Think Differently
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tors expanding in the U.S. market

- Entrepreneurs building their own businesses to serve a piece of the traditional distributor's market
- How distributors can prove value to their customers despite the changing landscape

According to Stuart Mechlin of Stuart Mechlin Advisors, former senior vice president of Affiliated Distributors' Industrial Supply Division, when it comes to thinking about nontraditional competition, companies need to think beyond just Amazon.

"You're going to have people becoming competitors in this field who are coming from very different disciplines," Mechlin says. As an example from another industry, he referenced successful businessman Richard Branson's diverse group of companies, which started with a focus on music and record stores but now includes a cell phone business and an airline, Virgin Atlantic Airways.

Look beyond the product to the other elements of the distributor's value proposition, including logistics, process, expertise and financial services. Just as logistics was taken over by UPS and FedEx decades ago, Mike Marks of Indian River Consulting Group says that technology has fueled a "refragmentation" of traditional distribution functions, allowing someone to sell products or services and compete without ever having to carry inventory. "There's a whole economy going on that a lot of distributors are clueless about," Marks says.

While no distributor can predict what might happen next, it's critical to take a closer look at what could affect your business in the next five to 10 years and what you're doing to remain relevant in an increasingly busy marketplace. "If you're out there innovating, it's an opportunity," Marks says. "If you're not, it's a threat."

■ *The Shifting Competitive Landscape: Collaborations*

Collaboration Builds Local Value, Influence

Distributors work together to strengthen their positions in local markets

The case studies starting on pages 5, 7 and 8 of this issue, the first articles in MDM's series on the shifting competitive landscape in wholesale distribution, feature distributors who are collaborating to compete more effectively.

These distributors are adding value to customer relationships by partnering with competing or complementary distributors to meet customers' needs more effectively and efficiently. The collaboration includes integration across a wide spectrum, from selling another distributor's inventory to opening branches together.

This growing interest in collaboration among distributors is changing the competitive landscape. If done right, it builds on the distributors' value propositions and expands their influence in their local markets. This can pose a threat to competitors who may underestimate the impact such collaboration can have, not only through greater efficiencies, but also through increased revenues and greater stickiness with customers.

On a broader front, partnerships on a local level potentially take the edge off national distributors' advantages of scale and product diversity.

In fact, interest in collaboration has grown enough that one of the largest marketing groups in the industry – Affiliated Distributors – is starting a program called Co-Ventures, playing match-maker for AD distributors across sectors. The poster child for that effort is a partnership between plumbing supplies distributor APR Supply, electrical distributor Schaedler Yesco and PVF distributor Industrial Piping Systems in Pennsylvania. In the article starting on page 5, Associate Editor Jenel Stelton-Holtmeier provides a closer look at that effort and the factors that have made it successful.

Evan Rosen, author of *The Culture of Collaboration*, says that there seems to be a growing realization across industries that people must work together to create value, whether working for the same organization, a complementary one or a competitor. "Organizations are waking up and realizing that they can create infinitely greater value by collaborating toward a common goal rather than working at cross purposes," he says.

Rosen has done extensive research on the interplay of culture, environment and technology to support collaboration. In an interview with MDM, Rosen talked about the benefits and challenges to consider before forming an alliance with another business.

MDM: You write that value creation opportunities should drive any collaborative efforts. Is there a framework that companies should follow when deciding whether to collaborate with another company?

Evan Rosen: Value creation should drive any collaboration whether it's internal or external. Collaborating with partners and competitors requires mutual creation of value. If only one party derives value, the collaboration will fail. The framework for collaboration must be built on trust and common goals. Why share ideas, information and data with another company if there's suspicion and hidden agendas?

MDM: What are the challenges that companies face when they collaborate with a competitor or with a non-competing but complementary business? Are there different challenges in each situation?

Rosen: Collaboration among competitors or with partners makes sense only if the collaboration creates value for all parties. Collaboration among companies can reduce costs by eliminating redundancy and increasing efficiency.

The key to collaborating with a competitor is to identify non-differentiating processes. These are processes that are not part of the perception of a company's products or brand. Non-differentiating processes include packaging, delivery, order fulfillment, purchasing and warehousing.

For a hot sauce company, the non-differentiating process might be bottling. Two competitors can achieve cost savings by combining their bottling operations. Bottling is a non-differentiating process because how the hot sauce gets bottled is not obvious to the customer. For collaborating competitors in the automotive industry, many parts under the hood are non-differentiating. In the aerospace and automobile industries, there are consortiums for purchasing. Purchasing is a critical process, but it's non-differentiating in the marketplace in that it's typically not part of the product or brand perception.

MDM: Which types of collaboration in your experiences seem to be most successful?

Rosen: Well-defined collaboration is the most successful. Some companies put out a joint news release about cooperating, and they call this collaboration. The goals and roles of each party are murky, and very little collaboration happens. Instead, identify specific processes that through collaboration will create value for both parties. Build trust, develop common goals, and the collaboration will likely succeed.

MDM: What's the potential impact on the culture of organizations when you collaborate with either a competitor or with a complementary business? Are there considerations to keep in mind on the culture front?

Rosen: I wrote a book called *The Culture of Collaboration* that discusses the huge role of culture in collaborating. The internal culture of each collaborating organization impacts cross-organizational collaboration. If a company promotes hierarchy, information hoarding and internal competition internally, what are the chances that the company will collaborate effectively externally? Zero. Companies with collaborative cultures are far more likely to collaborate effectively with partners and competitors. So a company that wants to create value through collaborating with partners and competitors should begin by collaborating internally.

MDM: Are there any legal liabilities that companies should be aware of when they decide to collaborate?

Rosen: When two lovers move in together, often there is no plan for the length of the relationship and each person's role. To avoid a similar situation, collaborating organizations need structure and clarity at the outset. The collaborators must determine how they will use each other's intellectual property and how, when and for what purpose each collaborator will use any jointly-created intellectual property. Also, guidelines and agreements should spell out the tools the collaborators will use and how and when to terminate collaboration. There is too much at stake to leave guidelines to chance.

Evan Rosen is the author of The Culture of Collaboration. Learn more about Rosen and the book at www.thecultureofcollaboration.com.

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