



# *Megatrends in technical distribution*



»» The technical distribution industry solves innumerable challenges for its industrial customers every day, but it also has its own challenges that it has to master.«

*Future*

*Solutions*

*Development*

## » Editorial

Technical distribution companies have continuously developed their abilities and competencies and consolidated their positions. They consistently add value throughout the entire supply chain, thus meeting the demands of their customer enterprises. The technical distribution sector plays an important role in delivering industrial products and rendering industrial services in the German market.

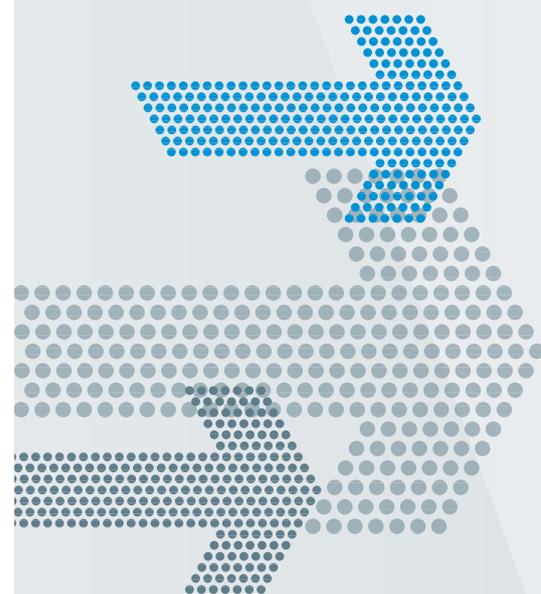
Originally, their stock of products, the breadth of their range, their technical competence and their on-site service were the only factors that decided whether these companies succeeded or failed, but nowadays, logistics solutions, the development and production of systems, engineering-management and project-management services, after-sales service and e-commerce applications are standard customer demands on technical distributors. With this development, the way the customers interact with their suppliers has also changed: even long-standing partnerships are continually being reviewed and put on trial. Developing mu-

tual goals and activities, solving channel conflicts and mastering new competitor constellations are no longer activities that only occur in exceptional cases, they are normal parts of an ongoing customer relationship.

This A topic publication – brought out jointly by the German technical distributors' association "Verband Technischer Handel e.V. (VTH)" and Atreus, the German market leader in the field of providing interim managers – describes the current challenges and solution approaches in the technical distribution industry, and is designed to give industry companies an overview of the status of discussions, and enable the people responsible for the customers to gain a deeper insight into the numerous measures available for improving service and customer focus. VTH and Atreus look forward to receiving your opinions and ideas.

Sascha Hackstein  
Atreus Director

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*Service*

*Consolidation*

*Internet of Things*

*Networks*

## » Trends in the field of technical distribution

Technical distribution is an industry with a long tradition, characterized by often long-standing customer relationships and the important role it plays in ensuring smooth production processes at its client enterprises. But the internationalization of customer venues, intertwined markets, the need to be more efficient, digitalization and market consolidation are leading to great pressure to innovate in the technical distribution trade, and to changes in the business models and processes. The coming years will continue to bring with them further changes, and they will be dominated by distinctive trends.

» The roles have always been and still are divided up clearly and logically: on the one hand, a vast number of manufacturers, on the other the customers with their widely diverse needs for industrial products. These two poles need an intermediary so that the business is efficiently organized: technical distribution. Up to now, its value contribution was based primarily on its role as a connective link in the supply chain. It is a well-established role, and yet the technical distribution segment is faced with major challenges.

**1 Consolidation of the market**  
The dominance of mid-sized companies in the technical distribution business was long one of its strengths: commercial reliability, a profound understanding of the needs of each individual customer and a high level of product expertise were guaranteed through the person of the company owner and his staff of many years' standing. And these strengths still apply, but the consolidation of the market means a decision is required between two strategic options in order to make the company fit for the future. The first option is to

specialize – i.e. to further differentiate the product ranges. Specialists that focus on the depth of their product portfolio rather than the still customary breadth can prevail over much larger generalists thanks to their better expertise, competence and specialized services. The second option is to grow. Benefits of scale and takeovers, succession plans and investor participations lead to larger units and more efficiency.

