



Business Model Innovation

How distributors are challenging convention to delight customers, disrupt competitors, and drive revenue

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Introduction

Distributors are increasingly bullish on business model innovation. Our latest MDM Research on business model innovation finds that wholesale-distributors are prioritizing investments in business model innovations that fundamentally redefine where they play and how they win.

This research, conducted over the past several months with nearly 100 distribution executives, reveals that business model innovation is increasing in priority for distributors, and investment dollars are following suit. Perhaps even more interesting is the finding that distributors are beginning to realize the benefits of these investments, with significant new revenue being generated from business model innovations launched within the last five years and research participants sharing high ambitions for new revenue creation in the next five years.

Our report shares the findings on what distributors have accomplished to date on business model innovation including insights about how many innovations distributors have attempted, what volume of new revenues they are producing, the types of capabilities being built for business model innovation, and what types of innovation distributors have their eyes on moving forward.

By drawing connections between these attributes, we've also been able to uncover early but encouraging findings that may help explain the outsized success that a small cohort of distributors are realizing.

We also share stories of business model innovation from a diverse range of perspectives across the distribution sector: a seasoned expert consultant to some of the world's largest distributors and manufacturers, a midwest-based distributor transforming their current business model, a large distributor redefining the way their firm generates revenue, and a manufacturer keen on the role distributors will play in their innovation-fueled future.

About the author

We invited Kevin Reid-Morris of Readmore Ventures and advisor to executives and boards on matters of innovation and growth, to lead this research initiative for MDM.

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What is business model innovation?

Ask 100 executives what a business model is and you're likely to get just as many answers. As such, before we dive into the findings of our research, we thought it would be important to establish a clear definition for what we mean by the term 'business model innovation'.

For the purposes of our research and the report that follows, we've adopted the robust definition as set by Alexander Osterwalder, the Swiss business theorist and researcher known for his work designing and developing the *business model canvas*, a framework for assessing and designing new business model.

Osterwalder's definition, which has become the de facto standard for describing a business model is "the way a company creates, delivers, and captures value."¹

A business model is the way a company creates, delivers, and captures value.

At its core, a business model encapsulates the products and services a company sells, the target market it serves, and the expenses it occurs. However, it goes beyond these basic *where to play* and *how to win* choices to also describe how the company engages with customers, operates with partners, differentiates from competitors, and generates revenue.

Osterwalder's framework includes nine elements, or building blocks, that make up a business model:

1. *Value proposition*
2. *Customer segments*
3. *Channels*
4. *Customer relationships*
5. *Revenue streams*
6. *Resources*
7. *Activities*
8. *Partnerships*
9. *Cost structure*

How these building blocks are configured is, of course, critical and changing any one part of a business model – *innovating* – can significantly affect the entire business.

In this paper, we look specifically at business model *innovation*. Our lens for the research was distributors who have or are developing and launching new-to-company business models, either by spinning out new businesses or making significant changes to one or more of the building blocks in their current business model, described in detail on the following page.

As such, we've worked diligently throughout the research to exclude data – qualitative and quantitative – that doesn't meet these definitions. This exercise was insightful, albeit challenging, in and of itself. Seemingly, for every one-hundred stories of efficiency, optimization, and incremental improvements in a distribution business, there are only a handful of true business model innovations.

The research findings, however, lead us to believe that this mix is set to change drastically over the coming years.

1- Osterwalder, A., & Pigneur, Y. (2013). *Business model generation A handbook for visionaries, game changers, and Challengers*.

Innovation Ambition Matrix

This framework, first published by Harvard Business Review¹, helps categorize an innovation by assessing its distance from the core business

While innovation is happening across the distribution industry, not all of it qualifies as *business model innovation*.

To further clarify what we consider to be a business model innovation, the Innovation Ambition Matrix is a helpful tool.

First introduced by Harvard Business Review authors and Monitor Group (now Deloitte) strategists Bansi Nagji and Geoff Tuff, the framework is a simple tool for categorizing an innovation based on its distance from a firm’s current, or Core, business model (illustrated in the bottom left band in the graphic below).

Take the example of a distributor who implements an AI chatbot to help customers discover additional products to buy at checkout. While innovative and certainly impactful, this example illustrates a *Core Innovation*. It incrementally improves the company’s existing business but doesn’t create a new business model.

