The Distribution Evolution: Survival of the Fastest
Technology and the Evolving Distribution Business Model

An Industry Viewpoint based on an Infor Distribution Webcast June 26, 2012
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INTRODUCTION

In a hyper-competitive, global industry, distribution companies are looking for any advantage that will help them attract business, boost efficiency, and help customers shift to enterprise platforms that will sustain and build their operations.

In this June 26 webcast hosted by Industrial Distribution, Eric Ryerson, Director of Development, Distribution at Infor, and Braden Green, Director of Operations at Tenaquip Ltd., discussed the success factors that have helped Tenaquip meet and stay ahead of its market's needs. The conversation showed the powerful synergies that occur when a culture of relentless innovation connects with a technology provider that can anticipate and meet the demands of a constantly shifting business environment.

AN EVOLVING BUSINESS MODEL

• From paper catalog to online tools
• From wholesale distributor to virtual integration
• A flexible approach to branding

Tenaquip’s evolution since 1968 has paralleled much of the change that is sweeping the entire industrial distribution sector, but Ryerson pointed to the company as a leader in deploying tailored software solutions to keep it ahead of the field. “Every time I’ve interacted with the Tenaquip organization, I’ve learned something, and learned something surprising,” he said.

Green said Tenaquip started out as a catalog distributor for the material handling industry. “We used CRM techniques back in the day, just to get our catalog out to our customer base,” he said. Over the years, that customer base evolved, new product lines emerged, and the company now offers an inventory of more than 400,000 SKUs. Whether a customer is a law firm or a manufacturer, “if you’re in business, whatever that business is, we can provide the products you need to actually run your business.”

Tenaquip has undertaken its share of vertical integration over the years, adding a manufacturing company to produce material handling products and offering privately branded products to some retailers. It also buys and sells products with its wholesale competitors. “We’re no longer just sitting back in our traditional market,” Green said. “We’re constantly adapting to what our customer base asks for. That’s how we drive where we’re going and what we’re doing.”

Ryerson asked how Tenaquip determines branding, and who owns the brand in a more complex corporate relationship. “As we go into a more globalized economy and we can source things from different areas, branding seems like the last bit of real estate that stakeholders can put their arms around,” he said. Green said the answer depends on market expectations. Sometimes, it’s useful to acquire a brand that resonates well in a particular geographic area. Other customers may relate to an established North American brand: “They know the name they’re looking for, they know what it stands for, and they know the quality that comes along with that.” But when brand isn’t as important, private label products can open the door to lower supply chain costs that ultimately benefit the customer.
A HYPER-COMPETITIVE ENVIRONMENT

- Aggressive growth fuelling intense competition
- Rise of co-opetition
- Arrival of web-based retailers
- Multiple new customer channels
- Justifying the investment: “Can you afford not to?”

In an atmosphere of “aggressive growth in various areas, with companies wanting to grow through acquisition, organically, or both,” Ryerson said Infor customers face intense competitive pressure every day.

“It seems to be really heating up sector by sector,” he said, and “we also see new types of relationships, co-opetition or co-petitive pressures where some distributors are selling to their rivals, buying from their rivals, or sometimes both.” He asked Green how Tenquip deals with the strategy decisions and potential supply chain confusion that result.

Green said technology is driving new forms of competition. If the bottom line is to make the customer’s life easier, transacting products back and forth with competitors is “all part of the customer service side of the game.” But Tenquip also sees web-based retailers moving into the traditional distribution space. “There’s an easy place for people to source product now,” and “that’s changing the whole way we play the game.”

As an established distribution business, Tenquip can defend its turf with a “feet on the street” sales strategy, augmented by the shift to vendor-managed inventory and integrated supply, but also by building its own online presence. “It’s about getting to our customer base on all these different channels,” he said. “You have to cover all the bases and touchpoints.”

A participant asked how organizations can rationalize the cost of new technology. Ryerson said that’s a question each company must answer for itself, but “especially given the pressures we see in the market, the way to look at it is as an investment model.” Any investment carries a certain degree of risk, “but you also have to look at where you are in the marketplace and whether you can afford not to.” Green said a major new technology investment can be difficult to justify, but “if you were waiting for a perfect rationalization where the numbers matched perfectly, you would probably never do anything, and that isn’t a great business decision, either.”

