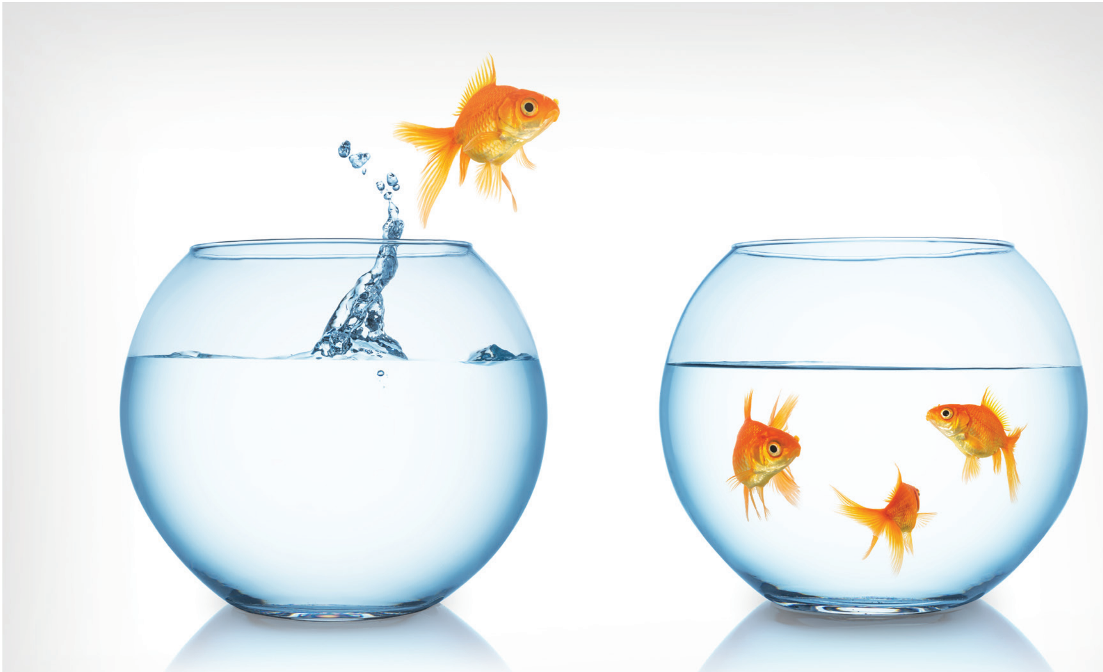
# LEAVING YOUR COMFORT ZONE

## New Insights to Strengthen the Critical Distributor-Manufacturer Partnership



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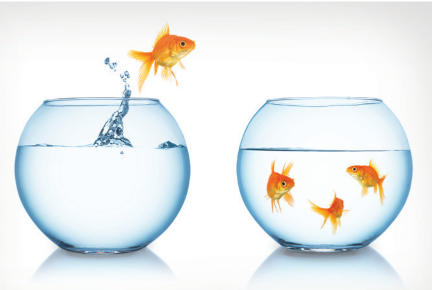
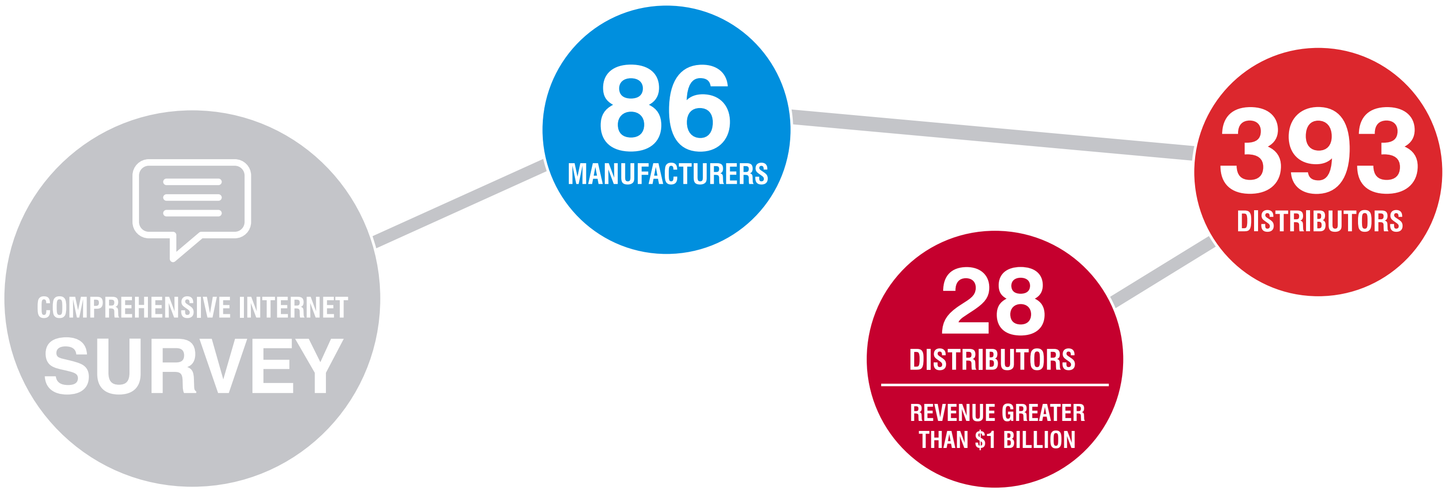
# ABOUT THE RESEARCH