To qualify as a business model *innovation* in our study, we presume that a distributor takes at least one step beyond the Core business along either axis of the matrix, thereby stepping into Adjacent or Transformational territory.

Consider the example of another distributor, this one in industrial MRO, who realizes they can use on-site sensors to predict maintenance supply needs for their customers and, instead of selling *parts*, can now offer a monthly subscription service based on the uninterrupted uptime of that customer’s facility. This new product, made available to existing customers, is an Adjacent Innovation and one that we include in our definition of business model innovations in this report.

Adjacent Innovations take advantage of something a distributor might already have access to – products or customers – to offer something new or to someone new.

Now imagine that the same distributor – ABC Corp - who pursued the Adjacent Innovation realizes they can create a marketplace where other distributors can bid on contracts to supply parts to the ABC’s customers, leveraging the data now aggregated across their platform. This new-to-world market created by ABC constitutes a Transformational Innovation and is most certainly a business model innovation.

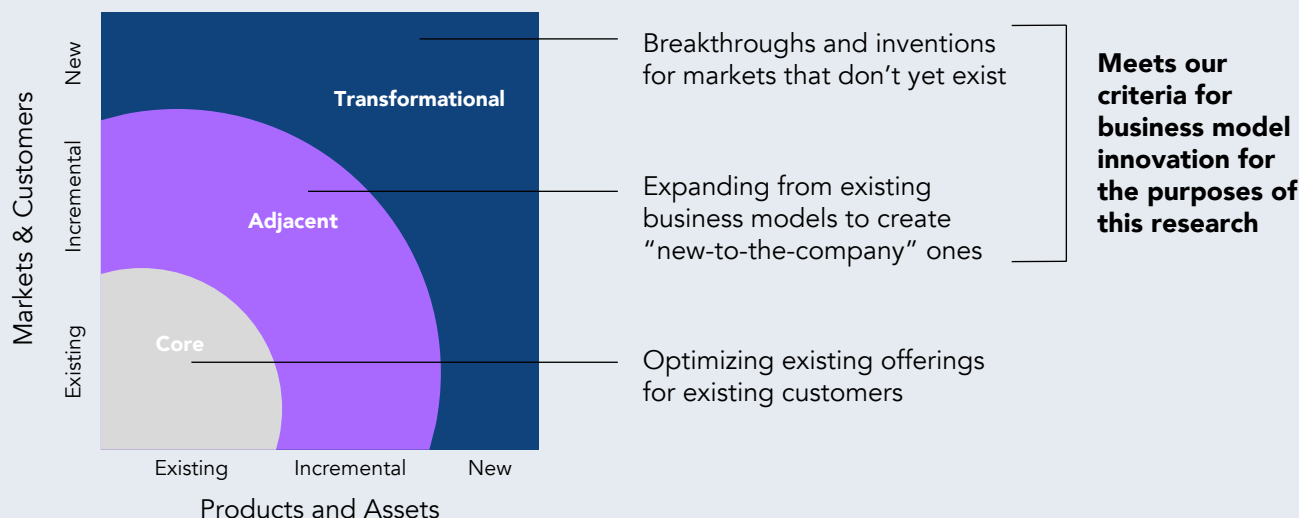
Transformational moves serve and create new markets *and* offerings. These are breakthrough, high-risk and high-reward ventures that often go on to define new categories and challenge industry, customer, and competitive conventions.

We encourage you to use the Innovation Ambition Matrix as a framework while reading the findings of our survey, learning about distributors’ stories later in this report, and in assessing your own business’ innovation efforts.

Figure 1

The Innovation Ambition Matrix

For our research, we consider Adjacent and Transformational innovations to be business model innovations:



1- Tuff, G. (2021, February 24). *Managing your innovation portfolio*. Harvard Business Review.

A sector-wide study of business model innovation in distribution

Our study included a survey distributed to MDM's broad base of readers and subscribers, where we were able to poll nearly 100 distribution decision-makers, 70% of whom identify as being Vice President or more senior (see Figure 2 on the following page for a detailed breakdown).

Because of the nature of business model innovation – and the senior leadership support and decisions required to make it happen – this focus on senior executives was critical to the research findings, particularly when it comes to understanding changes in

investment behaviour and visibility to things like company satisfaction with revenue generation.

Survey participants came from a broad sampling of distribution verticals, with more than 15 categories represented.

