

# OPTIMIZING DISTRIBUTOR GROWTH & MARKET SHARE

Distribution Research Consortium

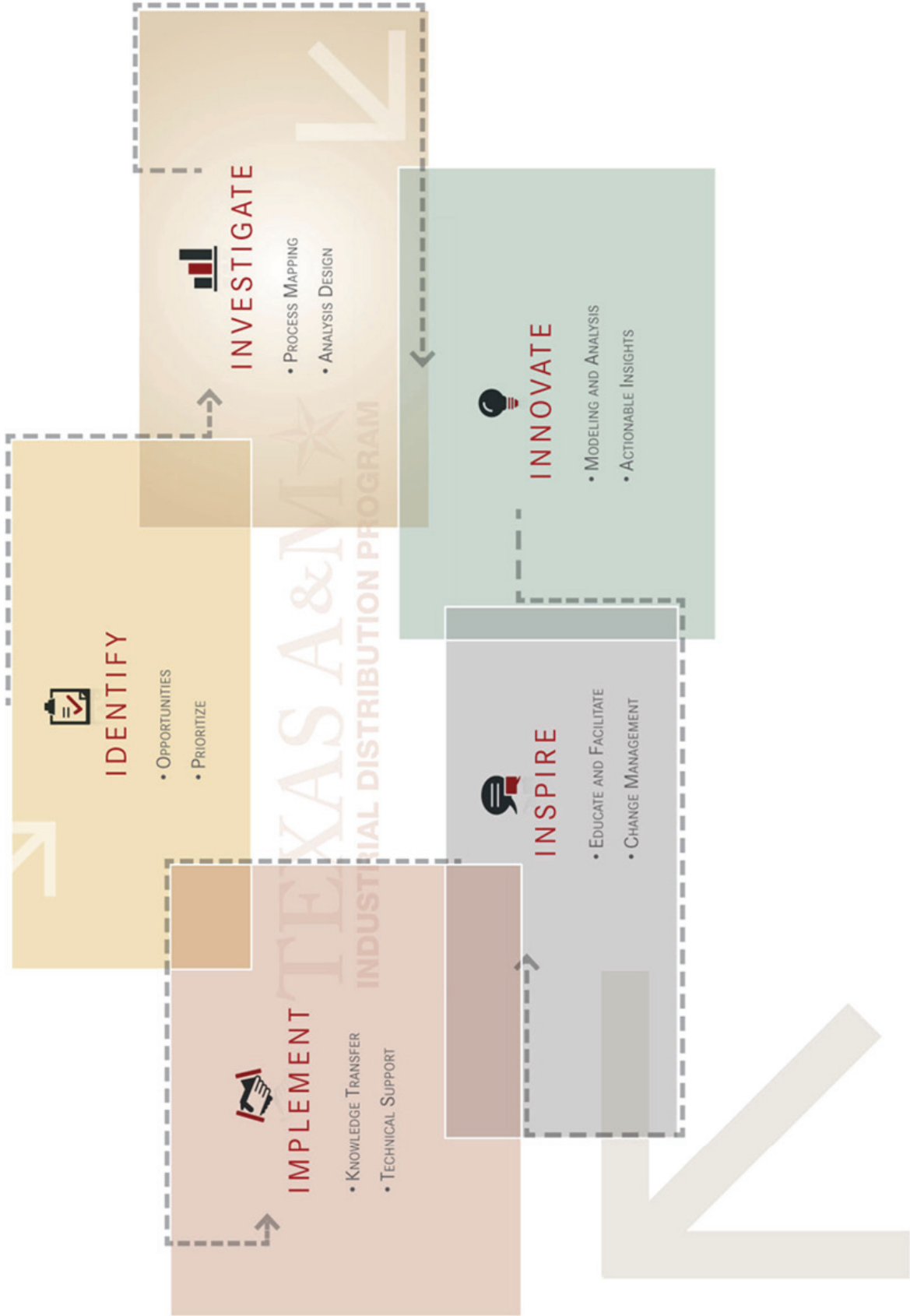


**CRDBP**

COUNCIL FOR RESEARCH  
ON DISTRIBUTOR BEST PRACTICES



*An Alliance of the NAW Institute & Texas A&M University*



# DISTRIBUTION RESEARCH CONSORTIUM

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The Council for Research on Distributor Best Practices (CRDBP) will conduct its 2010 Research Consortium on **Optimizing Distributor Growth and Market Share**. Following the very successful 2009 **Sales and Marketing Optimization** Research Consortium, this research initiative will conduct research on the topic and develop practical methodologies and tools that can be used by consortium members to manage and improve their growth and market share strategies and tactical planning. A two-day educational session will be developed based on the resulting knowledge, methodology and tools. The NAW Institute for Distribution Excellence will also publish a book on the consortium findings.

