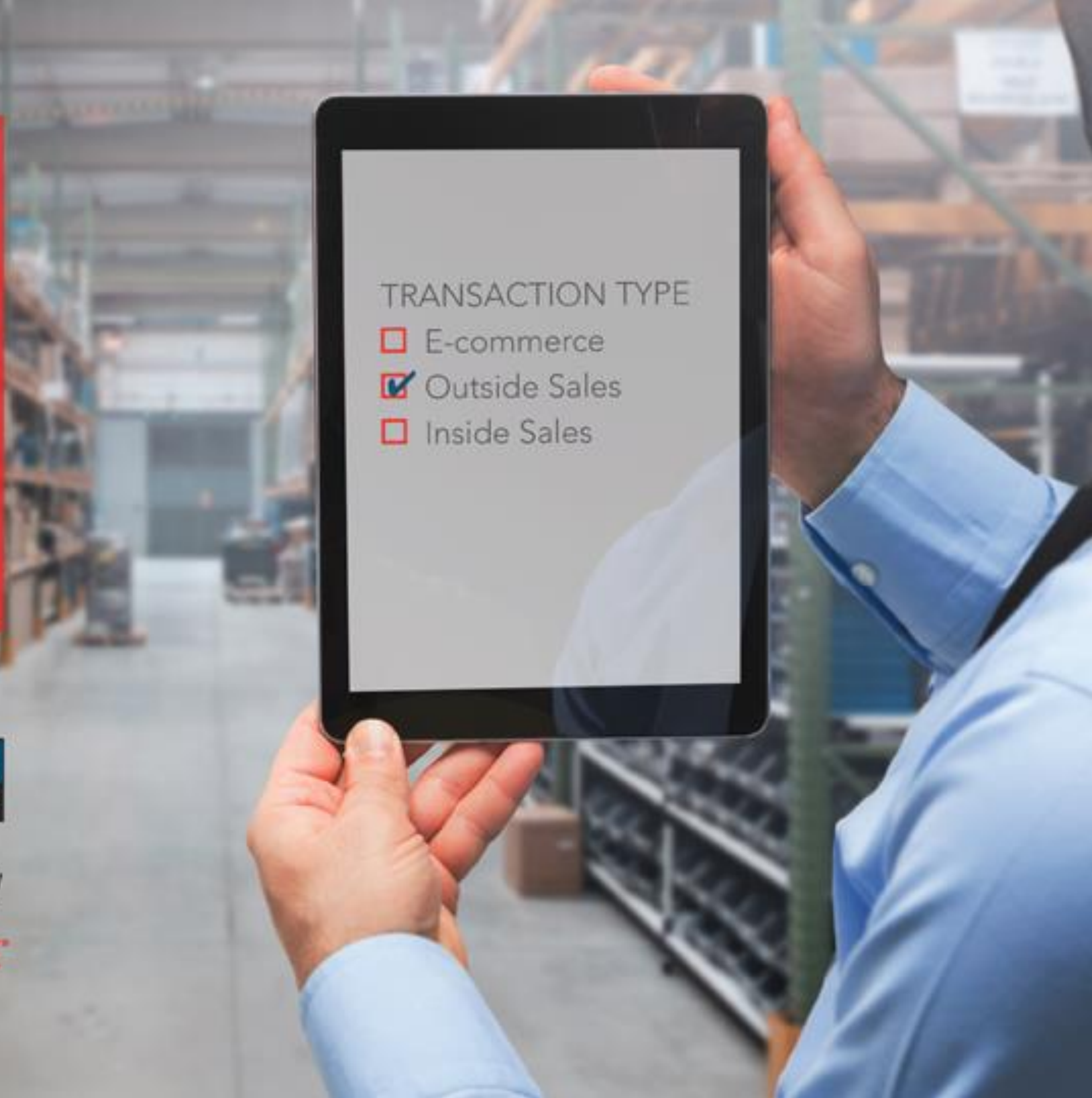
Future of the Distributor Sales Effort in Digital Times



SPEAKER
Scott Benfield
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HOST
Rich Vurva
Editorial Director
Industrial Supply magazine

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The "Not" Wholesaler-Distributor

High Price/Max Price

High Touch,
High Service,
Lots of sellers,
Lots of branches,
High Cost/Customized
40% of Accounts Activity

Online, robust content
Personalized to segment buyers
Few Sellers, Few Branches
Customization in purchases, data, product application,
Low-cost, reduced price, commodities

Reduced Price/Reduced Infrastructure
Price Parity/Better Value

About the Research

- Respondents are in Industrial/MRO/Institutional Markets
- $300B to $400B of sector sales volume represents 10+ product verticals
- 130 responses from distributors of varying size and vertical market focus
- Approximately 12% of revenues are fee-based services
- Overall market penetration of online sales is 15% of end user purchases in these sectors (Overall avg. 10% to 15%)
- Survey done in QI 2018

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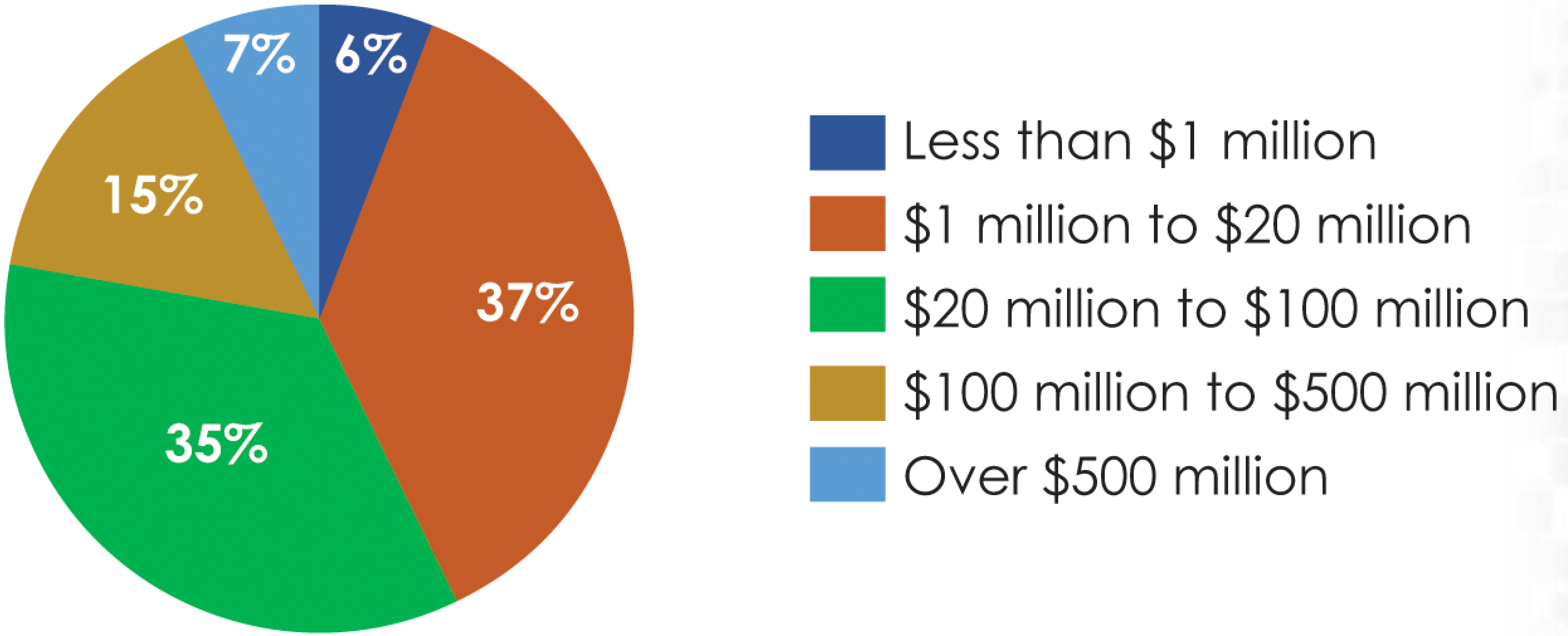
Respondent Demographics Company Sales
Annual Sales of Respondents