A CULTURE OF INNOVATION

- A constant state of evolution
- Cutting-edge technology
- A company-wide mindset
- Aligning with Generation Y
- Crowd-sourcing the next innovation

Ryerson observed that constant evolution “seems to be part and parcel of who Tenquip is.” Some companies operate on a slower evolutionary cycle, with periods of rapid transformation driven by generational changes in leadership, mergers and acquisitions, or sudden bursts of competitive pressure. By comparison, Tenquip appears to be in a continuing state of change, to the extent of identifying its own manufactured items that it can supply more effectively by outsourcing production. He asked Green about the management philosophy behind that difference, and the implications for day-to-day operations.

“We’ve always believed that being at the cutting edge of technology will always be better for our business,” Green said. That means keeping up with the “latest and greatest software,” using best-in-class systems to operate more efficiently and effectively and, ultimately, creating a better customer service experience.
“The company’s whole feeling of evolving and using the technology permeates every other area we look at. It makes us change more quickly. We don’t believe in sitting back on the technology” when an upgrade will lead to smarter, more effective operations and better business results.

“That’s a mindset of the entire company,” he said, and “people work very well in that environment because it’s very dynamic and a lot of fun.” With the right technology as a cornerstone, Tenaquip is constantly on the lookout for sudden innovations, new methods, and better ways to meet customers’ expectations, whether the focus is product management, product selection, or overall service delivery.

Ryerson said Tenaquip’s evolutionary mindset and embrace of technology and innovation seemed to be driven by a company culture of engagement and cooperation. While it sounds easy to put great results down to a great culture, “it can’t be that simple, because if it were, a lot of other companies would be doing it a lot more aggressively, and they’re not.”

“If I made it sound simple, that was certainly not my intent,” Green replied. The distribution world can be “a little bit slow to adopt certain technologies,” and Tenaquip sometimes finds itself ahead of the market. But the company’s new web innovations group is an example of what will be needed to address a massive, generational shift in business practices: sales representatives are finding it more difficult to book meetings to discuss products and solutions, with Generation Y buyers rejecting hard copy catalogs in favour of online information.

“If it’s just peddling products, it’s not going to work,” Green said, so Tenaquip leveraged technology to deliver an “easier, friendlier way for customers to get information about our products” and make purchases online. The company’s sales force is also looking at opportunities to streamline purchasers’ lives through vendor-managed inventory and integrated supply technologies. “We can’t afford to stand still in a lot of those areas,” he said. “We need to constantly push forward.”

Ryerson pointed to the “tight feedback loop” that connects Tenaquip’s operational team, everyone from sales representatives to warehouse staff, to the product development cycle. Green agreed that “some of our best solutions come from customers picking up at the door. A truck driver will mention something to a shipping person,” and if the idea makes sense, it gets developed and implemented.

Ryerson said that approach reflected a wider transition from command-and-control to a more crowd- or employee-sourced management style, with the Internet driving deeper engagement across all business relationships. “You’ve got something special,” he told Green, at a time when many other organizations are struggling with how to integrate feedback and react quickly. Green said the solution is to create the right technology pathways, so that ideas and suggestions can bubble up through the chain of command.

SOFTWARE SOLUTIONS: ALL OF THE ABOVE

- Integrated supply
- E-commerce
- Mobility
- Data optimization
- CRM
- Social
- Pick one
- Pick all?

Ryerson listed a series of technology-based innovations of interest to Infor’s distribution customers and asked which ones Tenaquip had prioritized. Green said the company’s approach has been to pick all of the above, but e-commerce tops the list.

“There’s that whole new Generation Y coming up, and they don’t want to deal with us in the same way they always used to,” he explained. Even in-house staff prefer email, social media, and chat
functions to communicating by phone. With customers looking for instant information, and sales staff determined to provide it, e-commerce is “a huge game-changer in the marketplace.”