## What is a Research Consortium?

A Research Consortium is a collaboration of multiple companies, associations, universities, or government agencies to conduct research with the objective of developing solutions to a problem or a challenge common to everyone, by pooling their resources for achieving a common goal.

## Why join a Research Consortium?

Many times companies cannot afford to invest alone in some research and development due to high cost and/or lack of knowledge resources required to conduct the research. Research Consortia are an economical path to low-cost, high-quality research and development that is essential to the growth of the company. Consortia also allow for the sharing of best practices and strategies among the cutting-edge organizations that invest in such efforts.

## Who should join this Research Consortium?

This Research Consortium will be beneficial to:

- Wholesaler-Distributors
- Manufacturers who go to market through Wholesaler-Distributors.
- Technology Providers who serve Wholesaler-Distributors and Manufacturers.

## What are the benefits?

Consortium members will actively participate in ground-breaking research in one of the most crucial and timely challenges facing the industry. Each member of the consortium will direct the scope of the research so that the results are actionable and sustainable. Additionally, **consortium members will send up to 20 people from their organizations to the educational programs at no cost** other than travel expenses during the 2011 sessions. Educational programs will be scheduled following the conclusion of this research.

## Deliverables

In addition to the body of knowledge resulting from this research, the following tangible outcomes will include:

- An implementation strategy, tools, and methodologies for each member firm to optimize their growth and market share initiatives, specific to the company, based on workshops conducted with their team.
- A two-day educational seminar aimed at providing firms with knowledge into how they can apply the concepts, tools, and techniques identified in the research.

## Consortium structure and fees

The membership fee is **\$25,000** per company in the consortium. The fee will cover attendance in consortium meetings hosted by the Supply Chain Systems Laboratory at Texas A&M University, as well as workshops with member firms to design the research solutions personalized to their needs.

## Schedule

The Consortium Research will begin **May 2010** with the initial meeting and conclude **April 2011** with final presentation of results. Educational sessions for the consortium will be scheduled starting in Fall 2011.

# Optimizing Distributor Growth and Market Share

## Managing and Planning Resource Allocation to Grow Market Share

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### Overview and Need

This consortium will investigate how wholesaler-distributors optimally manage market share and growth. Distributors seek to grow their market share through organic growth, acquisition, or some combination of the two. The process often leads to redundancies, in the case of acquisitions, or inadequate market coverage when resources are not optimally deployed. Building an effective network to capture and grow market share requires extensive analysis. Firms must first determine the value (ROI) of growth and then seek to optimally deploy necessary resources (inventory, facilities, transportation, people, services). The consortium will explore the following issues:

- Determining how to enter new markets and/or acquire competitors. Optimal due diligence in establishing new territories whether through acquisition or new “greenfield” operations to ensure that the correct investments are made in advance.
- Optimizing acquisitions and new territories by integrating them into the firm’s network. The distributor’s facility, inventory, transportation, and service network is complex and asset “rich.” New operations will require reallocation of customers, transportation, and inventories.
- Optimizing the firm’s “footprint” of investments for serving desired markets. Existing significant markets need the right configuration of assets to optimize the market.
- Optimizing new product introductions in alliance with suppliers and market needs. Working with suppliers for successful product launches across the distributor’s network and the supplier’s network. Determining where and how much support each should provide to ensure success.
- Expansion and control of new and existing services. New services are a growing trend. Most distributors have had a difficult time charging for services. Optimizing service delivery modes and supporting resources are critical to managing their growth and matching with actual needs.
- Optimal allocation of customers to operations and sales force activities. Determining best deployment of sales force time and operations support.
- Understanding and managing risk on new markets, infrastructure, and new product introductions. Blending assets and opportunities into the best performing combination.