# » Profiting from networks«

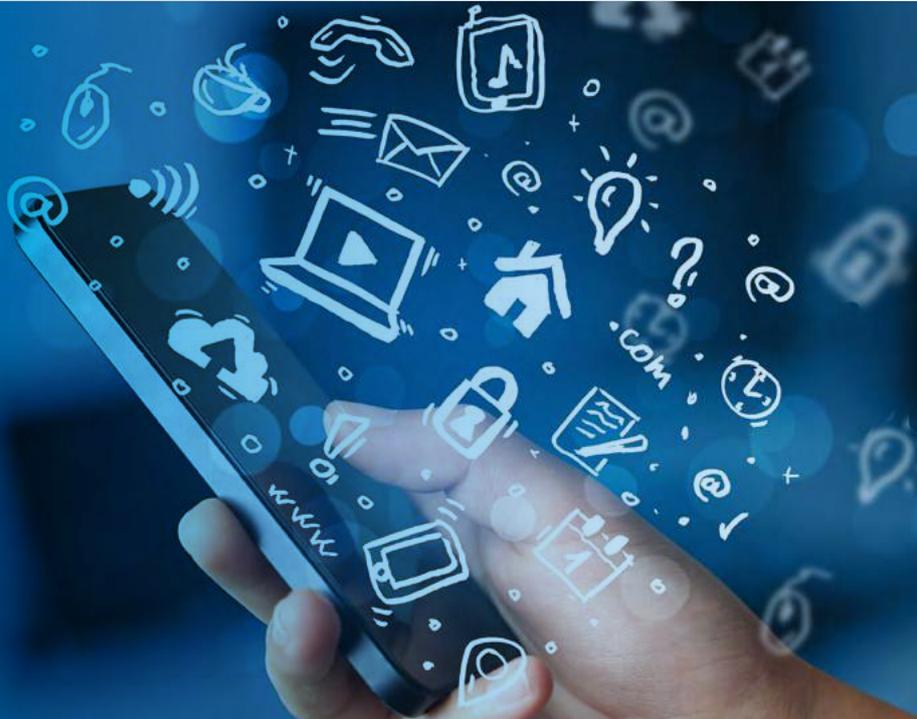


## 2 Service as a field of business

In the understanding of many commercial enterprises, service is what is not sold, but something that simply goes along with what is sold. However, no one denies that service is important for the customer, and that is precisely why it is not only part of the business but can itself become a business. Standard services and service can be developed from being an added extra into an autonomous product. Initially this is kept relatively close to the product traded and defined on its basis, but the full value-creation potential can only be derived from service if it is priced in its own right, a separate focus is placed on it and growth arises from it.

## 3 Benefiting from networks

Technical distribution companies are not only part of a network, they are also an important point of contact in the know-how interchange between manufacturers and users. The ability to gather knowledge and know-how across all technologies, to secure it and to make it available when required is an increasingly important capability, because this can develop its own value-generating capacity. Every industry needs an exchange between creative minds, learning from each other and interconnection. The technical distribution sector can offer this interconnection and develop business models, especially on the basis of the dialog options that the internet provides.



*It is important to occupy oneself with new business models.»*

#### 4 Internet of Things

The Internet of Things that leads to "Industry 4.0" means information technology that permeates right down to the level of each individual machine, even in factories. Tools, machines, products and of course the people are connected up to each other, in order to make production and logistics more efficient. It is vital for the survival of technical distribution as an industry not to be excluded from this digital dialog and to be open to it. Part of this means mastering its own sphere of data and making its own contribution to the sharing of information.