He said integrated supply has been particularly important in the industrial market. Manufacturers are under enormous pressure to cut costs, and “the more we can do to manage their supply of our products and alleviate their work load, the better.” When customers ask Tenaquip to take over some of the functions of their own purchasing departments, a cost-effective solution depends on technology. “The best solution is to automate, and we’ve had some great successes on that front.”

With sales representatives finding it more difficult to line up face-to-face customer meetings, Green said mobility ensures they have “all the answers at their fingertips” when the meetings do take place. Data optimization helps customers manage demand without adding significant costs to their supply chains, while CRM requirements continue to shift in response to new legislation, shifting demographics, and changes in customers’ information preferences.

He stressed that technology is the key to reducing costs and protecting margin in an integrated supply environment. “If we can get their computer systems talking to ours, if we can reduce the time customers spend in their tool shops and replace that with vending machine solutions that talk electronically to our ERP system and replenish automatically…the answer is not really reducing the cost of the product, but reducing the cost of the procurement side.”

Ryerson said Infor had just deployed a new social media platform internally, to determine how best to integrate it with the ERP before releasing it to customers. “When you can leverage a social platform for the distributor to host the conversation between manufacturers or suppliers and your customers or end users, there could be a real advantage,” he said. With distributors moving toward a business model based on service and information, he asked Green about the opportunity to host the community and the conversation, then mine that data for trending, crowdsourcing, sentiment, and predictive analytics.

Green replied that data is already “a large part of where we’re going,” and its importance will “expand tremendously” in the months and years ahead. Today’s sales and marketing campaigns combine web, email, social media, and conventional advertising, “all different ways and multiple approaches to get to your customer base.” The next, crucial task is to know who comes to the site and track the questions they ask. New CRM platforms “expand the amount of information we have to work with to make us better at what we do,” by giving customers “an easy platform to bring back feedback, good or bad. You have to use it to improve your business processes.”

Ryerson discussed the feedback back to the growing requirement for visibility and transparency from one system to another, across different organizations, ERPs, and application technologies. He asked Green how that need is met by “punch out” systems that give buyers secure access to a vendor’s online store. Green said Tenaquip is constantly looking for opportunities to integrate multiple suppliers, automate transactions, offer customers a single point of access to multiple vendors’ inventory, and create opportunities for direct shipment and better customer fill rates.

With most companies running systems that were designed to operate within the four walls of a single organization, Ryerson asked how a company can use its ERP to extend into a customer’s system. He said Infor is trying to deliver more platform-level support, to give customers more agility and a more stable system to reach out to novel devices and interface points. Green said open architecture technology has been central to Tenaquip’s evolution.

“Ten years ago, we had an ERP system, and that was pretty much it;” he said. “Today, we run somewhere upwards of 50 different softwares simultaneously, all doing different things and interacting together,” so effective integration becomes much more important. “You can’t wait for that one release on one piece of your puzzle to move forward,” he stressed. “You need those platforms to evolve at different times and not be dependent on each other.”
THE DISTRIBUTION EVOLUTION

- Infor Road Warrior
- Infor ION
- Infor Storefront
- Inforce Everywhere
- Social Space (coming soon)

Ryerson said Infor has seen a major shift from a single, monolithic ERP system to a diverse, best-of-breed, point solution model, leading to personalized platforms that can evolve at their own pace. “There’s a lot to be done there, we have a lot on our plate, but we’ve made a lot of progress,” he said. Key highlights include:

- Infor Road Warrior, the breakaway mobile platform that gives your sales force immediate access to critical customer and product data, embedded business intelligence, and location awareness, with speed and functionality that rival its desktop counterparts
- Infor ION, the Intelligent Open Network that accelerates your business performance and provides a backbone for automated integration, up-to-the-minute workflow updates, and rapid, modular software upgrades
- Infor Storefront, the world-class online shopping platform that enables you to expand your e-commerce B2C an B2B customer base and make integrated supply a practical reality
- Inforce Everywhere, the integrated CRM platform that combines Salesforce.com, the world’s leading sales application, with Infor ERP applications to give you a 360-degree view of your customers
- Coming soon ... Social Space, the state-of-the-art social platform for sharing documents, information, and conversation with your employees, customers, and suppliers.
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