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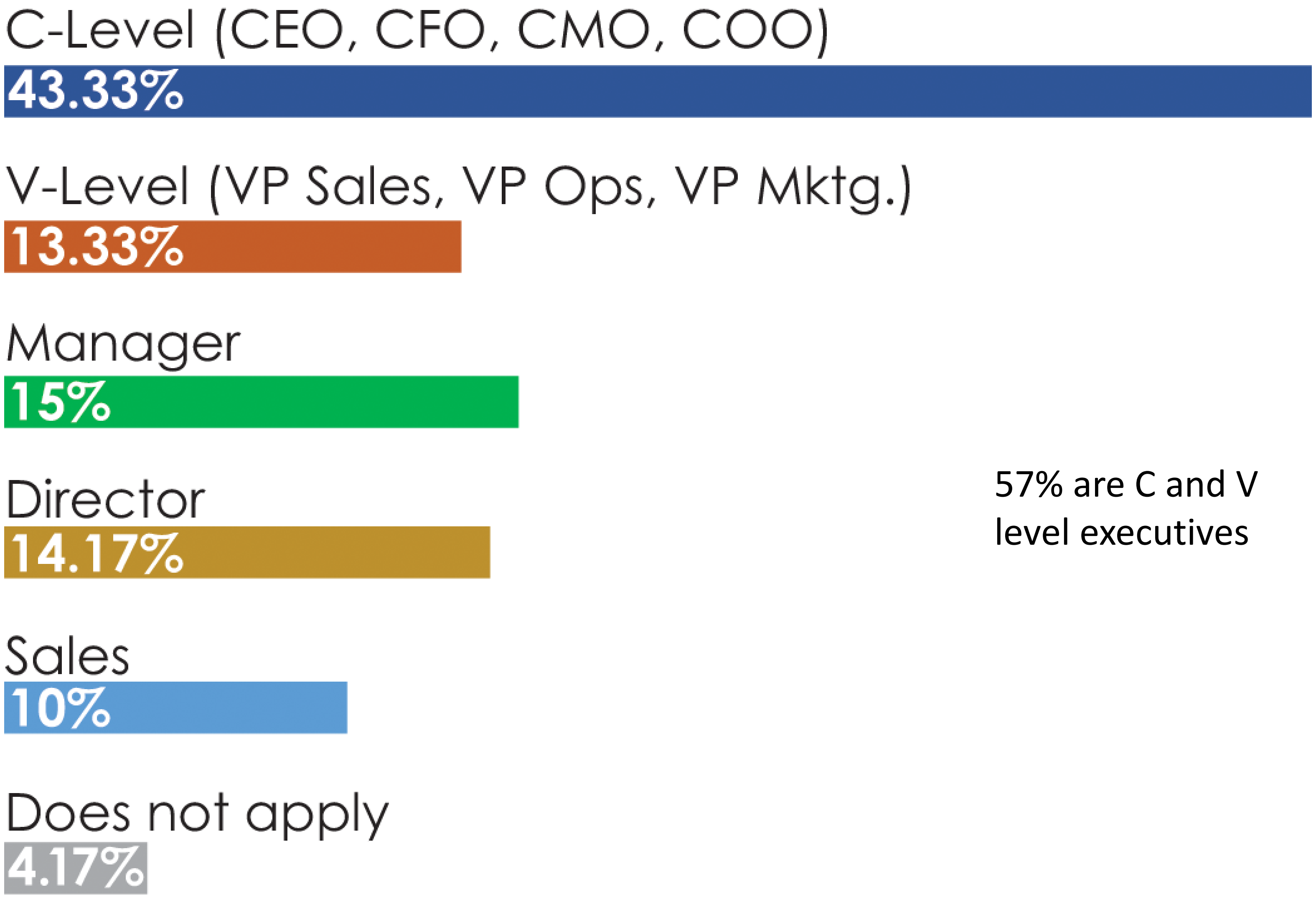
Distribution of Position Titles



57% are C and V level executives

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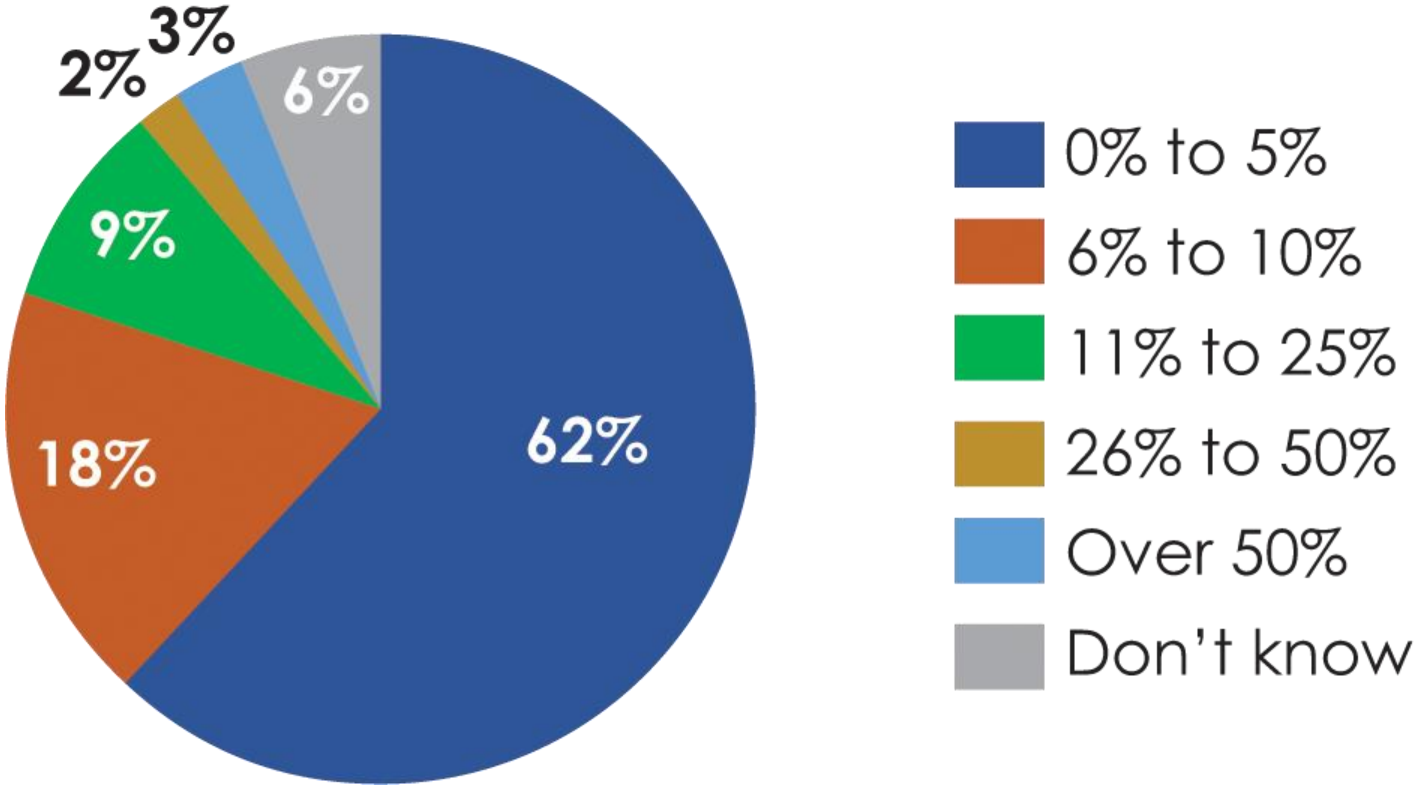
Online Revenues as Percent Overall Sales-2018