The four challenges show that technical distribution companies have to continue developing. Those that rest on past laurels or relax because they think their market position is safe will become less competitive with time. They have to keep influencing the industry trends, keep up with the speed and demands of the market, recognize the important trends and technological developments and quickly develop innovative services to cater for them.

But how can they accomplish the balancing act between keeping their strengths and existing core business in the product range, minimizing their risks through evolutionary further development, instead of daring to break with their existing orientation – and nonetheless reacting quickly enough to the trends and implementing new solutions?

It is necessary to look inwards inside the company: the compelling nature of the business model and the unerring focusing of the structures and processes on the core business are decisive for securing the market position. New business models, services and products are of great importance for the growth of the company's value. Here it is essential to act carefully with existing resources – in terms both of time and finances – and yet to invest enough in the organization, the staff and the infrastructure, especially in the field of IT and data management.



*Growth potential*

*Proactiveness*

*Performance*



## Fields of activity for growth and differentiation



### 1 Performance

The pace that markets change at has increased. This means that the processes inside a company can no longer be defined by tradition, they have to be systematically analyzed and optimized. This entails a not inconsiderate amount of initial work and it has to be maintained with continued and ongoing innovation management, but it does lead to more efficiency and better performance. The resources freed up through operational excellence make it possible to succeed in the face of competition, either because of the reduced costs or, and this is better, by reinvesting the saved money in service and transformation projects.

### 2 Solution business with growth potential

Customers don't want to just be supplied with products, they want the solution to a problem. If a roller bearing is broken, the customer doesn't only want it replaced quickly on site, they want to prevent this kind of thing happening again in the future. If their technical distribution partner is familiar with the customer's circumstances, the situation on location and the reasons for the problem, it can provide the solution rather than the replacement part. The goal has to be to have the customer entrust the technical distributor with entire complexes. And of course problem solving has much higher profit margins than parts delivery.

### 3 Proactiveness

"Always met our expectations" is a terrible thing to have in your job reference. A company that only reacts to its customers' inquiries, that only meets the expectations rather than generating additional demand, deserves such a crushing assessment. Growth doesn't lie in already existing demand, it lies in what the customer would not order on its own initiative. Recognizing the customer's additional needs and proactively offering solutions requires an in-depth consideration of the customer's production process and strong technical competence – but technical distribution companies do have this expertise.



*Multi-channel strategy*

*Ability to transform*

**4 Multi-channel strategy**

One can see e-commerce as a threat, but that is the wrong way to look at it. More than anything, e-commerce is a chance: for expansion, for process optimization and for more efficient customer support. In the USA, many technical distribution companies are already making 30 percent of their sales through electronic sales channels: not replacing the catalog and the personal contact, but as part of a multi-channel approach that exploits the specific strengths of each channel. EDI and Web shops mustn't be simply stop-gap solutions, they have to be based on a well thought-out strategy and realization concepts that already provide for the next phases in the development and expansion potential.

**5 Ability to transform**

If a company is to be able to handle the things that need doing and the transformation, it has to achieve a status in which it is able to transform. This is a question of culture on the one hand, but also of management competence: a defined strategy based on a comprehensive analysis, a clear target structure, the integration of the staff and implementation expertise are the fundamental prerequisites for the transformation.

## Shaping the future«

»» As a distributor, you can never limit yourself to offering what the customer requests. Things don't get really interesting until you get to the stage where the customer wasn't even aware that it needed what you are offering.«

## »» Interview with Thomas Vierhaus, Managing Director of the Verband Technischer Handel association

»» Mr. Vierhaus, a company's buyer can today order virtually every part he needs online from a manufacturer in China or Korea with just a few clicks of a mouse. Is that a threat for an entire industry that had previously been considered essential for industry and trade?«

He can order from there, and if he dares he will try it once – but then probably never again, because what he saves in purchase price he pays for double in problems. This is an almost unavoidable experience they all go through. No, the Internet and digitalization bring with them certain opportunities and challenges for technical distributors, but in their core activities – the bundling, the service and the customer focus – there is no alternative. Nonetheless, technical distribution is under pressure to change, because the market structures, the intensity of the compe-

tion and the customer expectations are progressing at an ever increasing speed.