**Seeking a fresh perspective on how manufacturer and distributor dynamics can be improved through broader adoption of forward-looking channel strategies, managerial policies, and best practices.**

Chicago Strategy Associates and the Kellogg Center for Global Marketing Practice of the Northwestern University's Kellogg School of Management led a second-half 2016 research collaboration with the National Association of Wholesaler-Distributors (NAW) and The Institute for the Study of Business Markets to create a fresh perspective on how manufacturer and distributor dynamics could be improved through broader adoption of forward-looking channel strategies, managerial policies, and best practices. Much was already being discussed about the *soft* side of partnering, such as culture, mindset, and trust. What the research aimed to provide was compelling new thinking about *hard* business strategies, distribution policies, and in-market programs that create an environment of joint growth and winning in the marketplace.

A comprehensive research initiative was completed in December, 2016, covering both distributors and manufacturers in a broad spectrum of business-to-business (B2B) lines of trade and vertical markets, starting with in-depth, one-on-one private conversations with senior leaders from 16 leading distributors and 14 B2B branded product manufacturers. From those discussions a comprehensive Internet survey was developed and fielded. Completed responses were gathered from 393 distributors and 86 manufacturers. Survey respondents covered a diversity of lines of trade and company sales volumes, with 28 of the distributors having revenue in excess of $1 billion.



# FOREWORD

Something is eating at the heart of strong legacy business-to-business (B2B) supply and distribution systems, and it isn't just a hangover from the tough recessionary economy of the mid-2000s. Commoditization is escalating, margins are declining, new product innovations are finding it hard to reach early adopters, brand equity is deteriorating, suppliers and distribution partners are achieving less collaboration, and growth aspirations are increasingly being yoked to e-commerce and other discount channels. But like children trapped in a messy divorce, it's the ultimate end customer's buying and usage experience that is getting caught in the middle.

In fact, a 2016 cross-industry Gallup survey[1] found that only 29% of B2B end customers are fully engaged with the companies they do business with, and that only 46% strongly agree that these companies always deliver on their promises. Worse, fully 60% of customers indicate that when problems do arise, they are not adequately resolved. This data reinforces that the policies, practices, and working relationships put in place by branded manufacturers and independent distribution partners are not driving optimal performance levels.

This white paper draws from new research into the state of distributor–manufacturer relationships, and digs further into how those partnerships could be improved and strengthened. Enough has already been documented and written about the need for more distributor–manufacturer trust and collaboration. But relationship trust—and mutual commitment—are built on track record, not wishful thinking. To that end, we propose a more disciplined and rigorous set of strategic decisions, and recommend a set of concrete policy changes that are required to win in the fast-changing and Internet-enabled environment.

Moving forward successfully—whether as a manufacturer looking to protect brand equity and innovation, or a distributor looking to drive more profitable growth—will require moving outside the comfort zone of long-held legacy beliefs and prior asset investments. We have learned that real marketplace change does not have to flow top–down; the work of stewarding a distribution system to higher performance can be led by either distributors or manufacturers.

The marketplace winners who we will be reading about five years from now will be industry players that shook off conventional thinking, embraced a "risk to win" mindset, and executed concrete partnership actions over and over again to create mutually beneficial outcomes for themselves and their key distribution system partners.

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**only 46%** strongly agree that these companies always deliver on their promises.

**60%** of customers indicate that when problems do arise, they are not adequately resolved.

*1 Gallup Inc., Guide to Customer Centricity, http://www.gallup.com/services/187877/b2b-report-2016.aspx, 2016.*

# EXECUTIVE SUMMARY

only **34%** of distributors in our research indicated that their business goals were well aligned.

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Research conducted as the basis for this white paper indicates that the state of the last-mile distribution working relationship between branded product manufacturers and their key downstream partners is at an all-time low. Only 34% of distributors and 37% of manufacturers in our research indicated that their business goals were well aligned.