- Weighted Avg. Online in 2016 12%; in 2018 9%
- Online B2B Growth at 7% CAGR

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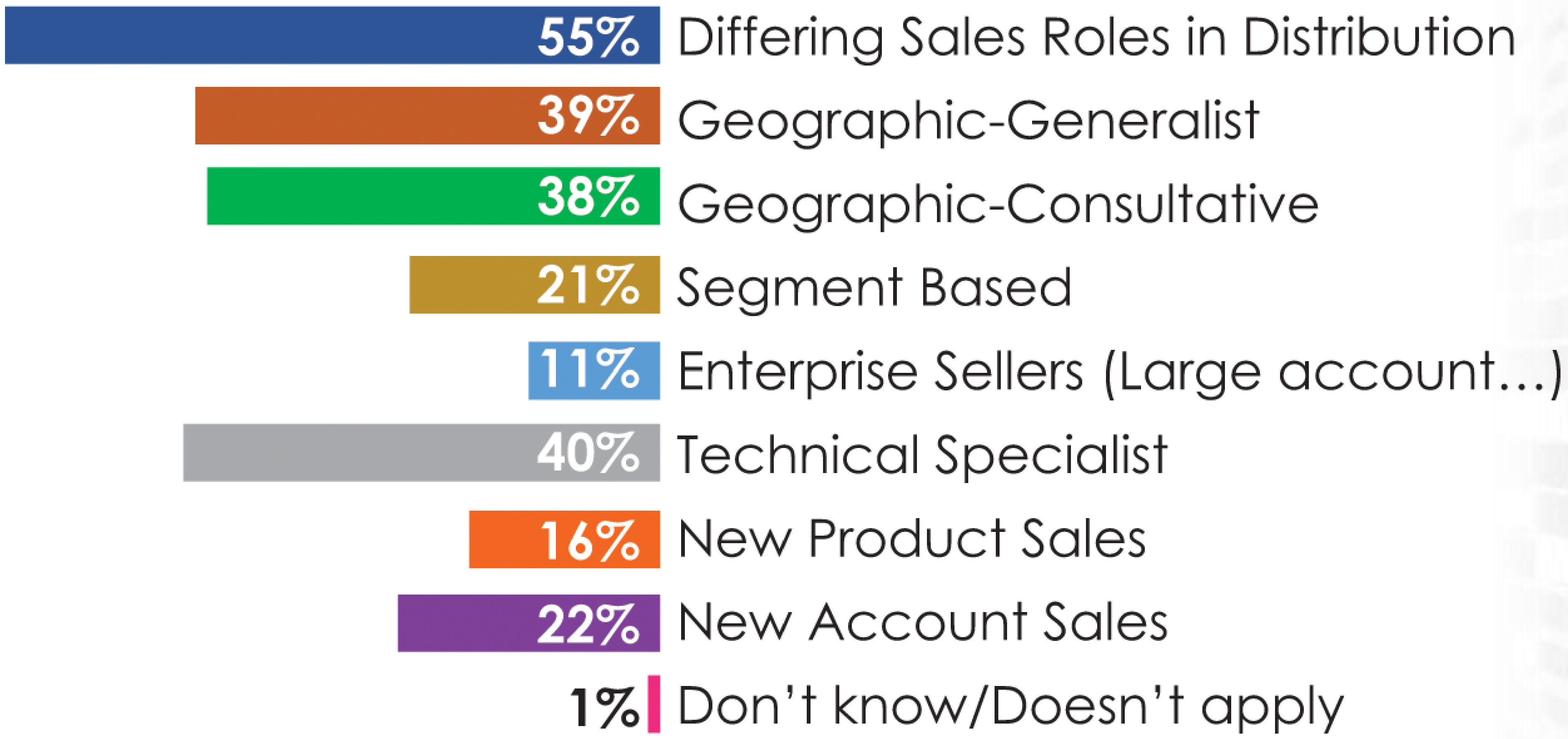
Differing Sales Roles In Distribution



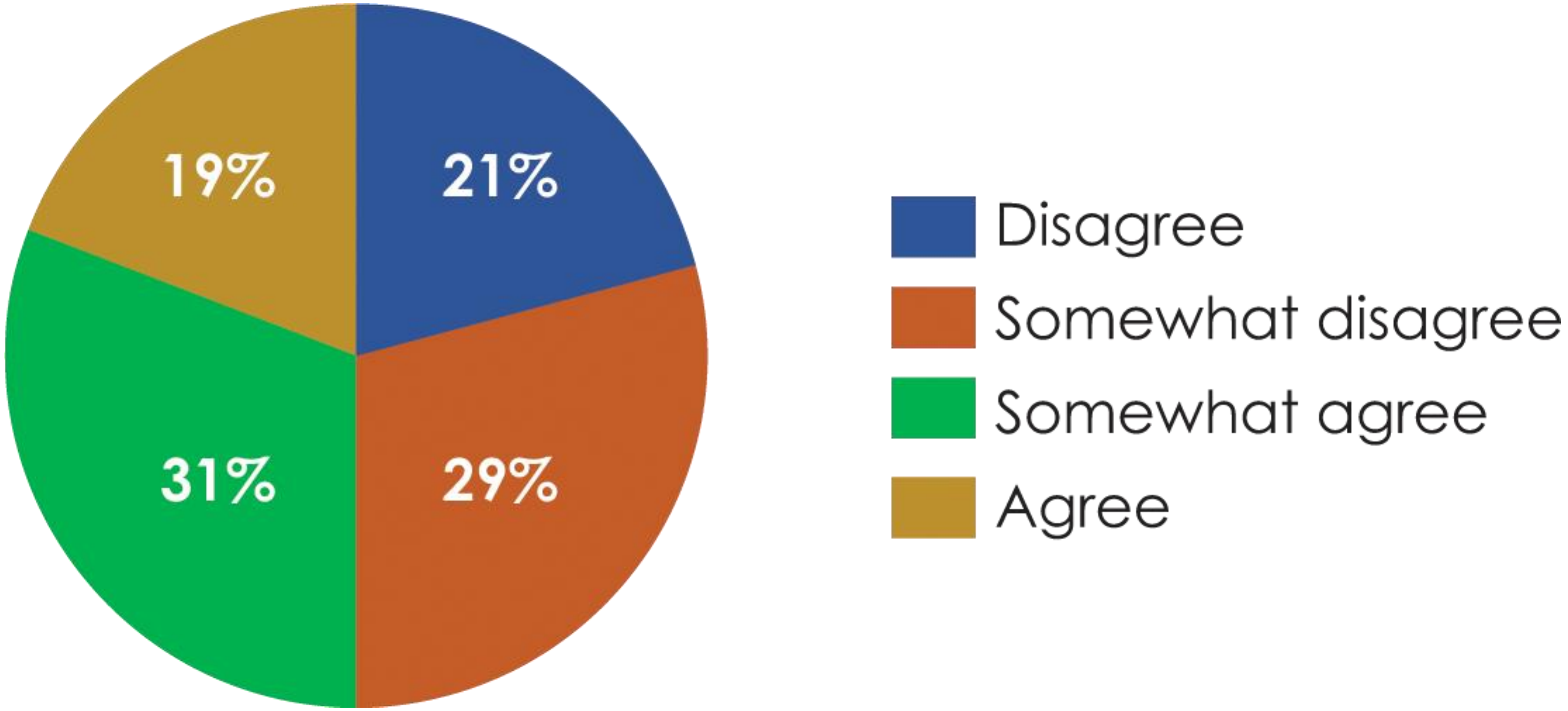
Generalist under cost pressure as commodities go online

