The Coming Commoditization of Distribution: Disruption and What You Can Do About It

Innovate or Die!
CONCLUSIONS UP FRONT

- Assortment and availability have been commoditized
- Technology (especially AI) will revolutionize procurement
- Generational change will drastically change customer expectations
- Distributors will innovate or die

Disruption has reached the distribution industry
You Must Understand Artificial Intelligence to:

• Know your digital competitors
• Plan new capabilities
• Anticipate customer needs

Here’s a Quick Primer
Traditional Technology:

- Programmers consulted with Chess experts
- Hard-coded calculations by hand
- Did not “learn” chess and could not improve
- Chess is a “finite” game

“It is not an artificial intelligence project in any way.”

-Joe Hoane, IBM Deep Blue Programmer
Artificial Intelligence:

- Go is an “infinite” game
- AlphaGo fed data of average players
- Played against itself millions of times
- Beat an 18x world champion

“AlphaGo dazzled its opponent with creative moves, one of which overturned hundreds of years of Go wisdom.”
Emergency: What Should You Do?

☐ Swerve Right
☐ Flash Your Lights
☐ Dukes of Hazzard Slide!

☐ Swerve Left
☐ Honk the Horn
☐ Close Eyes & Pray

☐ Hit the Brakes
☐ Check the Mirror
The AI System Has the Data You Don’t

- Traffic Behind Me: Distance, Speed
- Road Surface Grip/Traction Limits
- Deer’s Most Likely Next Action
- Shoulder Room, Left and Right

- Traffic Approaching: Distance, Speed
- Vehicle Speed
- Required Braking Distance
- Time to Impact
Emergency: What Should You Do?

- See the Deer Before You Do
- Pre-Trigger Airbags/Seat Belts
- Coordinate Response with Surrounding vehicles

- Swerve Right
- Swerve Left
- Hit the Brakes
- Flash Your Light
- Honk the Horn
- Dukes of Hazzard Slider
- Close Eyes & Pray
- Check the Mirror

X

X
Autonomous Vehicles Will

• React Before You Can
• Have Data You Don’t
• Know What to Do
• Do it Immediately
• Save Your Life

AI Will Make it Safer to Sleep Behind the Wheel than Steer It
A Simplified AI System*

1. **Big Data**
   - Large pool of relevant data that can “feed” the ML algorithms

2. **Model**
   - Machine learning algorithms use data to learn to perform the task

3. **Analysis/Decisions**
   - The model decides on the best action to take

4. **Actions**
   - The system takes action without human involvement

5. **Measurement & Feedback**
   - Measure results and add the new data back into the model to make it “smarter” the next time

*Thanks to Dr. Michael Wu, Chief AI Strategist at PROS, for this model.
Remember When Distribution Was Simple?
Hundreds of Manufacturers

Distributor

Thousands of Customers
Hundreds of Manufacturers

Ian's Wholesale

Distributor

Thousands of Customers
Hundreds of Manufacturers

For Manufacturers
- Geographic Coverage
- Product Availability
- Sales/Marketing
- Break Bulk

For Customers
- Assortment
- Financing
- Product Availability
- Tech Support

Distributor

Thousands of Customers
Other Supply-Side Players

Mfr Reps

Master Distributors

Ian’s Wholesale
CHANNEL MADNESS

CONFUSED YET?

• Channel complexity exploding
• Every channel player takes margin
  = Every channel player adds cost
• This is not sustainable
• More mfrs selling direct
• Distributors are getting commoditized

Who’s Winning Right Now?
| **Amazon Business Achievements in Three Years** |
|---|---|---|
| **$1B** | **55** | **1+ million** |
| Amazon Business sales during first 12 months post-launch in 2015 | of the Fortune 100 companies | Worldwide customer accounts |
| **$10B** | **+50%** | **150+ thousand** |
| Current global annualized sales run rate | of the 100 biggest US hospital systems | Amazon Business sellers |
| **$1.2T** | **+40%** | **$10+ billion** |
| Forecasted 2021 online B2B ecommerce opportunity size | of the 100 most populous local governments | Global annualized sales |

*Data as of 3Q2018*
This is a powerful value proposition.

<table>
<thead>
<tr>
<th>For every type of business</th>
<th>Business-only price savings</th>
<th>Business Prime</th>
</tr>
</thead>
<tbody>
<tr>
<td>And every size organization. Accounts are free. Put our solutions to work for your business.</td>
<td>• Business-only prices on millions of items • Quantity discounts • Easy price comparison</td>
<td>• Fast FREE flexible delivery options • Enhanced purchasing policy controls • Advanced analytics dashboards • Starting at $179 per year for up to 3 users</td>
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<table>
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<tr>
<th>Multi-user accounts</th>
<th>Pay the way you want</th>
<th>Find what you need</th>
</tr>
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<tbody>
<tr>
<td>• Approval workflows • Purchasing analytics • Create custom groups to match your organization</td>
<td>• Corporate Purchasing cards • Amazon.com Corporate Credit • Tax-exempt purchasing for qualifying organizations</td>
<td>• Hundreds of millions of products on Amazon • Business-only products • Purchasing-system integration</td>
</tr>
</tbody>
</table>
Morgan Stanley, Oct 8, 2018:
• Est. Amazon makes ~20% EBITDA on 3rd party sales

BofA, Merrill Lynch, March 2019:
• “We estimate Amazon Business at $34bn by 2023; [in ~10 years], it could generate $125B - $245B”

Washington Post, Oct 1, 2019:
• 30% - 35% of third-party seller sales go back to Amazon. James Thomson, former Sr Mgr Business Development, Amazon