But for large, nationally scaled distributors with more than $1 billion in annual revenue, the percentage that see strong alignment with their manufacturing partners doubles to 68%, a dynamic that plays out consistently in our data. As with manufacturers, only 36% of all distributors say that trust and information sharing with their manufacturing partners are increasing significantly.

Ninety percent of large $1 billion+ distributors see the benefits of greater trust and information sharing. Indeed, manufacturers we spoke to indicated they are intentional in putting more and more attention against fewer, larger distribution relationships. These manufacturers and large distributors indicate that the scale of investment required to win in today's technology-rich and Internet-enabled communications environment favors fewer, bigger partnerships.

But risk also drives the evolution of distribution relationships, and risk cuts both ways when it comes to business—and distributor—size.

On one hand, a high degree of dependence makes it dangerous for a distributor or a supplier to engage in opportunistic behavior, or employ undesirable tactics, because that partner would presumably have much to lose should the relationship deteriorate. The ability for large players to swing a significant chunk of business to competing manufacturers or distributors encourages stability on both sides of highly consolidated distributor–manufacturer markets.

But we have also seen that the likelihood of being trapped in outdated and unsustainable partner business models rises dramatically when significant revenue concentration is tied to status quo distribution structures.

So the world of distribution is polarizing, and with few highly specialized market exceptions, we are seeing forces drive continued consolidation and concentration of distribution systems:

- Markets are splitting into polarized segments of product offering and distribution model. One group of distribution relationships will be driven by fulfillment scale and transaction efficiency; the other group, by decision technology innovation and value-added effectiveness. An important B2B lesson to be learned from how consumer market distribution systems evolved: It will be less and less viable to straddle the opposing worlds of efficient discounting and effective service delivery.
    - Less-differentiated, more-commoditized products will increasingly be provided by one-stop, broad-line, offline and online fulfillment houses. This market segment will be characterized by relentless price competition, lower margins, efficient fulfillment and logistics, and highly routinized demand generation.

- More differentiated products—those offering unique end-user outcomes and requiring higher-touch end-user selection education—will be provided by distributors with advanced demand generation technology, sophisticated analytics, and new decision support tools. As with most technology-led market disruptions, this group will likely be populated less by existing legacy players, and more likely by highly disruptive and new, innovative distribution models.

- Price transparency and sensitivity are increasing. In our research, less favorable marketplace price compression was an area of strong agreement by distributors and manufacturers: more than 80% of distributors and manufacturers alike indicated an increased downward pressure on prices. The ability for end users of all sizes to easily assess and compare prices is seen as fueling an acceleration in the distribution model polarization:
  - More commoditized products and fulfillment channels—the 'Wal-Mart' of B2B distribution—will find less and less margin to support brand preference-building, and will instead compete by offering easy, convenient one-stop supply systems where end users can bundle together their discounted purchases.
  - For differentiated product distributors, the challenges of getting beyond unit prices to drive total cost of ownership decision making will increase demand-generation costs (more on this later). Another B2B lesson from discount-driven Wal-Mart's experience in the consumer market: they failed miserably at every attempt to diversify into higher-margin luxury goods.
  - As B2B distribution models polarize, it will become harder and harder to play both sides. Said another way, relying on commodity product scale to subsidize differentiated product effectiveness will become a very risky path.
- Markets are over-saturated with distribution. One of the unintended consequences of the recent economic recession was the branded product rush to add more points of distribution in hopes of capturing greater share:
  - Only 49% of manufacturers in our research felt their markets were over-saturated with sales and distribution resources. Many of those manufacturers shared privately that market disruption risk and fear of unintended revenue loss stymied their desire to work more closely with fewer distribution partners.
  - More than three quarters (78%) of distributors in our research felt differently: they saw too many distributors chasing too little high-value revenue. The proliferation of loosely managed "distribution pins in the map," in their view, led to unhealthy levels of channel conflict and escalation in price, margin, and service deterioration.

The bottom line for both distributors and manufacturers could not be clearer: the need for greater discipline, tougher choices, and stronger and more mutually beneficial system-wide relationships in distribution is now mission critical. This outcome will only occur if both sides develop and stick to more strategic, mutually beneficial policies and relationships.

The time has come to walk away from partners—upstream and downstream alike—that are unwilling to let go of unhealthy, conflict-breeding, status-quo arrangements and beliefs. A new generation of winning, mutually beneficial, distributor–manufacturer business models will take shape.

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# POLICIES, NOT PRONOUNCEMENTS

Designing, managing, and reaping the benefits of higher-performing distribution channel systems require street-level mobilization and activity, by both distributors and manufacturers alike. We have observed that improved growth, profitability, brand equity, and market share follow when distribution partners develop and adhere to mutually beneficial action-driving policies—namely, those that drive coordinated action and improved results for all parties involved.