Costs of Sales Effort: Full Service vs. e-Commerce

$500 Transaction		**Percent of Sales**
Margin	$115	23%
Operating Expenses (Full)	$100	20%
Operating Expenses (Less Sales)	$60	12%
NPBT Full Operating Expenses	$15	3%
NPBT Less Sales Operating Expenses	$55	11%

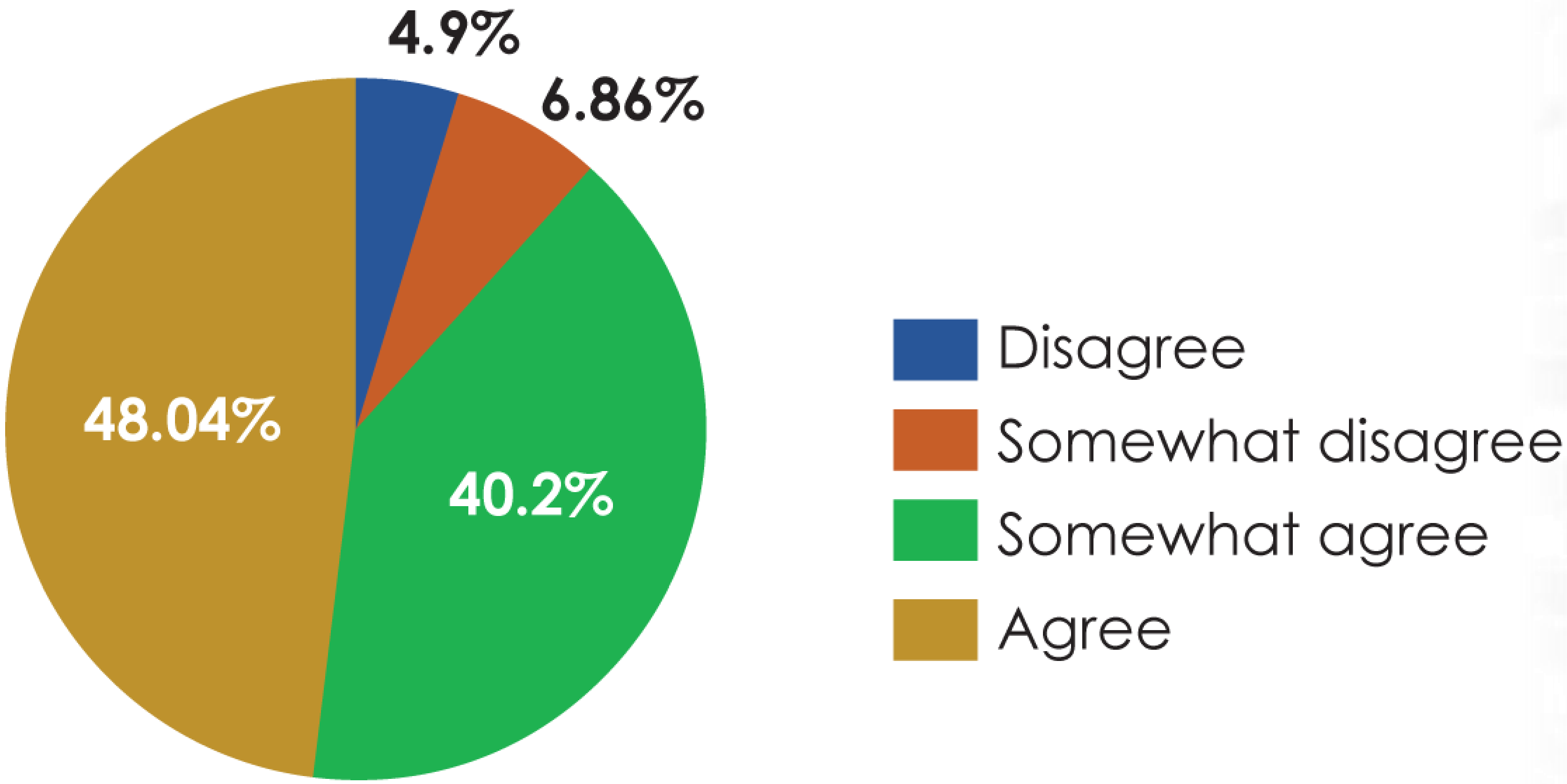
Leverage Factor of 40% Sales Cost	**20%**	**40%**	**50%**	**60%**
Net Savings off Original Order	$8	$16	$20	$24
New Order Cost	$492	$484	$480	$476
Discount	2%	3%	4%	5%

Outside and inside sales positions will diminish as e-commerce grows



- Question is split nearly 50/50
- Significant for sales-driven business model

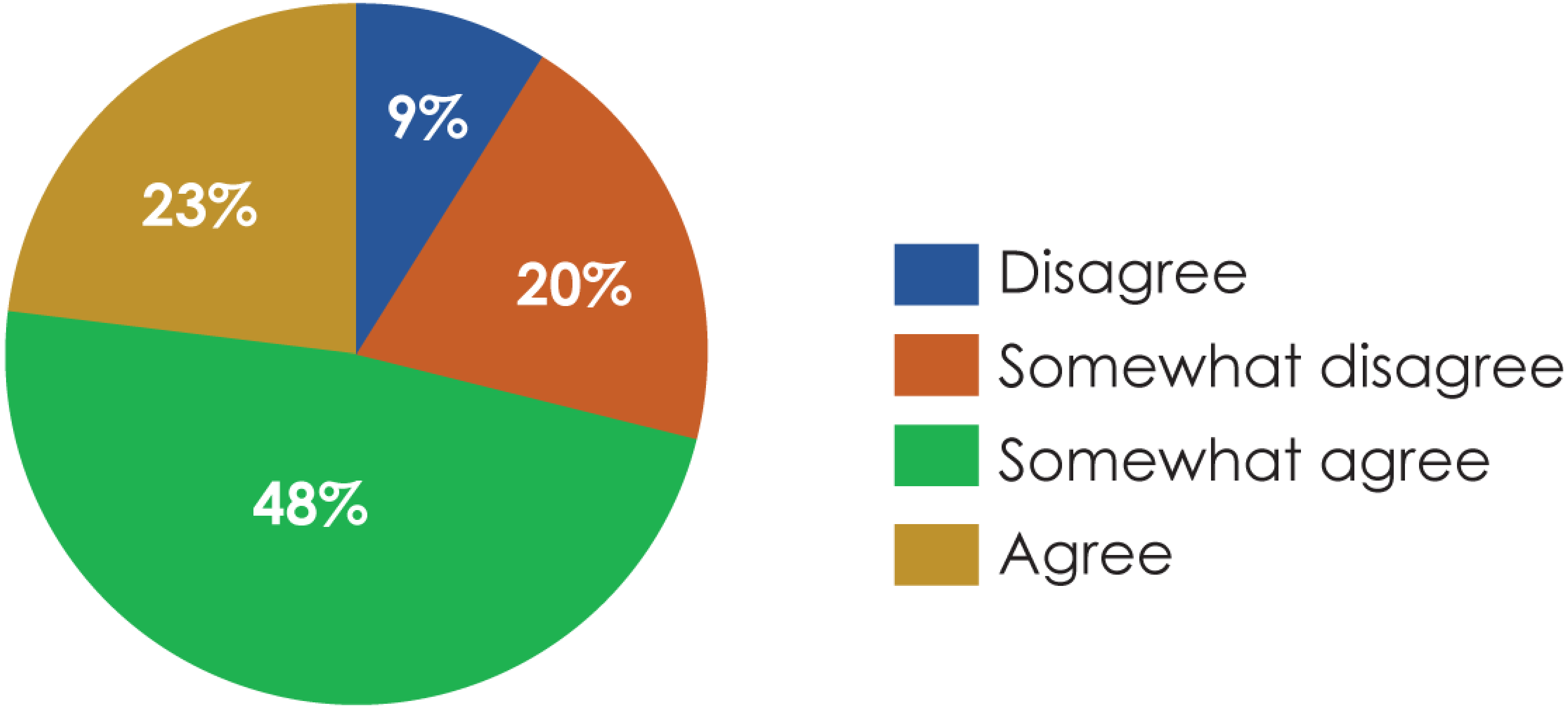
Sales will require different positions as e-commerce grows



