Are You Prepared for Next-Gen Disruptors?

Bonus Article by Eric Smith, Associate Editor

This month we feature a bonus article on how to prepare for the arrival of "next-gen" disruptors – those still-unknown companies harnessing the technology that will threaten traditional wholesale distribution channels.

Associate Editor Eric Smith shares highlights from a presentation Hil Davis, CEO, BeautyKind LLC, delivered at the recent National Association of Electrical Distributors national meeting in Washington, DC.

Your distribution business faces threats on a daily basis, from the growing talent gap to a challenging sales environment to ongoing industry consolidation. But a less obvious disruption lurks on the horizon – investors looking to bankroll the next Amazon, Netflix or Uber.

Silicon Valley venture capitalists have billions of dollars to pour into a next-generation B2B disruptive idea, one aimed at putting distributors out of business by using technology in a new way and rattling traditional channels, according to Hil Davis, CEO, BeautyKind LLC, who spoke at the recent National Association of Electrical Distributors national meeting in Washington, DC.

Withstanding this threat is possible, Davis said during his presentation, "Out of Left Field: Preparing for Next-Gen Distribution Disruptors," if companies ready themselves for a competitor that might emerge from nowhere and disrupt distribution the same way AirBNB flustered the hospitality industry or Square reshaped point-of-sale business.

"You must ask yourself, 'How do you redefine your strategies and your operating margins and your capital allocation and pricing structure accordingly for this?'" Davis said.

The source of the next generation of disruption is likely to arise from the venture capitalists and investors who "think the industry is slow and sluggish, not forward-thinking," Davis said. "There's a lot of money sloshing around. They play by different rules, which isn't necessarily fair, in regard to returns (on

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their investments). But whether you like it or not, they're looking at this industry and are going to disrupt it."

Textbook cases of recent B2C disruption include Netflix putting Blockbuster and other video rental companies out of business and Uber taking market share from taxi companies. Amazon has taken aim at the B2B space with Amazon Business – formerly AmazonSupply – giving the online giant a platform to meet business buyers' demand for faster service.

The "Amazonification" of the supply chain is a term that Wade McDaniel, vice president of supply chain solutions, Avnet Inc., Phoenix, AZ, uses to describe how customers' "expectations are at a higher level than ever. The customers get what they want in the end."

Amazon bankrupted Borders and decimated Barnes & Noble, and that formula is exactly what investors are looking to replicate in other verticals. "Don't think you're going to be immune to it," Davis said. "(Investors) love big, slow industries."

Next-gen disruption might start small, most likely by focusing on a niche in your business, Davis said. "And it's going to be really helpful – it's going to add value, such as payment processes, real-time information, the portal that everyone uses. This is hard to understand, but you're not going to be better at this than they are. They employ the world's best engineers, and this is all they do."

How do you prepare for what Davis called an inevitable arrival of disruptive companies coming to steal your customers with aspirations of adding you to the ignominious list of companies that couldn't keep up?

It is a tough task because no one knows how disruption will manifest itself, Davis said. The disruptor often grows like a weed, slowly taking root before sprouting uncontrollably and choking the life out of others in the marketplace.

While bookstores were the first business that Amazon threatened, now grocery stores and cloud computing services are in their sights. Netflix first killed Blockbuster and with its original programming is now taking share from cable companies, embracing a generation known for cord-cutting.

Distributors must become fluid and flexible, able to adapt to the disruptive agent as it evolves, which is challenging because "companies are being built faster and the rate of change is moving so fast," Davis says. "They go direct to your customer and cut out the margins. You might accept it instead of trying to fight it. Embrace it and realize it's not going to stop."

Davis says companies should begin by addressing the three following concerns:

- Define the disruption relative to your core customer value proposition today and in the future.
- Define if the disruption creates a structural change or a competitive advantage or both.
- Define hiring, tech and ongoing support costs to support or defend against the disruption.

Once those are defined, focus on these steps:

1. **Talk to your customers**. Hone your customer value proposition by having conversations with your customers. Understanding their needs and ensuring there is no disconnect can help insulate your company from the up-and-coming competitors trying to steal market share.
2. **Invest in technology**, albeit technology that makes sense for your company's size and model. As Eaton Corp. CEO Sandy Cutler said at NAED's national meeting: "If you're behind, you better catch up. If you're ahead, you better move faster."
3. **Protect your data**. If you're going to invest in technology or partner with a third party, make sure you maintain sole ownership of the data and source code.
4. **Engage millennials**. Hire young talent and ask them how they would disrupt your company, whether that's through social media or mobile or some other new digital space that you aren't aware of but they are. "You're going to give a millennial who needs a lot of love a lot of love," Davis said. "You're also going to get ideas from it."