## 10 Elements of a Distribution System Policy Audit

| POLICY AUDIT AREA | MANUFACTURER'S CHOICE | DISTRIBUTOR'S CHOICE |
|---|---|---|
| Coverage | Number of distribution partners | Number of brands, lines, geographies |
| Commitment | Degree of product or relationship exclusivity | Degree of brand exclusivity |
| Analytics | Data- and analytics-driven decision rigor | Data- and analytics-driven decision rigor |
| Differentiation | Customer experience promises and reality | Customer experience promises and reality |
| Investment | Distribution partner-specific program support | Brand-specific demand generation support |
| Technology | Customer and Partner Technology Integration | Customer and Vendor Technology Integration |
| Transparency | Degree of information and data sharing | Degree of information and data sharing |
| Pricing | Reliance on rebates and discounts | Reliance on rebates and discounts |
| Compensation | How channel partners are incented | How manufacturer partners are incented |
| Content | Content effectiveness and productivity | Content effectiveness and productivity |

Critical distribution system policies going forward will fall into 10 key areas, as shown in the figure above, and each company's choices say a lot—or a little—about their intentions, integrity, and aspirations:

1. Coverage. This policy area has the greatest impact on how likely it is that a distribution partnership will thrive and grow. For manufacturers, it represents their belief and choice about how many distribution relationships are needed to optimize results. Conventional thinking coming out of the recent recession is that more "points of distribution" means faster growth. For many branded manufacturers, growth through increased distribution network intensity came at the expense of product profitability and channel partner commitment.

For distributors, coverage represents their belief and choice about how many products lines to carry and brands to represent, and how much geography to pursue. Like manufacturers, recession-fueled conventional wisdom held that distributors needed scale to survive, which meant adding more and more manufacturers and geography. But as the old adage informs, volume often couldn't make up for unprofitable business.

**2. Commitment.** Manufacturers typically serve many different vertical markets, and distributors serve many different product markets. So in and of itself, multiple distribution or supply relationships within a geography does not always point to unhealthy conflict or competition. But when parties in a distribution system fail to adequately accommodate their partner's competition, the relationship can be seriously weakened.

Our experience suggests that the most enduring commitment between distributors and manufacturers is enhanced when both parties implement action policies that are perceived as benevolent, rooted in a track record, and built on competency in delivering on promises. Relying, instead, on arbitrary economic rewards or contract coercion will lead to heightened opportunistic behavior, weakening collaboration, and declining performance in distribution partnerships. Yet in our research as mentioned, only 34% of distributors and 37% of manufacturers said their "business goals are extremely well aligned." Furthermore, only 14% of distributors and 19% of manufacturers said they "work with partners on an exclusive basis."

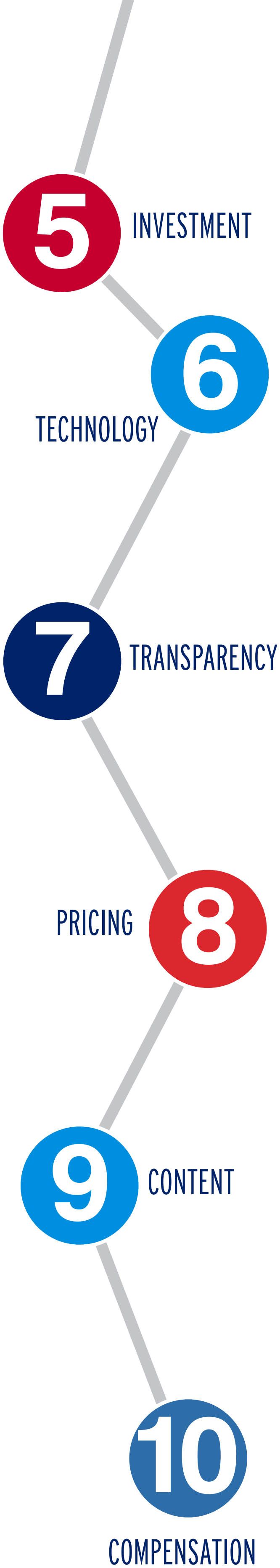
**3. Analytics.** The field of distribution management, like all of sales and marketing, is becoming a leadership area of data and analytics. Which customers to target? What value proposition to present? What price to charge? What content to send? All of these mission-critical distribution system questions are—increasingly—being answered through the use of data sharing and analysis by today's winning distributors and manufacturers.