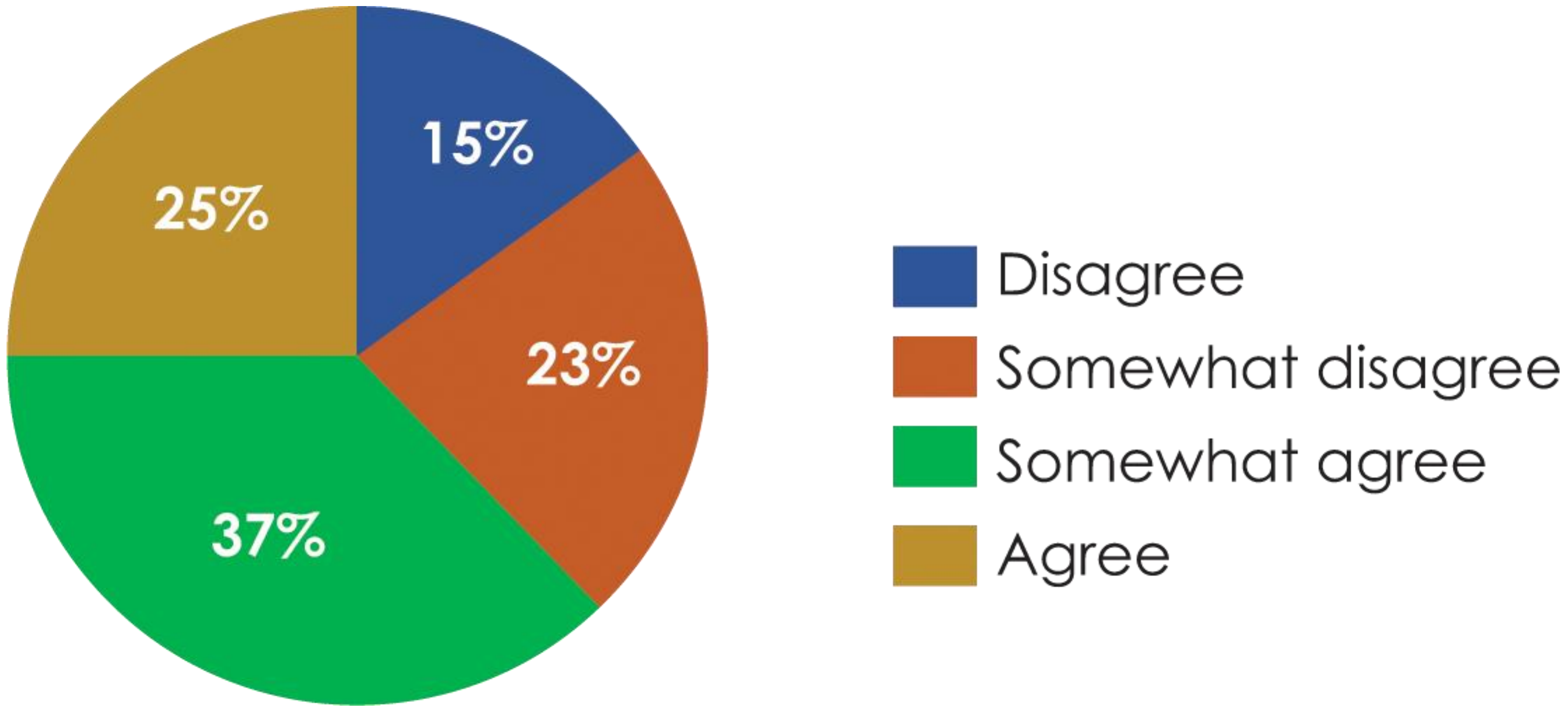
Variations on Sales Force Deployment Post-Online

Sales Model	Definition	Compensation	Territory Assignment
Enterprise/ Pareto	Large Account-Director of Sales Activity	High Base - Commission on Key Account Growth	Key Accounts, Non-Geographic
Consultative Process	Specialist - Process Consulting, B2B Process	Medium-High Base - Commission on Account Growth	Key Accounts, High Activity Cost Accounts
Consultative Product	Specialist on Product Process; Engineer or lengthy experience in process	Medium-High Base - Commission on Product Growth related to product expertise	Large accounts with process needs or potential accounts with process needs
New Account	New Account Development	Medium Base - Commission on successful landing of new accounts	Classic hunter, ability to penetrate and land new account but uninterested in servicing account in the long run
New Product	New Product Sales	Medium Base - Commission on new product sales; Salary sometimes offset by vendor funding part of the position	Expert in key product area with new vendor(s); In-depth knowledge of a vendor with significant upside potential
Segment/ Platform	New "thin slice" segment for online activity; Usually low price resulting from "low-cost, stripped-down" business model	Limited sales complement, if any	Restrictions limited to ability to ship within customer delivery requirements

Outside sales will be more role based and fewer geographic generalists



Customers will demand price concessions as e-commerce grows and they self-serve



- Price is in decline from low-cost competitors (few branches/few sellers)
- Customer takes on more buying risk when buying "direct"
- Sana Research: "70% buyers agree that buying direct requires less seller and buyers should receive a discount"

The Commodity Question
What's wrong with this picture?

