Distributor Differentiation through Value Added Services

By Dr. Bill McCleave, PE;

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In 2003, I partnered with Tom Gale, editor of Modern Distribution Management magazine to write a NAW/DREF book entitled Standout from the Competition . Through extensive primary research, the book examined how distributors across North America differentiated their firms in various market environments.

Four differentiation dimensions emerged as critical for creating competitive advantage for distributors, including:

- **Position-**choosing the Big Idea for The Firm
- **Pitch**-creating and delivering appropriate market messages along with effective selling processes
- **Performance**- delivering the Pitch promises through high quality activities and reliable processes
- **Proof**- closing the delivered value loop with customers in demonstrative and quantitative methods

Over the past decade, distributors that have the resources to invest in growth have gained in size such that they have changed the competitive landscape for the industry as a whole. These large companies – with annual revenue in excess of $1 billion – have used their purchasing power to command bulk discounts, expanded their product and geographic portfolios, and leveraged new technology to reach customers when and where they want to purchase.

This has left smaller distributors looking for newer, better ways to compete with these large firms. The following are four ways smaller companies can gain a competitive advantage. While all of these approaches are important strategies, an expanded description on two – technique and technology – is provided.

Financial: Companies may determine that the best way to compete is by increasing their operations through mergers or acquisitions leveraging traditional sources and/or private equity

Talent: Employing the right people in the right positions and bolstering their productivity through training, advancement and retention activities is a cornerstone to any company's success.

Technique: Distributors can extend their current operations with value-added services that differentiate them from large competitors. Traditionally, distributors have provided their customers with a multitude of services – from product selection and stocking, to picking, packing and shipping – that, simply put, are easier to execute for larger firms. However, there are several techniques smaller distributors can employ to add value to their operations, including:

- Online product selection assistance
- Vending machines

- Product and services bundling
- Advanced technology products
- Alternative selling methods, such as Amazon or eBay
- Inventory sharing
- Buying groups
- Limited franchise relationships

While it's true that smaller firms can survive selling traditional products and providing traditional services, the secret to longevity may lie in cost reduction, efficiency, speed and product application skills. Many smaller firms gain a competitive advantage because of their customer knowledge, proximity, flexibility and ability to take on a variety of customer problems and provide solid solutions. In addition to simple value-added services, distributors may decide to offer further services that differentiate them from the competition, such as:

- Installation of Products
- Field service and maintenance
- Fabrication
- Project staging
- Component assemblies
- In-house repair
- Custom products
- Solution design and engineering

These services can provide excellent opportunities for growth, enhanced customer intimacy and higher technology product applications, but there are some challenges. These include added costs, risks and scope creep. Value-added offerings must be carefully orchestrated to match distributor effort with solution results and customer perceived value. Unfortunately, many distributors have failed to manage the value they provide and fall into traps where services for sale get blurred with standard offerings and the customer tries to get more for less.

Before adding value-added services as differentiators, consider these points and actions:

1. Make sure customer requirements are well understood.
2. Establish a clear distinction between product-attached and optional services, and make sure both types are priced correctly.
3. Develop and use a menu (or family of) service offerings.
4. See that additional organizational burdens are considered—and defined processes in place—to manage new service offerings and opportunities. These could include, activities, labor and asset

utilization, equipment and technology, billing and receivables, inventory, and distraction / risk factors

5. Have confidence that your organization can sell new services and negotiate any new relationships these services may entail.
6. Ensure that the service team puts processes in place to assure ongoing service improvement through standardization and the application of automation, tracking, and analytic technologies.
7. Remember that not all "value-added" opportunities are worth pursuing, and assure that those pursued are.

To be effective, value-add services must be supported by sufficient processes and technologies to make them profitable and deliverable. Some examples include:

- Accurate Costing
- Effective Pricing
- Service Message Development
- Focused Services Selling
- Custom Performance
- Contained Flexibility
- Learning Curve Improvement
- Cost Tracking
- Risk Management
- Reporting Value Contribution
- Automated Support Processes.

4. Technology: A competitive advantage may be achieved in two ways with regard to technology. First, by selling advanced technology products to create customer appeal and drive customer satisfaction. Second, by fully utilizing all appropriate technologies to position smaller firms to perform activities faster and more efficiently and to give customers the look and feel of a larger firm.

Advanced Information and communications technologies have allowed many distributor firms to do the seemingly impossible: enhance their traditional offerings and market reach while simultaneously containing costs and increasing profits. The uses and benefits of technologies within distribution firms are almost unlimited – from management dashboards to advanced analytics, technology is changing traditional distribution. Distributors can **couple value-added services with advanced technology** to offer unique customer experiences that give them an edge over the competition. For example, distributors that implement eCommerce or alternative online selling methods may want to leverage technology tools to gather customer feedback and provide additional product recommendations based upon purchasing behavior, as well as dive into demographic and market segmentation. Further, distributors can use these tools to create online catalogs and order tracking.

Of course, these are only a few examples of how competitive advantage is gained by leveraging technology. There are dozens of effective strategies to consider. Here are just a few more examples:

- Effective document management systems can save you a significant amount of time and streamline your workflow while having a direct impact on your customer satisfaction.
- Expert systems and the use of artificial intelligence techniques enable you to better anticipate and respond to customer orders, actions, and unique needs.
- Labor tracking tools can help you improve efficiency and productivity by tracking the time workers spend on selected jobs and orders.
- Lean process – which is much more complex than what could be covered here – is an organizational commitment to creating key processes focused on entirely on driving customer value.
- eCommerce – already mentioned above – is no longer an option for distributors of any size. If you want to compete, you need to offer your customers the convenience and flexibility they have come to expect from their own online habits as consumers.
- Order staging and tracking through your business system allows you to execute orders quickly and repeatedly for key clients, and ensure on-time delivery with less risk of mistakes.
- Production assembly and light manufacturing continues to be an essential differentiating service – and one that your competitors are likely offering.
- Better technology for service and maintenance management can drastically improve your customers' experiences and satisfaction.

In summary, meaningful differentiation not only creates competitive advantages, but it forms the basis for survival. Successful strategies are often about tradeoffs. When you look at the universe of what you have, where you do business, and who you do business with (i.e., products, services, markets, customers, suppliers, activities, capabilities), you need to ask: What do you emphasize? What do you de-emphasize? How do you leverage both your own experience and resources from others you work with?

At day's end, a balancing act is needed between products, services attached to those products, and optional services you provide to add value beyond what competitors are doing. Determining this balance is key to successful differentiation.

This article was written in partnership with Epicor Software Corporation, and originally appeared on Epicor's Distribution Insights blog. Epicor helps businesses stay healthy and thriving in today's highly competitive marketplace with cloud or on-premises business systems built to meet the unique needs of distributors. With a half-century of distribution experience, Epicor helps distributors grow, thrive, and compete. Visit Epicor.com to learn more.

Dr. William R. McCleave, Jr. P.E. is a nationally recognized speaker, trainer and president of W. R. McCleave & Associates, a consulting firm specializing in relationship management for industrial distributors, manufacturers and their customers. He is also a leading expert on Integrated Supply. He has over 30 years of industry experience in executive managerial roles and has served as an advisor and trainer to a wide variety of distributor and industrial clients.