»» How are customer expectations changing? Quality, price, loyalty to the supplier – this eternal triad can hardly be put into question.«

There are actually four instruments that play together to achieve that harmony, and the fourth – the service – is having to play louder nowadays. Let's take an example that happens a thousand times a day in Germany: the customer calls and wants to know if a certain spare part is in stock. If it isn't, he asks when it can be delivered at the earliest, because the Scheduling department has to know when the machine will be up and running again. So the employee at the distribution company calls his supplier and then calls the customer again and then Scheduling. That is a proven process, and causes no

problems because all the people involved know each other well. But then a competitor comes along that saves the customer this whole rigmarole and enables the process to be taken care of in seconds in the system. That rival company simply plays a catchier melody.

»» That sounds logical, and the concepts and interfaces required have been in place for a while now already. So why are we still speaking about starting to use them?«

Because it isn't about one customer and one supplier, but about several hundred of each. Despite this, it all has to take place within a unified system, so that it can be kept controllable. That means not only a lot of preparation and high investments, the IT structures that were created a few years ago are today already partially outdated. Ever more data are being generat-

## »» Greater willingness to change«



ed that have to be processed, and the ability to deal with these volumes and this diversity of data is becoming more and more crucial for business success and the ability to change.

»» And are the technical distribution companies – your member companies – ready to face this challenge?«

In principle, yes: if they play the role as intermediary between the product innovations of the suppliers and those of their customers, they also develop their own culture of innovation. In addition to the already available product and customer competence, the companies have also built up the management expertise that is required for transformation processes, or they go out and hire it. Every company that is confronted with changing markets and technology will always be faced with difficult decisions, but I am observing a

great willingness and ability to change in the technical distribution companies, and they still play an essential role.

»» What is the right strategy for turning this willingness to change into a successful transformation?«

We listen very closely to the needs, desires and plans for the future of our customers. This customer focus gives us important guidelines for our own change strategy. But as a trading company, you can never restrict yourself to offering what the customer demands. Things only really start getting interesting for sales experts when it is about things the customer doesn't yet know it needs. Sometimes technical distributors wait too long for the signals of change to come from the customer, instead of setting off those signals themselves. This means they are missing opportunities for sales and growth, and it

opens up gaps for other providers to slip into. So the right strategy is shaped by being active on the basis of old and newly developed competencies.

»» *A contact platform replaces the previous channels – making multi-channel strategies essential.*«

ECC cross-channel study 2014

## »» Multi-channel: complex but unavoidable

Digital platforms are not only an addition to the catalog or a transaction aid, they are a fully-fledged sales channel in their own right, with their own strengths and opportunities to be an engine of growth for the individual company. The annual growth in sales of more than 30 percent being experienced in online shops in the technical distribution sector in the USA means we can experience a similarly rapid development in Germany too. The e-commerce specialists from ECC Köln examined the trends in the German procurement industry in 2014. Their main finding: multi-channel is indispensable, because digital communication works alongside the customary channels, but does not replace personal contact.