1) **Customers do not or seldom need sales support for commodity or rote purchases**

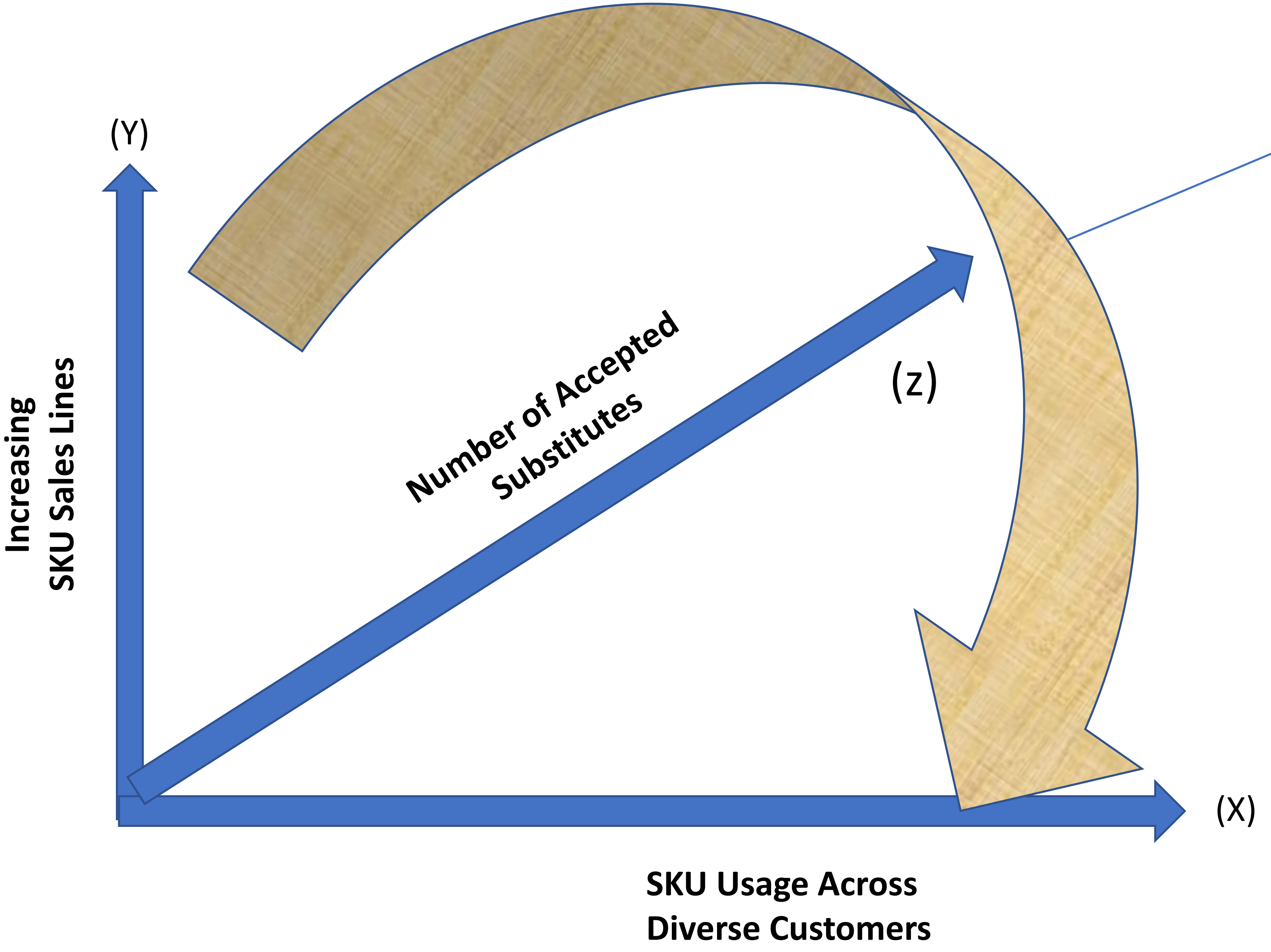
   47.4% Disagree/Somewhat Disagree and 52.6% Agree/Somewhat Agree

2) **We compensate inside and outside sellers on commodity rote purchases**

   31% Disagree/Somewhat Disagree and 69% Agree/Somewhat Agree

3) **As e-commerce grows, customers will order commodities online and demand a price decrease**

   17% Unlikely/Somewhat Unlikely and 83% Somewhat Likely/Likely

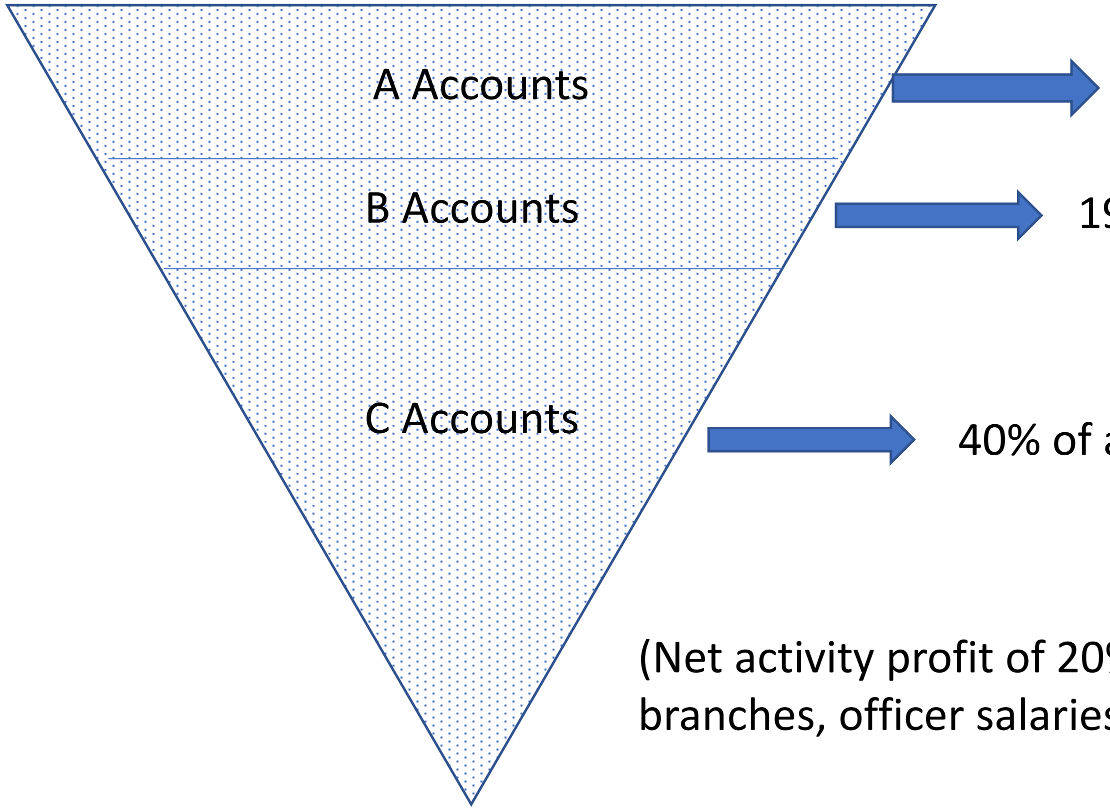


The Commodity Skirmish Line
(40% to 70%)
of all sales

Where new models do battle with full-service distributors

Exhibit I

The Profit Portfolio
"Spinning Top"