Uh oh.
Electric Fuel Transfer Hose Gas Dispenser Oil Pump with Meter Metered Gauge

$299.99
Sold & shipped by
JABETC
Free delivery

Price
- Up to $250
- $250 - $700
- $700 - $1,500
- Over $1,500

Store
- Beach Audio Inc
- SIM Supply
- Agew
- Zoro
- Toolchest
- My Goods
- LESS

$170.65
By Mon, Oct 7
Shop Tuff STF-150B Low-Profile Oil Drain with Pump 15 Gal
- Tools
- Toolchest

$63.81
FREE delivery
- 2-7 days
Husky 159404n-04 New x Unleaded...ith Three Notch Hold Open Clip
- Tools
- Zoro

$93.68
FREE delivery
- 1-8 days
Husky 026810n-03 HS 1-Inch Die...ith Three Notch Hold Open CL
- Tools
- Zoro

$578.14
FREE delivery
- 1-8 days
Lincoln 3614 Pressurized Used Oil Drain
- Tools
- My Goods

Add to cart
Add to cart
Add to cart
Add to cart
UPS Gets FAA Nod for Widespread Drone Deliveries

Federal approval marks another important gain for champions of commercial unmanned aircraft

Introducing **echo frames**

Never miss a moment with Alexa

Introducing **echo loop**

Keep Alexa on hand
“Our vision is that Alexa will be the world's most knowledgeable product expert who knows you, in a store that sells everything – a digital product expert that is always available, with super-human knowledge of every product ever made.”

Amazon wants to remove the keyboard from the buying process
Google, order me 10 Husqvarna XL-5000 blades and have them delivered to this spot.

Google, do you know what those are?

Yes, Dave, those are Husqvarna XL-5000 blades. Would you like to order 10?

A marketplace is the “killer app” for smart speakers
TECHNOLOGY-DRIVEN ADVANTAGES

Marketplaces Will

• Carry nearly all of your products
• Deliver as well or better than you can
• Reach more customers than you can
• Understand customers better than you will
• Offer capabilities you can’t match
• Drive industry consolidation

Endless Assortment is the Killer App of Marketplaces
• Customer needs driven by “digital natives”
• Millennials & younger = 73% of global workforce by 2025
• More online research and buying
• Sales relationships lose much of their value
• Younger buyers will embrace AI-enabled solutions.
REMEMBER THE OLD DISTRIBUTOR VALUE PROP?

For Manufacturers
- Geographic Coverage
- Inventory Holding
- Sales/Marketing
- Break Bulk

For Customers
- Assortment
- Financing (i.e., credit)
- Inventory Availability
- Tech Support

This is no longer enough.
SHOULD YOU SELL THROUGH MARKETPLACES?

- Amazon? Hard to resist but risky.
  - Amazon owns the relationship, not you
  - No sales reps or value-added services
  - You do not get customer data
  - You are giving Amazon the data it needs to replace you
  - It’s very expensive

Walmart? Maybe. Cheaper and (surprisingly) nicer.
Google Express? Definitely. Google is not a merchant.

The “smart speaker war” will drive marketplace competition
WHAT YOU SHOULD DO

• Accept that disruption is here and accelerating
• Be a technology leader across your business
• Quantify your exposure to marketplaces
• Integrate into customer business processes
• Learn to develop, price and sell hard-to-digitize services
• Integrate supplier value into your value prop
• Support an independent marketplace for distributors
• Certification classes
• Preventative maintenance programs
• Fuel spill emergency response
• System design
• Dispenser calibration
• Project development services
• On-site repair

• Online technical library
• Free delivery
• Regulatory information
• POS system programming
• 24x7 tech support
• Technical expertise
• Catalog quick online order
• Fleet management systems

• PCI compliance upgrades
• Same day shipping
• Marina fueling
• Dispenser upgrades
• Removal service
• Dispenser repair
• Construction & installation
• Consulting
• Maintenance agreements
• Oil disposal & recycling
• Tank monitor inspections
• Smartphone app for service, pricing
• Extended warranties
• Property sales & leasing
• On-site startup
• Electronic invoices
• Preferred vendor program
• Pump repair
• Project financing
• State tax forms
• Emergency generator tank testing
• Insurance claims
• Logistics planning
• Used oil assessments
• Leak detection testing
• Repair parts
• Tank and dispenser sump testing
• Equipment financing
• Environmental testing
• Software upgrades
• Credit card services
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• Tank and dispenser sump testing
• Equipment financing
• Environmental testing
• Software upgrades
• Credit card services
• We’ve seen this movie in retail
• Let’s not star in the sequel – (we’re the victim)
• Let’s rewrite the script
• Amazon attacks industries, not companies, so we must respond as an industry
• We must support or build independent, third-party marketplaces for distributors.
Option 1: Partner with Amazon’s Rivals to Build a Distributor-Centric Marketplace

- **Distributors**
  - Assortment
  - Availability
  - Services

- **Partners**
  - Artificial Intelligence
  - Software
  - Delivery & logistics

Logos:
- Google
- Microsoft
- UPS
- FedEx
- Facebook Business
- PEI
- SAP
Option 2: Support Existing / Upcoming Non-Competitive Marketplaces

Let’s not do what retail did (nothing)

Coming soon:
SKUvalue

SUPPLYHUB

ebay FOR BUSINESS

Distributor Stock Beta

Warehouse TWO Inventory-sharing solution
Thank you!

Ian Heller
Realresultsmarketing.com
ian@realresultsmarketing.com