### Channels used to obtain information in the product research and buying process

Internet: 45 %



Personal contact: 54 %

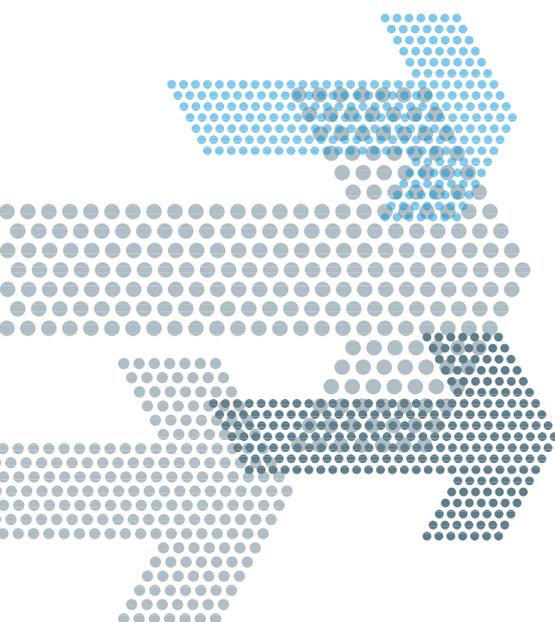


Print media: 64 %





Searching for information in a sales channel before buying in another channel



**40.7 %**

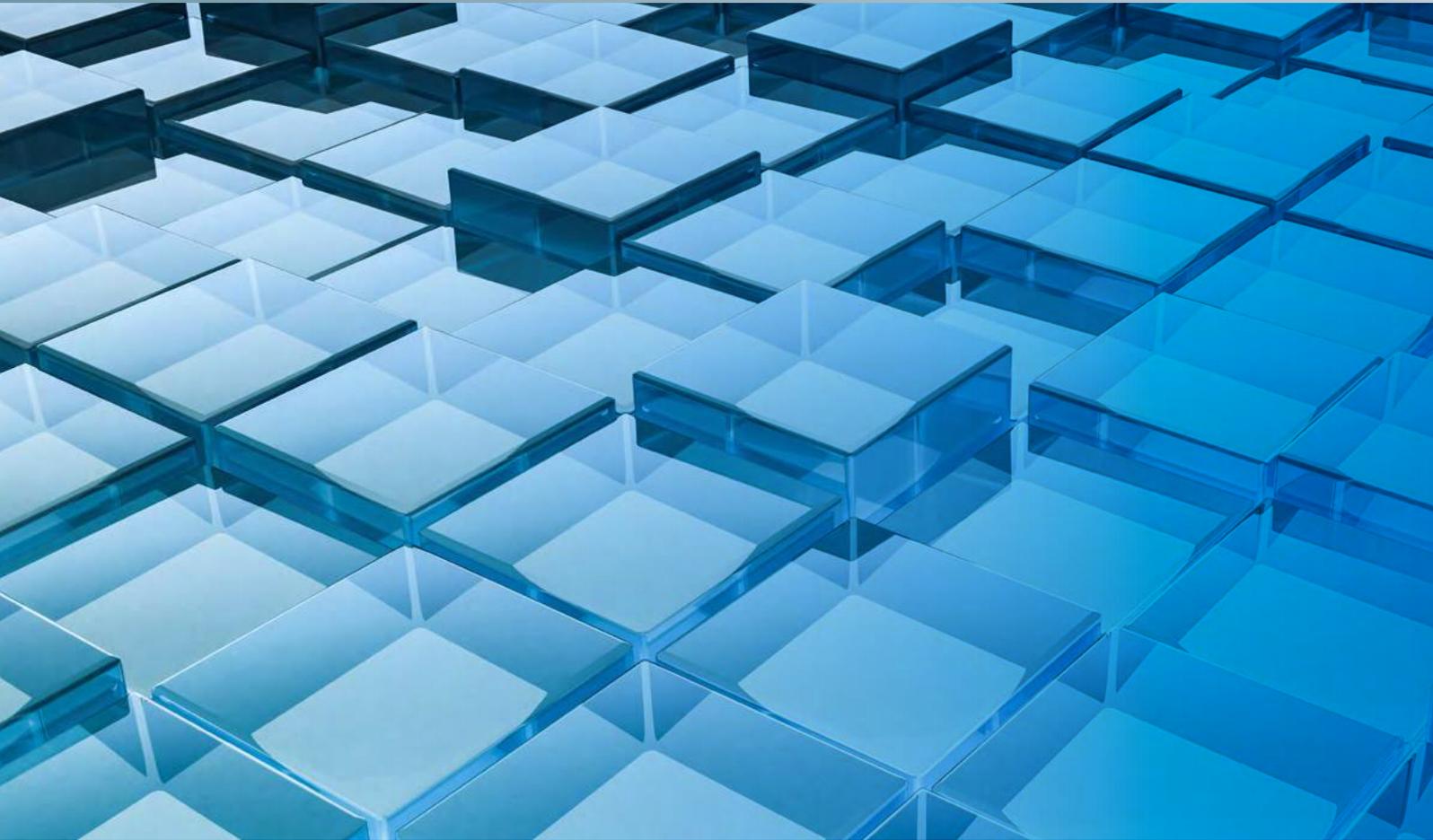
Order on online shop  
after searching for information in print media