Our research showed much room for improvement in today's marketplace. Only 30% of distributors and 43% of manufacturers say they are "making extensive use of data analytics and modeling." The jury is no longer out. Being organizationally proficient and productive in the use of data-driven analysis is a prerequisite to high-performing distribution systems, if not for survival.


**4. Differentiation.** At the end of the day, success in structuring and managing successful distribution systems rests on creating the best possible total experience for end customers. All end customers have options when it comes to where, how, and from whom they decide to source their products, services, and solutions. All brands and distribution players profess a desire for differentiation and the profit benefits it delivers. But a customer's perception of differences in what brand or distributor value propositions stand for are built on realized experiences, not advertisements.

The anemic value-delivery experiences that flow from short-term, opportunistic price- and discount-driven actions of manufacturers or their distribution partners do nothing but undermine longer-term brand equity and customer perception. Our research indicates that price- and value-management are problematic in today's distribution systems: 80–90% of distributors and manufacturers alike indicate that there is "some or a significant increase in downward pressure on prices in the marketplace."

**5. Investment.** A willingness to make significant relationship-specific investments in a partner—those that have no value if the relationship ends—is the most powerful lever in generating relationship trust, commitment, and loyalty. Unfortunately, the actions




and policies being implemented in today's distribution environment are proving counter-productive: only 15% of distributors and 17% of manufacturers feel that the other party is making "a significant investment in helping our business thrive and grow."

As with many broken relationships, denial is rampant: 50% of distributors and 67% of manufacturers feel they're actually doing the opposite and making sizable investments in helping their partners thrive. Straightening out this misalignment will take tangible progress in making a difference in each other's success.

**6. Technology.** One of the most exciting developments in distribution is the emergence of new technology to drive improvements in efficiency (cost) and effectiveness (value-added) for the specific distribution system activities played out by manufacturers and their partners. Customer Relationship Management (CRM) systems have been an early focus area, but our interviews suggest these systems are being implemented by distributors and manufacturers in isolation, with few connections between these partners.

More than one manufacturer lamented that when leads are handed off to partners, they typically have no transparency on what happens next. Not surprisingly, our research found that only one-third of distributors and less than a quarter (21%) of manufacturers are "actively using new technology to connect distributor and supplier back-office and customer-facing operations."

**7. Transparency.** A major contributor to the decline in trust and commitment across distribution systems has been the disruptive influence of the Internet and e-commerce, which is putting downward pressure on the prices and margins necessary to fund value-added work for customers, and creating alarming havoc on traditional forms of intermediation. With inadequate manufacturer and distributor strategy and policy coordination, erroneous and dangerous conclusions are being drawn about what customers are seeking and what is motivating them to go online.

As with other recent studies, our research indicated that only 36% of distributors and 47% of manufacturers are seeing that "trust and information sharing are increasing significantly." But consistent with concentration and consolidation trends in today's distribution systems, the largest distributors—those with more than $1 billion in revenue—are having the opposite experience, and 90% of them indicate that information sharing with their vendors is increasing dramatically.

**8. Pricing.** One of the least understood mechanisms for managing the performance of distribution systems is Resell Price Management. As far up the legal chain as the U.S. Supreme Court, it has been affirmed that a distributor and manufacturer, with proper legal review, may be able to operate in specific ways in certain resell price-management enviroments as long as the practice does not impose an unreasonable restraint on competition. The practice can provide margin needed to fund the work required to ensure that end-user customers can discern choice among alternatives. And in consumer markets in particular, there has been a long track record of successful Internet Minimum Advertised Price initiatives to fund higher-performing distribution systems to serve end customers.

Yet only 13% of B2B distributors and 9% of B2B manufacturers are seeing any "significant increase in use of resell price management policies" in today's marketplaces and distribution environment. Much work remains to be done for any hope of preventing distribution systems from degenerating into homogenous discount systems of undifferentiated, low-value products.

**9. Content.** In distribution today, content is king. Demand generation is going online—even when transactions are not. In many B2B lines of trade, 80% of brand preference is being formed online before end customers engage with the distribution system. The good news is that new platforms have emerged to fully link and integrate how, when, and what content is delivered to prospects browsing online. And the systems automate the flow of value-added content to the marketplace by allowing both distributors and manufacturers to carve out agreed-upon methods of co-branding, analysis, follow-up, and transaction.

State-of-the-art digital publishing—and leveraging it to influence adoption and purchase—is mandatory in today's distribution environment. Yet only 16% of distributors and 30% of manufacturers indicate they are "creating extensive proprietary text, picture, app, and video content for end users." Fewer still are developing systems to assist with content flow, analysis, and action.

**10. Compensation.** Several manufacturers shared that the incentives they pay to their distribution partners are rising at the same time their share has been declining and margins have deteriorated. As with any compensation system, distribution system incentives can drive problematic unintended consequences.