The recent economic downturn made it clear that efficiency is no longer optional. Distributors will continue to streamline operations to ensure the resources are available to offer higher levels of service. Customer expectations will continue to increase and one option is to increase operational scope to capture economies of scale. Selecting, properly configuring, and absorbing an expanding market presence will become increasingly important.

## Consortium Deliverables

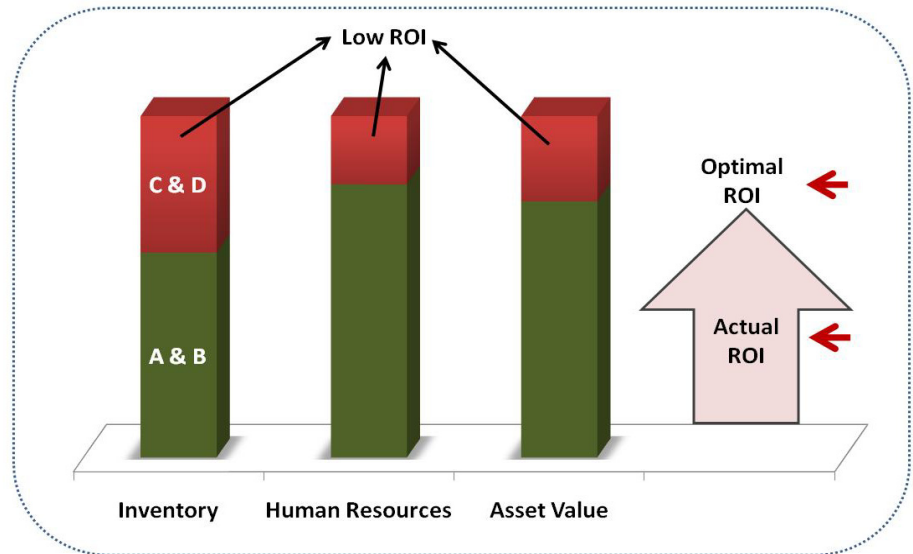
Consortium members will participate directly in the research and gain a better understanding of the findings. A full report will be issued to each consortium member with any analysis performed on the firm itself with the firm's data. Direct recommendations will be made for each individual participant firm on

- Establishing ROI metrics for investments in market share growth
- Optimizing inventory deployment across a network
- Forecasting new market size and penetration
- Procedures for integrating new operations and customer sets into existing networks
- Procedures for network optimization of all assets in the supply chain
- Risk identification analysis and minimization strategies
- 20 free seats in the education sessions that follow the consortium
- All tools created to complete the study and analysis for the study

All consortium member results and data shared with researchers will be kept confidential. Only general findings and best practices will be shared with other members. Distributors will benefit from the research findings and from sharing best practices with other cutting-edge firms in the consortium. Manufacturers will benefit from shared study with the distribution community.

**Why growth is now paramount:** The recession caused serious disruptions for most firms. Distributors had been building their networks for a considerable time before the economic crisis caused massive reorganizations. Some firms had been growing organically, while others had carried out recent acquisitions. There are basically three sets of resources at most distributor operations: Inventory, Human Resources, and other Assets (cash, facilities, equipment). Before the economic crisis, the average distribution operation looked like figure 1.

**Figure 1: Pre-Crisis Resource Deployment**



The average distributor had evolved to carrying 30% to 50% of its inventory in low ROI items (C&D inventory). Human resources were not optimized due to irregular demand patterns and inefficient processes that require throwing people at problems. Finally, warehouses, equipment, accounts receivables, and other resources are rarely optimized due to a need to maintain flexibility. These problems are very common and, during good times, tolerated.