41% of accounts represent 137% of activity profits

19% of accounts represent 25% of activity profits

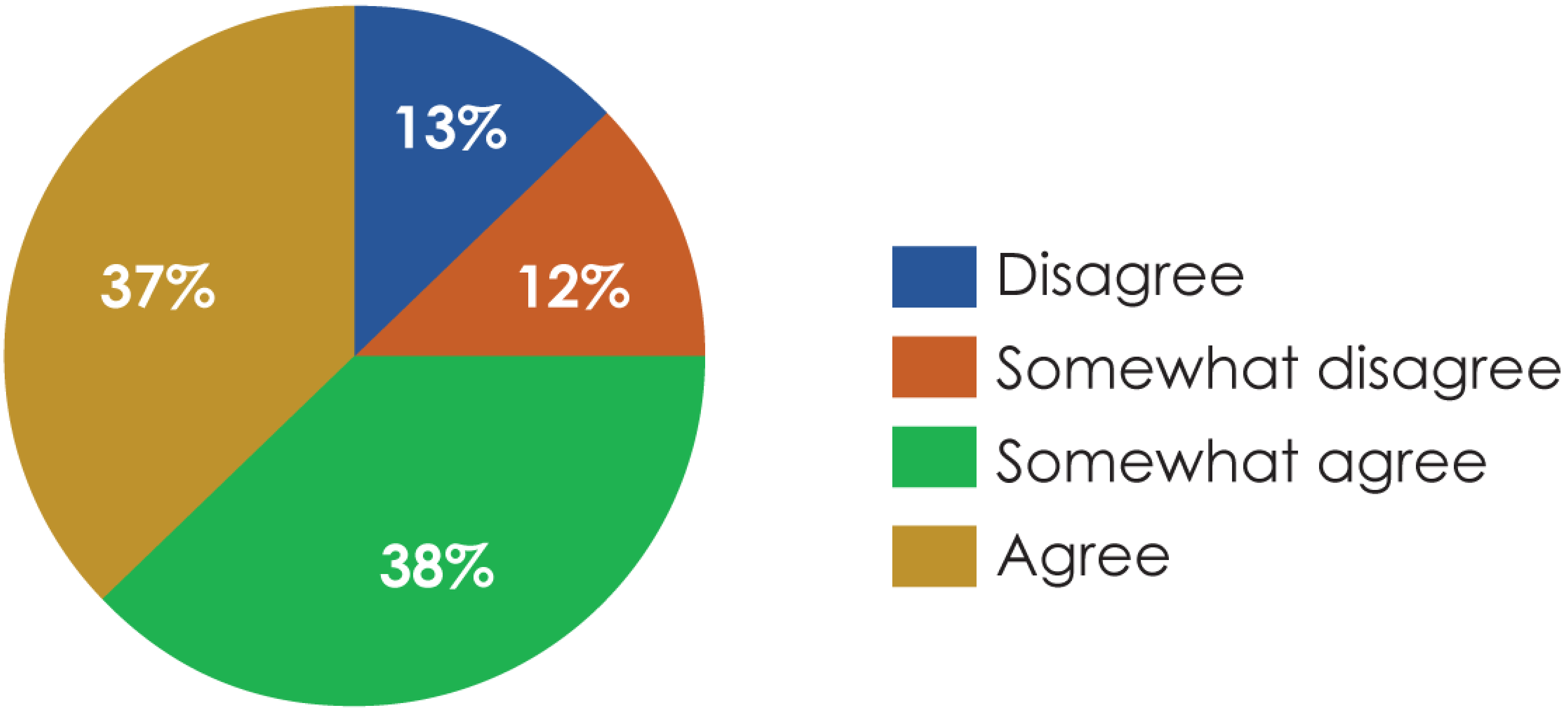
40% of accounts destroy 142% of activity profits

(Net activity profit of 20% due to non-allocation of fixed expenses of branches, officer salaries, etc.)

The Commodity Financial Analysis

	Pennyfarthing Distributors		**Activity Based/Select**
	2017 Income Statement		**Account Stats**
Sales	$100MM		12,000 Credit Accounts
COGS	$77MM		Activity Breakeven at
			$5000 per annum
GM$	$23MM		
GM%	23%		5000 Accounts are top 41% in Activity Profits
			137% of Activity Profits or $4.11MM
Operating Expenses	$20MM		
Operating Expense to Sales	20%		Commodities are 60% of All Products
Operating Profit	$3MM		Commodities are $2.4MM or Activity Profits
			from top Activity Profit Accounts (60% x $4.11MM)
Operating Profit			
to Sales	20%		$2.44MM Commodity/$3MM Operating Profits
Activity Profits	$3MM		Loss of commodities at top 41% of Activity Accounts
(Allocation of			wipes out 80% of operating profits
all Operating Expenses)			

We have new e-commerce competitors who don’t have much, if any, sales assistance

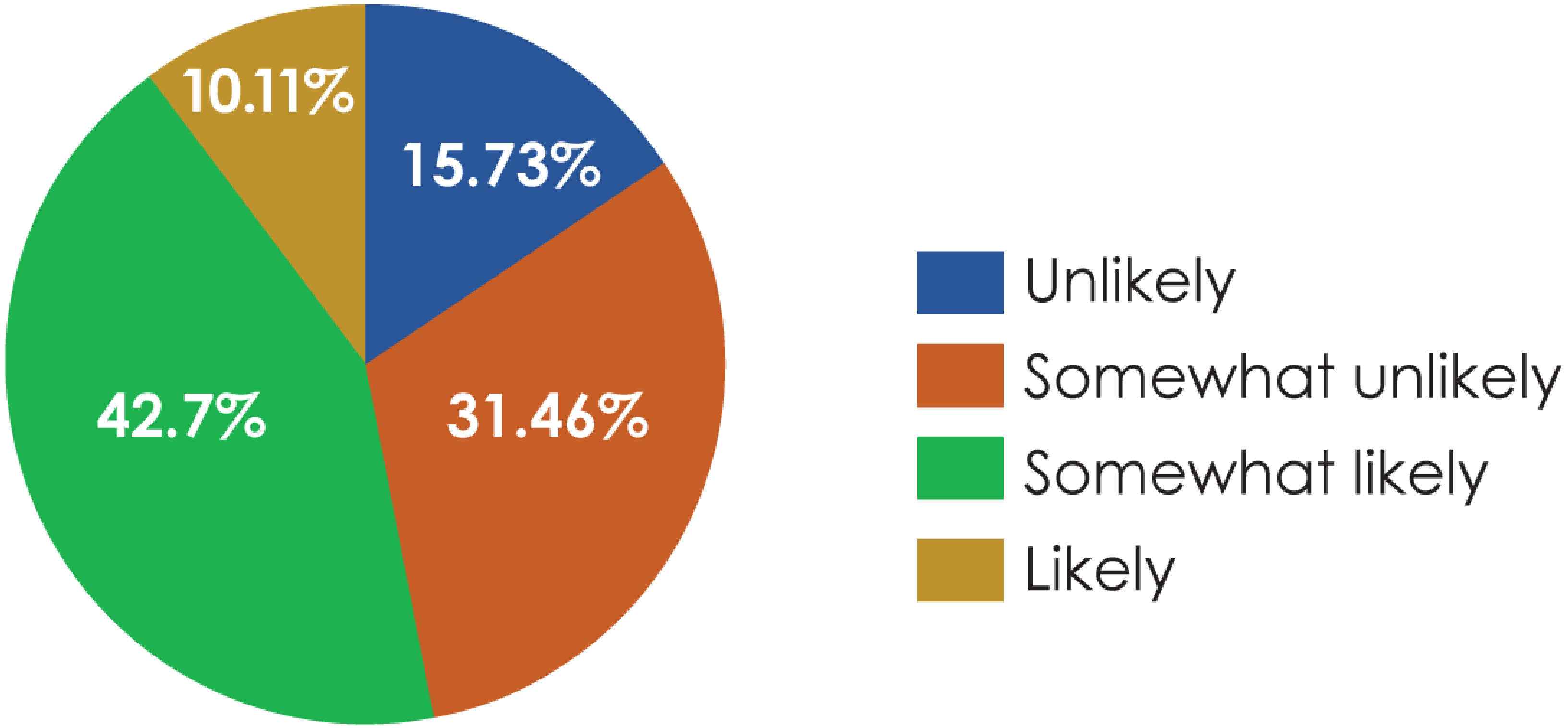


- New Age distribution models - Great price, great tech, great ops, few sellers, few branches
- 75% Agree/Somewhat Agree