Functional Discount Pricing, a widely underutilized channel partner compensation method, is specifically designed to ensure that distribution systems stay focused on and are adequately compensated for the optimal activities required to deliver intended customer value. In this arrangement, price reductions are offered by the seller to trade channel members who perform certain functions; less emphasis is put on volume discounts or rebates.

## Hobart Reveals Functional Discount Plan Incenting New Behaviors in Distribution Systems

Hobart Corporation has announced that it is moving away from the practice of offering its distributors volume-based rebates in favor of a functional incentive plan. The much-anticipated system is being put into effect this year.

According to Hobart President John McDonough, shifting to functional incentives was necessary because volume-based plans do not account for the costs that more traditional dealers incur by providing services valued by both end users and manufacturers. The business models of such dealers (and, hence, the services they provide) are undercut by distributors that have lower operational costs, because they do not offer these services, yet receive the same volume-based rebates as value-adding distributors.

"This new program represents a shift in emphasis from volume to value creation," he stated. "We believe this fundamental change in the way we compensate our dealers is essential to ensure the success of our respective business plans."

*Foodservice Equipment and Supplies, January 2005, 58, 1.*

# CUSTOMER EXPERIENCE IMPROVEMENT THROUGH INNOVATION

**66%**

**Fully two-thirds of manufacturers said they already make significant investments in helping their distributors thrive and grow. And yet only 15% of the distributors agreed with that assessment.**

**50%**

**One-half of distributors felt they go the extra mile in making significant investments to help their manufacturers grow, while only 17% of manufacturers agreed.**

In today's hyper-connected world, providing better supply system substitutes to end customers means making a difference in more places than just in product features and price. It involves rethinking every aspect of how end customers learn about, find, evaluate, choose, buy, own, use, update, and share—maybe even talk about—products, services, and solutions. Added together, these improvements become the defining attributes of a high-performing distribution system.

Creating a sustainable competitive advantage in wholesale distribution comes from recognizing that a distribution channel is a system of relationships—a stapling together of one industry intersection or activity after another, all the way from component supplier to assembler to wholesaler to dealer, and with all sorts of other ancillary industries such as logistics added in at different points along the way. Powerful and enduring gains in a marketplace are made when every one of these touch points is seen as a potential opportunity for innovation. Orchestrate all of them in fundamentally new ways and a new distribution model is born.

Classic prospect theory teaches us that, without even realizing it, managers often take bigger risks in relatively safe environments than they are willing to take in hazardous ones. It is not so much that managers can't live with uncertainty; the real problem is that they and their organizations fear losing. In the relative comfort of one's industry, it is easy to do badly, but it is hard to lose entirely. There may be some off years, some bad quarters, and the odd product failures, but the chances of going out of business are fairly low in the medium term. (The long term, as they say, is another story.)

That's why it takes courage and collaboration to work in the new opportunity areas between industries. As several participants in our research shared: "If we don't make the 'Uber' move in our marketplace, someone else will!"

Our research found the growing misalignment between distributors and their manufacturer partners to be pronounced. Fully two-thirds of manufacturers said they already make significant investments in helping their distributors thrive and grow. And yet only 15% of the distributors agreed with that assessment. Likewise, while 50% of distributors felt they go the extra mile in making significant investments to help their manufacturers grow, only 17% of manufacturers agreed.

In the absence of tight collaboration, regular dialogue, and aligned business goals, it appears these companies are not realizing the coordination benefits they seek in their partnerships, and worse, they are failing to improve results for end customers. It is in this light that we see the seeds of commoditization and price deterioration taking hold—and thriving.

## Wringing Value from Last Mile Distribution Innovation

*Elevating Market Influence through Tighter Partner Collaboration*

Throughout the 1970s and 1980s, Herman Miller was at the forefront of the rise of office furniture systems. But by the mid-1990s, poor customer experiences and heightened competition made differentiation in distribution a strategic imperative.

Herman Miller went to work and found new ways to transform its non-exclusive downstream Dealer relationships by improving how the partnerships worked together, operationally—

- Switching to the assembly of one complete end-customer office at a time, coupled with “just-in-time” delivery management, benefited downstream channel partners immensely, resulting in the “Last Mile Program”—improved installation practices developed by company engineers and Dealer managers for use by field installer teams.
- Trucks were loaded so that unloading them would be sequential, with the installer’s next assembly step in mind. Installer productivity soared dramatically.
- Improved transparency and communication with Dealers reduced job site clutter and waste, and speeded up installs. End-customer disruptions dropped drastically.
- All parts were combined into one delivery on one just-in-time and precise date. Installer and end-customer planning became easier and more reliable.
- A computer-based Herman Miller Performance System collapsed once-separate processes into one tool. Dealer design reps achieved new productivity in developing alternative layouts, specifying parts and equipment, and submitting orders.
- The new office-at-a-time system also led to leaner inventory, simplified fabrication, lower waste, and a 99.7% on-time order completion rate. Delivery predictability and Dealer coordination soared.