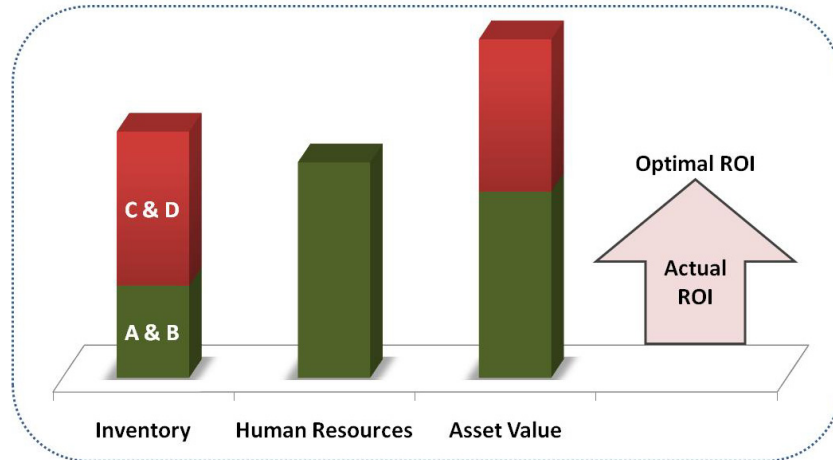
The recession forced firms to get their “act together,” so to speak, to survive. The downturn was fast, however, and firms could not shrink their resources in an efficient manner. Decreased sales meant A&B inventory could be reduced and the rate of sales made it an easy fix. The real need was to reduce C&D inventory, however. That proved very difficult and most firms saw their inventory mix change for the worse.

On the human resources front, people could be reduced quickly and those adding the least value were eliminated quickly. The downturn was too severe, however, and cuts had to be made that cut into the muscle, meaning below optimal ROI levels. Other assets were even harder to downsize. Facilities, transportation, and equipment were too inflexible to adjust quickly. Even if a firm could reduce its assets, the selling price made it better to just hold them.

The result was too much of the wrong inventory, overstretched personnel, and otherwise underutilized assets (see figure 2). The only solution was to grow since adding people, reducing C&D inventory, and increasing utilization all require more sales.

Growth was always an important strategy; but in the crisis, it is an imperative strategy. The good news is that opportunity is upon us. Competitors have failed and the economy is recovering.

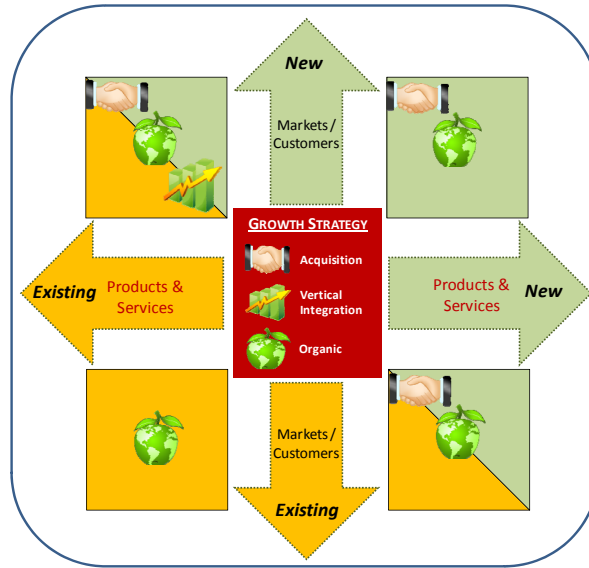
**Figure 2: Post-Crisis ROI Status**



Another issue going forward is the change in investor expectations. The banking system has changed and investors will not tolerate low ROI anymore. The target for growth, therefore, should be the pre-crisis optimal ROI. Growth will have to be controlled and optimized.