	Cost Advantage	**Exhibit II**
	of Online Models	
Category	**Description**	**Amount as Percent of Sales**
Sales Costs	Reduction of Inside and Outside	6% to 8%
	Sales to Customer Self-Serve	
	leverage factor of 80%	
Branch Locations	Reduction of Brick and Mortar	2% to 4%
	30% to 60% common range	
Cost of Complexity	As estimated from Transactional	8% to 10%
(Overcapacity)	Competitors	

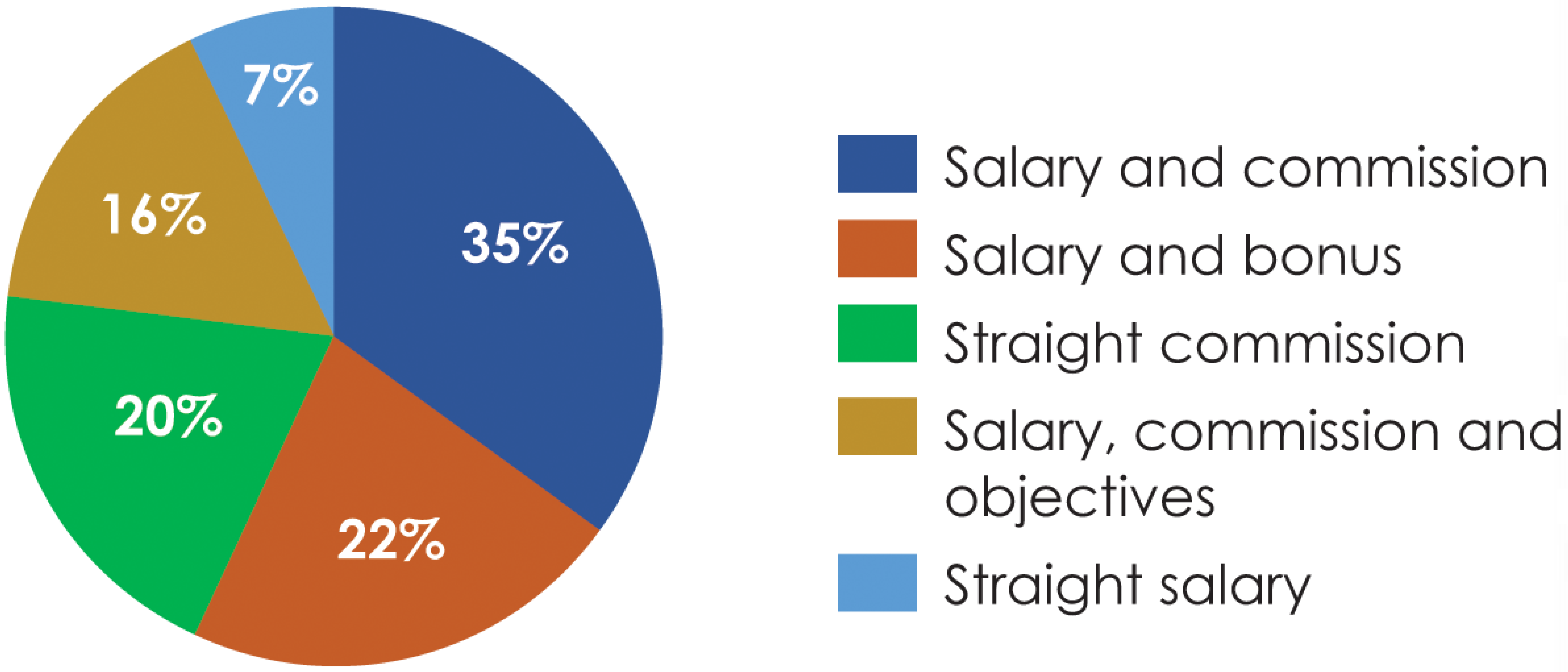
Model	Modus Operandi	Cultural Change	Competitive Challenge
Transactional	Strip cost out of platform	Significant, new office, new management	Copycats will form; most unsuccessful
	Few sellers, few branches	Leverage existing tech, maybe operations	due to poor platform from existing business
Zoro Tool-Grainger	Price inducement	Well defined, limited flexibility service platform	
	Transaction size pricing		
	Broad segment shotgun blast		
	Price decrease approx 10%, ROS		
	8% +		
Thin-Slice Segment	Multi-layer segment slicing	Significant, new office, new management	Few challengers, inability to segment or
	Appeals to specific buyers	Leverage existing tech and operations	understand drivers
Wilmar.com	Makes their life immesurably easier	May need "inside" tech specialists	
Automation Direct	Requires really good segmentation	Configurators a value added option	
	and research and concept testing		
	Price parity or decrease		
	Some sales expense to begin		
	ROS 10% of sales or more		
Restructure Value Chain	Rework traditional value chain by	Significant, new office, new management	Few challengers-a different value proposition
	taking out redundancies	New tech-some leverage of existing	
Civic Solar	ROS 10% to 15%+	Configurators, top notch search or content	
Sustainable Supply	Price parity or reduced	Relationships with vendors to support	
Marketplace or Buyer Seller			
Connect	Aggregation of suppliers	Technology going in is high cost	Few competitors, programming and marketing
	Take a cut of the value chain	New culture, new name, ongoing marketing expense	expertise is hard to come by
Amazon B2B	ROS is generally very high (estimated)	Value is in the eye(s) of the supplier and customer	
Kinnek.com			

Distributors will proactively reduce and restructure their sales efforts before e-commerce becomes a dominant means of transaction



- 53% Somewhat Likely/Likely vs. 47% Somewhat Unlikely/Unlikely

Types of Outside Sales Compensation

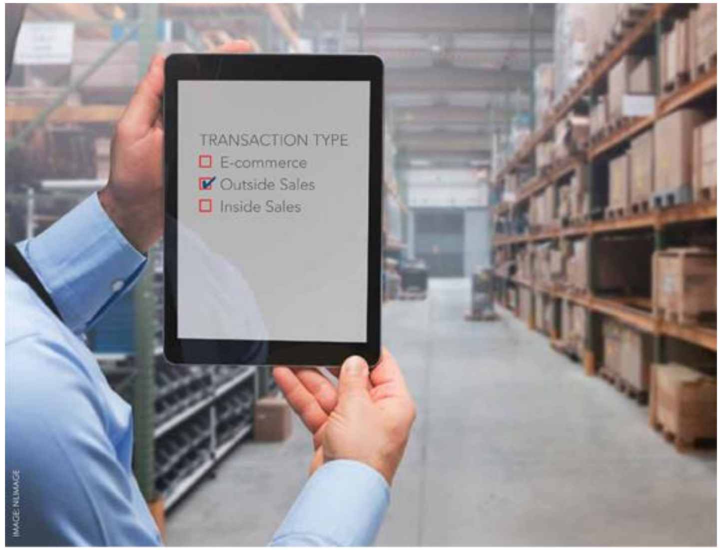


- 93% of compensation plans have pay at risk
- What happens when you reduce pay at risk?

Takeaways from the Research

- Low-cost competitors with new value propositions are making share gains
- Sales support is a significant cost factor at 25% to 35% of total operating expenses
- Customers question the need of sales support for commodities
- Sales roles will have different uses and will likely move further into the value chain as consultants, product and technology specialists, etc.
- Sellers will be compensated differently because of these roles
- Changes in sales forces will take place along with changes in structure as the full-service model is “leaned out”
- Don’t wait, 40% of sales will be online in 10 years

White paper



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New Assignments for A New Age

SCOTT BENFIELD, BENFIELD CONSULTING AND
RICH VURVA, *INDUSTRIAL SUPPLY* MAGAZINE

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