**Results:** The improvements lowered system costs, reduced dealers’ required working capital, boosted the quality of finished jobs, increased customer satisfaction, and improved dealers’ win-rate on subsequent orders. And despite a tightly constrained marketing budget, Herman Miller emerged from the 2008–2010 recession stronger than its rivals.

# TRUTH ON THE WALL

more than
**50%**

**of the manufacturers in our research felt they were collaborating and making significant new investments in programs and support infrastructure to help distributors generate value-added and new end-customer demand, but**

only
**12%**

**of distributors agreed.**

Our research found that distributors and manufacturers were not on the same page when it came to collaborating around the types of in-market activity that drives increased end-customer value-added and improved demand generation. While more than one-half of the manufacturers in our research felt they were collaborating and making significant new investments in programs and support infrastructure to help distributors generate value-added and new end-customer demand, only 12% of distributors agreed.

Likewise, while 44% of distributors felt they were the ones making significant new program and support investments in helping suppliers with demand generation—rising to 58% of distributors with more than $1 billion in revenue—only 20% of manufacturers agreed with them.

These shortfalls in mutually beneficial investments sit at the heart of today's distribution system malaise. We've found that one of the most serious impediments to assessing and improving customers' experiences is "confirmation bias" in distribution—the refusal of those involved, even in the face of new evidence, to break from long- and deeply-held beliefs about how their markets work. We've seen repeatedly how these biases lead to manipulation of customer input, which makes their messages and intent almost unrecognizable. When this happens, deep market listening is dampened, and market improvement action is neither inspired nor impactful.

Our experience suggests that the way to facilitate improvement in marketplace listening is to help key supplier and distribution managers separate what is learned about customer experience gaps from how these gaps might be addressed. The first component—the what—we refer to as "truth on the wall." This step in the journey is the most crucial and should sit apart from debates over optimal responses.

"Truth" in this setting means that the exact way in which customers describe their unmet experience needs is kept intact. "On the wall" refers to writing this truth down—unadulterated and unfiltered—and posting it for all to see and refer back to as strategies are discussed. Although many managers (especially the most senior) will differ in their views of how to take action, it is critical to make sure they don't reshape or manipulate the customers' self-professed experience gaps, merely to better fit the current model's comfort zone.

In the end, the real objective in this hard work of designing new customer experiences is striking gold—uncovering real strategic opportunities for a routes-to-market system that creates new outcomes for customers, which they can't get from other companies' systems.

# BENEFITS OF COORDINATION

**The good news is that when distribution relationships are carefully coordinated, the profitability of the entire system of players is optimized.**

Partnerships between product or service providers and distribution channels that routinely exceed the expectations of end users have one trait in common: they closely coordinate omnichannel policies, practices, and activities to create finely tuned, integrated, high-value experiences for end customers. Respecting each other's independence, these partnerships hum along seamlessly as though one company.