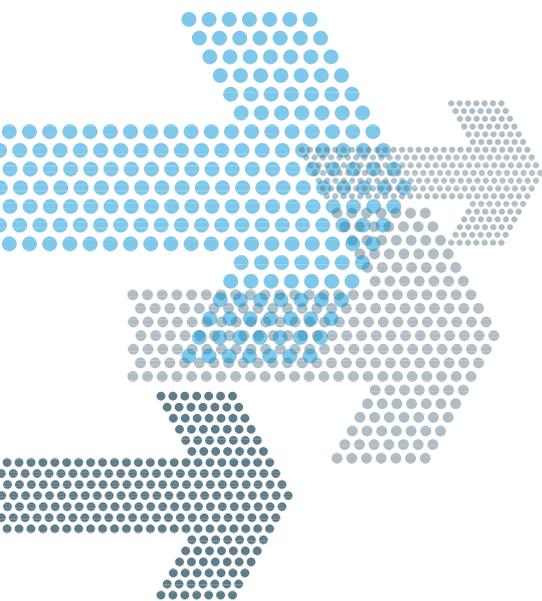
**31.5 %**

Order in online shop  
after personal contact





### Sources of online information before buying with personal contact



Search engines: 51.7 %  




Online shops: 47.8 %  




Dealer or supplier websites: 40.8 %  




Websites of manufacturers: 39.3 %  






Loss to other sales channels if personal contact is not possible





## »» Case study: Service as a focal point of business development

Multiple investigations have shown that many companies in the service sector are not achieving as much as they expected or fully exploiting their potential. One example from production practice shows how technical distributors can make use of the growth opportunities in the field of service.

### »» The background

A company that manufactures technical components and systems had excellent customer service, but its service sales were below those of comparable companies and in no way reflected the potential offered by the products it had on the market. The reason was the unprofessional way it approached the service business, although it had recognized that service was an important factor for sales growth and profitability.

### What the Atreus Manager did

Alongside making strategic decisions such as “What services do we want to offer which customers in which markets in the future?” he identified the market potential and attractive areas. With that established, the Atreus Manager defined

a service portfolio together with the company management, comprising existing and new service offerings. The extensive service catalog that resulted, with clear service descriptions and clearly defined benefits for the customer was one of its kind among the competition. The second step was to define the sales channel. Part of the portfolio was used as a customer acquisition element in the OEM customer segment. The success factors here were clear definitions of the services and good support by the service instance during the offer process. The sales team was given easy-to-use tools to help them with their sales efforts. And not least of all service sales were incorporated into the sales goals and became part of the measurements that determined sales success.