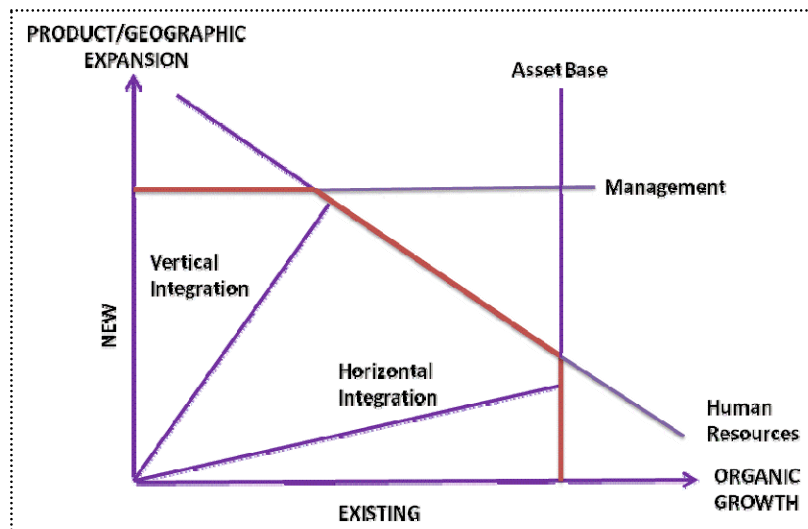
**Growth methodologies:** Distributors can grow along several dimensions. Each method has its opportunities and constraints. Common distributor growth strategies are included in figure 3. Horizontal integration includes broadening the firm's capabilities. It often results in bringing on new customers. Vertical integration involves reaching up and down the supply chain by adding manufacturing or retail, or contracting capability. Organic growth involves increasing sales with existing customers through increasing share of spend. Geographic expansion includes acquisitions and new locations. Finally, growth can come from expanding the distributor's services to a new market like alternative energy. Methods to grow are limitless, but the resources with which to grow are not. The distributor can choose the growth mechanism but constraints will be met when human resources, assets, or managerial limits are hit. Each limit will be approached faster depending on which growth method is used. The limitations that make up the efficient frontier of constraints determine how far any growth method can go (the red lines in figure 4).

**Figure 3: Distributor Growth Strategies**



If the system were to remain unchanged, the optimal use of assets could be found by determining where on the efficient frontier optimal ROI is achieved. Sound difficult? Consider that each constraint can be moved with additional investment. The resulting potential solutions might seem impossible to evaluate, but many solution techniques have been developed. Although solution techniques for optimizing growth have been around for awhile, the complexity is daunting and ROI is not captured until after the fact. Consortium research will seek ways to simplify the process, codify best practices, use existing tools, and use ROI to drive the investment process.

**Figure 4: The Efficient Frontier**





## **Solution Approach**

Best practices will be established and tested for

- Identifying growth opportunities
- Due diligence in proving magnitude of growth opportunities
- Due diligence in determining necessary investments
- Determining ROI for differing combinations of investment and growth
- Determining the optimal growth/investment combination
- Managing the selected growth process to achieve projected ROI

## **Methodology**

Even though many distributors may be somewhat familiar with these concepts and may utilize them to some extent, understanding and implementing a holistic approach to optimizing growth and market share have been achieved by only a select few. The development of tools that will enhance the scientific decision making capabilities and implementation procedures of firms will be the primary focus of the consortium. Here are the key project steps:

- The Texas A&M research team will conduct a survey of current distribution growth and market share strategies across wholesale distribution vertical marketing channels and conduct ad hoc research to determine best practices.
- The first consortium meeting will bring together member firms to report initial results, share best practices, and engage in the research findings and define final deliverables with counsel from consortium members.
- Through a series of research workshops with member firms and ad hoc research the research team will
  - Conduct quantitative and qualitative research to identify the most common practices used by distributors in growing market share.
  - Conduct quantitative and qualitative research to identify and develop best practices.
  - Quantify the impact of these strategies and develop methods to incorporate them into a growth model that can be driven through robust analysis programs based on data and information routinely absorbed by firms.
  - Develop a scientific model to determine the optimum combination of investment and growth given specific situations.
  - Develop metrics to monitor and control implementation of growth strategies.
- The final consortium meeting will share results and capture final feedback and thoughts from member firms.

- Member firms will receive a final report detailing tools and methodologies personalized to their own environments, based on data and scenarios shared and created in the workshop sessions. These findings are confidential to each member firm.
- Texas A&M University will present a series of education sessions on Optimizing Distributor Growth and Market Share to which consortium members will receive 20 free seats.

### Value to Members

The consortium members will receive results, methodology, and tools developed during this pioneering research in Optimizing Distributor Growth and Market Share. The key advantage for wholesales-distributors and manufacturers will be to gain competitive advantage by implementing the scientific Optimizing Distributor Growth and Market Share methods or using the tools developed to maximize the results of growth methods. The key advantage to technology companies will be to gain the knowledge base, methods, and tools that can be implemented in their systems. Apart from shaping the research focus and gaining valuable knowledge base, methodology, and tools, each consortium member firm will be able to send up to 20 people to three educational sessions that will be developed from this research. The educational sessions alone represent a \$35,000 value.

