To Live to Sell Another Day

In the south we have a homely expression to describe something that is thoroughly rejected. We say that "the dogs won't eat it." It may be, for some of us, a strange phrase to apply to something as time honored and revered as the selling system distribution has been using for more than a century.

The problem is that we revere it and honor it, and our customers continue to insist on something else — something more aligned to their needs. The result is a disconnect that could threaten our position in the channel.

George Day, writing in the *Harvard Business Review*, says that if industrial distributors want a glimpse of their future, they should look at what has happened to the hospital supply industry between the late '70s and 1994. According to Day, they shrank from 600 companies to fewer than 50. Now five distributors own 80% of the market, and gross margin have dropped from an average of more than 20% to below 10%.

In distribution, the attitude toward shakeouts is much like the popular attitude toward traffic accidents. They happen; they just don't happen to me. Even if we discounted Day's dooms day predictions by half, it would mean that one out of two distributors would be wrong: it does happen to them.

The real question is not, however, how many casualties the radical changes in distribution will create. As in war, a casualty rate of one is extremely serious to the one casualty. A more profitable question is how can we be on the side of the survivors. To determine that, I think we need to look at two problems and an opportunity.

The first problem is that MRO distribution has lost its traditional reason for being. For more than a century we were the ones that had product locally. In times when product was hard to get and competition was local, that was sufficient to be in business. Now product is not scarce; it can be had from a variety of sources. A factory in the Midwest puts a request for quotes on the Internet, gets seven responses, and chooses the one with the best price and delivery. The winner is in Eastern Europe.

An MRO distributor drops a 3500-page catalog containing 300,000-plus sku's on your customer's desk. The distributor claims a 99% fill rate and next-day delivery in 30 states.

Amazon.com, the company that has made a reputation for tearing down the walls between industries, has bought a tool distributor. Before long, your customer's order might arrive by UPS from an Internet bookstore.

Once "convenience" translated as local availability was a compelling factor. Now convenience has been redefined.

But, you might say, they don't have our sales force and they don't offer our value added services. That's true. It leads to our next problem: the fact that our traditional value added, including our sales force — is not really impressing the customer.

Research continues to show that our salespeople are not considered an asset by the customers. In one distribution survey, "regular calls by sales reps" was listed as twenty-second in a ranked list of important attributes. In the same study, 96% of the respondents said that they would swap the regular calls for a 10% price reduction.

In terms of the other value added services, the evidence indicates that most distributors' definition of "value added" differs from the customer's definition. Today, traditional value added services — inventory, delivery, credit, etc. — are at best tickets of admission; they are not differentiators.

Those are the problems. They amount to the fact that our traditional reasons for being are no longer sufficient to protect our position in the channel. Other sources have the product, and for the 15%-20% of our customers that we live on, most of the other things that we have called value added are not a problem.

This brings us to the opportunity. With so many casualties, those who survive have a greater opportunity to grow, and — in my opinion — to prosper. I don't think that MRO distribution has to look at a wholesale shrinkage of margin in order to remain the principal link between the manufacturer and the end user. I do think there are several things we have to do to hold our place. These include:

1. Redesigning our selling systems from the customer back so that we can sell the customer just as he wants to be sold. This means that we use our entire array of sales assets to create the selling system that fits the customer. It also means that we have to get over the idea that the outside salesperson is our primary sales asset with every large and profitable account.
2. Understand that we are in a different business. Our business is no longer being the local provider of product. It is providing the knowledge and innovation that improves our customer's business in the areas affected by our products. The question that our salespeople ask themselves every morning is not "How can I sell this customer?", but "How can I make this customer's business better by making him money, cutting his costs, or saving him time?".
3. Dealing in "quantifiable value added." We must maintain the value added services that we've had for years, but the value added that will differentiate us from the competition will be measured in something everyone understands — dollars and cents. The Chrysler SCORE program and others like it have shown how MRO distributors can attack and lower customer cost centers. (Chrysler has booked more than $2.5 billion in savings since the beginning of the program.) Unfortunately, all of the programs have been customer driven. It's time for the distributor to get out in front and bring these kinds of programs to the customer.
4. Begin a massive customer retraining program. For years we have been training our customers to think of product, price and how many sales calls a month the outside salesperson made. For all of us — the customer and the distributor — to get the most from the relationship, we must

retrain them to think of total benefits (especially the brain-power we bring to the partnership)instead of product, total costs instead of price, and the resources that we apply to his needs instead of sales calls.

So far as Mr. Day is concerned, we already knew that the business is changing and that some distributors won't live through the change. But a 90% casualty rate and a 50% drop in gross margin? Not if we are smart enough to sell our customers what they really want: a better business.

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