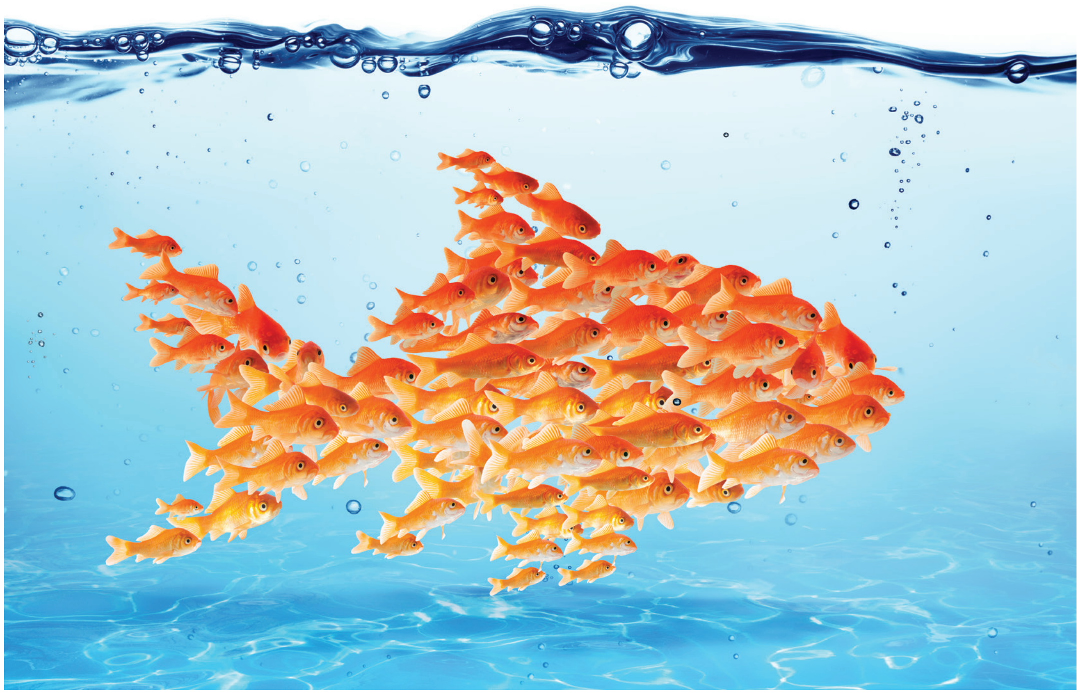
Unfortunately, this is not the case for most distribution relationships today. Only 34% of distributors and 37% of manufacturers in our research indicated that their business goals were well aligned, and fewer than 15% said they have frequent, deep, and productive strategy coordination meetings. Only 15% of distributors said their suppliers are making significant investments to help them thrive and grow; and only 17% of manufacturers said the same about their distributors. Even the most casual observer can see that these partnerships are not likely to endure without dramatic intervention.

The good news is that when distribution relationships are carefully coordinated, the profitability of the entire system of players is optimized. End customers experience dramatically improved outcomes, differentiation increases, brand equity rises, and working relationships become more durable and sustainable. The path forward is not complex or abstract, but it does take strong leadership, solid strategic thinking, and prudent risk taking to improve and strengthen these relationships.

# SUMMARY

**Going forward, meaningful improvement ... will occur in those distribution systems where distributors and manufacturers develop and adhere to clear, mutually beneficial policies.**

As the march to commoditization accelerates, manufacturers conclude that channel efficiency deterioration justifies—if not forces—them to bypass intermediaries and sell directly, often online. Distributors, faced with newly rampant pricing declines and growing disintermediation, cut expenses by reducing costly work that once created value-added benefits. As distributors cut activity costs and service levels, end-customer buying alternatives become less satisfying and differentiated, which only continues the justification for low-price seeking.



In the end, this downward spiral of policies and practices fuels marketplace commoditization, destroying manufacturer brand equity and distributor reputations, and leaving B2B end customers increasingly frustrated that tangible business challenges are not being addressed.

With the exception of cut-rate online discounters, there is no winner in this environment. All parties agree that it's time to break the downward relationship spiral. Going forward, meaningful improvement in outcome—for distributors, manufacturers, and end customers—will occur in those distribution systems where distributors and manufacturers develop and adhere to clear, mutually beneficial policies.

# AUTHOR

by Richard E. Wilson
Chicago Strategy Associates, Inc.

Rick Wilson (rick@chicagostrategy.com) is a long-time adviser to senior leaders on structuring and managing their marketing strategies and distribution channels to drive increased company differentiation, growth, and competitiveness. He researches and advises on emerging developments in customer experience engagement, multichannel routes-to-market, and new online distribution technologies.

Rick is managing director of Chicago Strategy Associates, a boutique firm of senior thought leaders, which he and several leading Marketing faculty founded in 1990. Rick has 25 years of consulting, facilitation, research, and teaching experience, and has examined or worked directly with leaders of manufacturing, wholesaling, industrial, retailing, and services companies in more than a hundred B2B and business-to-customer markets worldwide.

A former Clinical professor at the Kellogg School of Management, Rick developed and taught a number of popular Marketing courses in full-time, part-time, and executive MBA programs during the past 15 years, including “Distribution Channel Strategy,” “Digital Marketing and eCommerce,” and “Social Media and Engagement.”



**Chicago Strategy Associates**
980 North Michigan Avenue, Suite 1400
Chicago, IL 60611
312.988.4856
http://www.chicagostrategy.com

# NAW INSTITUTE FOR DISTRIBUTION EXCELLENCE

This white paper is published by the National Association of Wholesaler-Distributors (NAW). As the long-range research arm of NAW, the NAW Institute for Distribution Excellence sponsors and disseminates research into strategic management issues affecting the wholesale distribution industry. The NAW Institute aims to help merchant wholesaler-distributors remain the most effective and efficient channel in distribution.

**National Association of Wholesaler-Distributors**
1325 G Street, NW, Suite 1000
Washington, DC 20005
202.872.0885
http://www.naw.org