### Schedule

Jan – May 2010	Membership Enrollment and Consortium Formation
<b>May 12, 2010</b>	Consortium Kick-off Meeting
May 2010 – April 2011	Conduct Research and Develop Tools
May 2011	Develop Educational Program
June 2011	Deliver Educational Programs

### Learn More

To learn more about the Consortium and benefits to your company, please attend one of the following online webinars. To register, please contact Metrisa Gonzalas ([metrisa@entc.tamu.edu](mailto:metrisa@entc.tamu.edu)) at Texas A&M University Industrial Distribution Program or call 979-845-4984.

- March 1, 2010                      9:30 – 10:30 AM CST
- March 22, 2010                    10:30 – 11:30 AM CST
- April 26, 2010                    10:30 – 11:30 AM CST

# TESTIMONIALS FROM PAST RESEARCH CONSORTIUMS

## PRICING OPTIMIZATION

*"Given the complexity of pricing, Texas A&M's Pricing Optimization program has gone a long way to specifying all the relevant elements and more importantly putting them in terms that can be quantified and managed."*

**Lawrence Mohr, Ph. D., Senior Vice President (retired), F.W. Webb Company**

*"This program seems to be a detailed examination of the world of pricing. It has been developed from real data that forms theories, develops strategies, and arrives at practical ways to improve profitability. This should be part of the future of distribution."*

**Charlie Henry, Manager of Pricing, Kirby Risk Electrical Supply**

*"We recognize that pricing is critical to our customers...participating in this consortium has given us additional insight into these challenges. This firsthand look at current pricing research has the potential to help both us and our customers."*

**Felisha Elmore, Product Manager, Intuit Eclipse**

*"Opened up our minds to the idea of using both computer and personal data to manage pricing"*

*"Very good information that directly affects our bottom-line"*

*"Start to finish - great course...Very detailed and down to earth"*

**Comments from a Custom Educational Program, HVAC Distributor**

*"The Pricing Optimization conference provided an expert level of analysis and insight that every distributor needs but few have the time or resources to produce on their own. It was both timely and valuable."*

**Paul Sommerfeld, Director, Applications & Training, CSC (WESCO)**

*"Not only does Pricing Optimization empower and equip each sales representative, but it also addresses the potential impact of streamlining operations with a clear and defined sales plan."*

**Andy Warren, Market Manager, Energy Alloys**

## OPTIMIZING DISTRIBUTOR PROFITABILITY

*"Have done the impossible.....taken a complicated subject with many variables and have been able to deliver to the consortium members the tools we can use to optimize profitability & shareholder value. A picture is worth a 1,000 words and A&M's Distributor Profitability Framework chart is worth a 100,000 words!"*

**Ron Cedruly, CFO, Henrietta Building Supplies**

*"We just want to express our gratitude for A&M's efforts & patience and commend A&M on a job well done on all counts. The professionalism of A&M team & the work product developed and presented were outstanding!"*

**Gary Bodam, Ph.D., Vice President – HR, Stuart C. Irby**

*"It's rare that people in business exchange their valuable time to immerse themselves in a concentrated learning environment. However, the value received is immeasurable."*

**Tim Miller, Vice President – Operations, Security Contractor Services**

*"Our senior manager's strategic planning summer session now has a new agenda! Thanks for the helpful insight and providing the tools to lead my company into future profitability growth."*

**Bob Borsh, President, House of Forgings**

## ABOUT THE COUNCIL FOR RESEARCH ON DISTRIBUTOR BEST PRACTICES

The Council for Research on Distributor Best Practices (CRDBP) is an entity created by the NAW Institute for Distribution Excellence and Texas A&M's Industrial Distribution Program. The CRDBP creates cutting-edge solutions for wholesale distribution channels, and provides answers to distribution and supply chain management challenges.

Leader in Distribution Research: Texas A&M's Supply Chain Systems Laboratory is the nation's premier distribution research lab. We bring cutting-edge distribution and supply chain research solutions to the wholesale distribution industry. The lab provides total solutions for companies by providing research expertise, project execution support, IT implementation assistance, education, and training for end users.

## CURRENT MEMBERS OF THE CONSORTIUM



**For more information or to join the Research Consortium please contact:**

### Texas A&M University

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