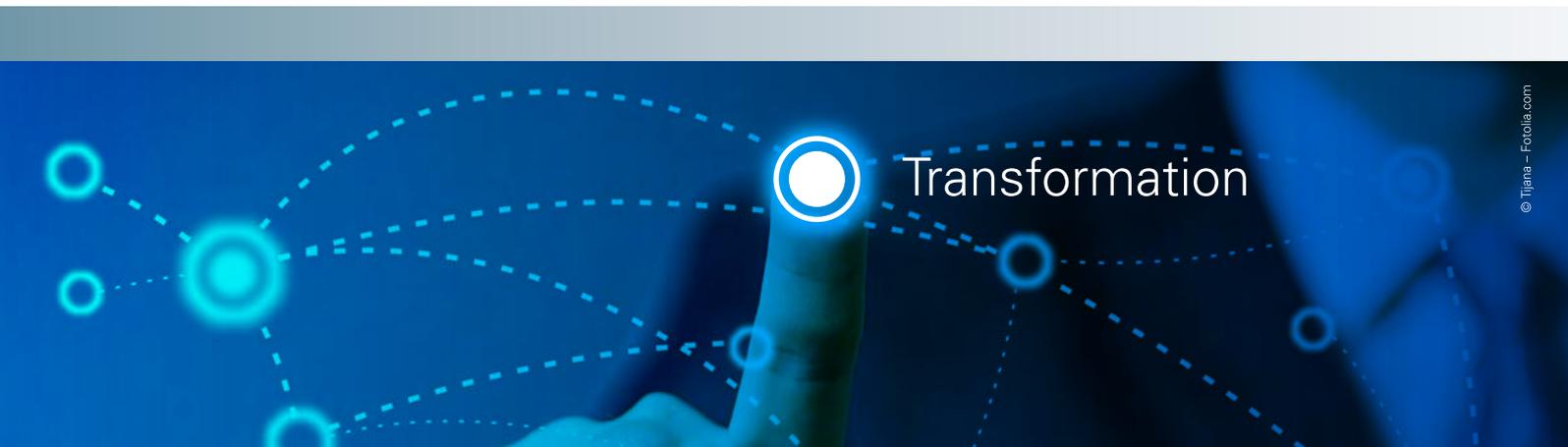
» *Service and new industrial services  
will gain a new dimension through  
digitalization.«*

For the second target group – end customers and users – a separate sales team was set up for the service business. Here, the communication and coordination with the “traditional sales” people was of special significance. This instance was then given its own marketing concept, with a fair booth, advertising, printed matter, target-group-specific address and customer support and acquisition work.

Parallel to that, the vital transparency in the figures was generated. Because of the service system already in place that viewed service simply as a cost center, the reporting system had to be restructured in most cases. In that year, a systematic forecasting and budgeting process was introduced that covered several years.

#### **The success**

The new Service Business Development instance that was set up based on the traditional service-portfolio then introduced new technical services and business models. The result was that the service sales in this company doubled within the space of just a few years, and they now make a significant contribution to earnings.



## » Interim management – Reliable mastering of transformation tasks



The world of consulting and interim management is just as much in a phase of radical change as is that of technical distribution. In interim management it is all about not being a know-it-all, but rather a “make-it-better”, as “brand eins” put it – the German business magazine that distinguished Atreus as the “Best Consultant 2014”. Atreus founder Rainer Nagel reports on the latest trend in interim management.

» Not ten years ago, interim management was still usually considered an emergency solution for companies needing restructuring. Today it is used with a much greater sense of normality. Nowadays it stands for the temporary assumption of management tasks in line functions and projects by external managers that integrate themselves – sometimes also as teams – into their clients’ organizations to reliably master upcoming challenges. The globalization of sales and procurement markets, increasing competition and the dynamic technological transformation are major drivers for interim management. In particular the digitalization of virtually all markets is leading to a permanent need to change and develop, and thus to transformation projects.

Many companies cannot or don’t want to build up the experience required to reliably master these critical challenges quickly enough, especially as they are generally only required for a limited period of time.

The companies not only want support in solving recognition problems, they also want the reliable execution of success-critical transformation tasks and/or the solution of special company situations. Thanks to its development from know-it-all to “make-it-better”, interim management has become a tool that top management uses as a matter of course. An interim manager or team of interim managers gives these companies access to the condensed management experience of their entire network. When calling on assistance from

Atreus, the client relies on the services of a flexible company and is supported by the expert know-how and hands-on implementation power of the Atreus Managers; a network with several hundred person-years of relevant experience at its disposal.

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