhere in the United States. That growth and innovation has been powered by a dedicated leadership team and supported by a cloud-based ERP system.

These are just a few companies bucking convention, taking advantage of new opportunities in technology and ideas from many other industries. They are modernizing our concept of what an Industrial Distributor does—and profiting while they do it!

References:

Additional sources:

[How an Ecommerce Presence Helped Tacoma Screw Grow](#)

[Helping Distributor Unleash Innovation Amidst a Storm of Disruption](#)

[Improving Operations with Cloud-Based Enterprise Systems](#)

[Manufacturing and Warehouse Automation for NetSuite at iAutomation](#)



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