Finally, we sought to include distribution executives at companies of all sizes, with representation from distributors doing \$1M in annual revenue all the way up to our larger \$1B+ category, as shown in Figure 3 on the following page.

70%

participants Vice-President or more senior at distribution firms of all sizes^{1,2}

15+

distribution verticals represented including Industrial MRO, Electrical, HVAC, Electronics, and more¹

¹ For this survey, participants self-identified. Numbers reported reflect participant-provided data

² Titles included in this figure include Vice-President, Senior Vice President, Executive Vice President, General Manager, President, CXO, and Ownership. See Figure 2 on the following page for a detailed breakdown.

Figure 2

Executives who participated in our research were recruited to provide senior-level perspectives on business model innovation.

Survey respondents by job title, as % of total respondents¹

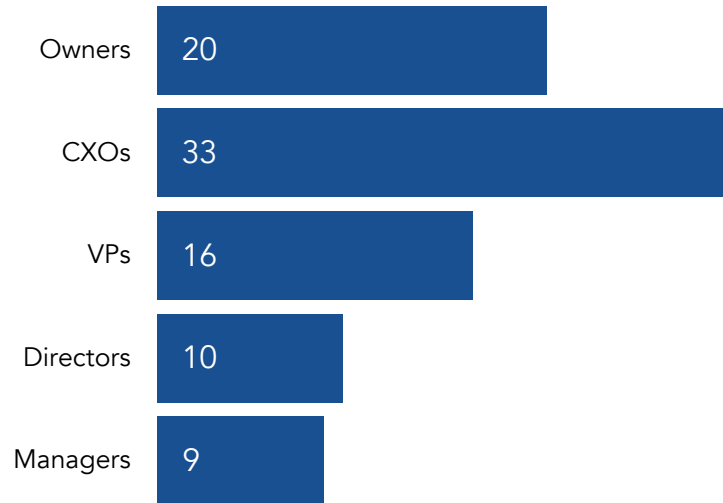
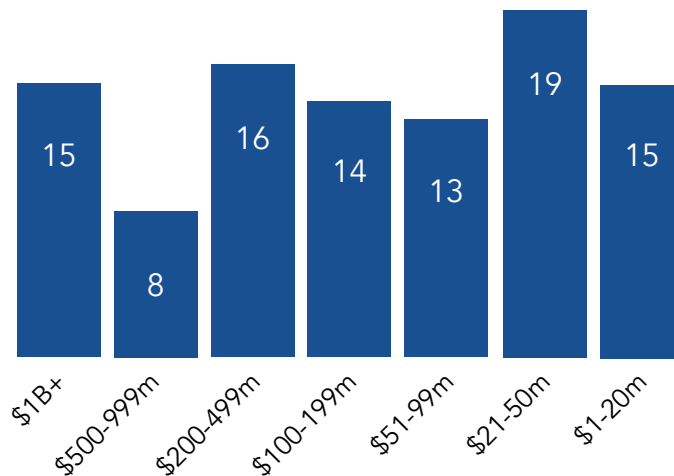


Figure 3

To understand how business model innovation might vary across company sizes, we also recruited participants from distributors with a broad range of annual revenues.

Survey respondents by company size, USD, as % of total respondents¹



¹ Percentages may not total 100%, as they've been rounded for the purposes of data visualization and publication throughout this report.

Distributors see business model innovation as a top priority – and are investing accordingly

Our survey shows that business model innovation is rising as a priority for distributors. 63% of survey respondents agree or strongly agree that innovating their business model(s) has become more important for their companies over the past year.

Survey findings also highlight that, beyond just increasing in priority, business model innovation is making its way to the very top of the priority list overall. 76% of survey respondents shared with us that business model

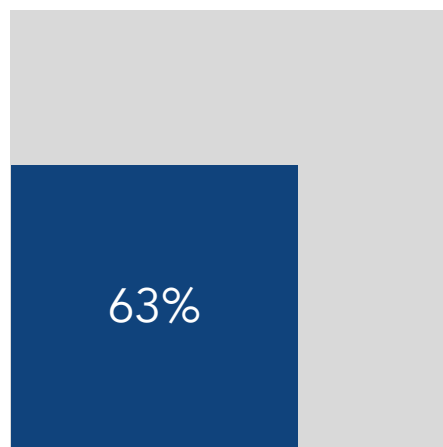
innovation is ranked as one of the 3 most important issues their company is focused on (see Figure 5), with 10% of respondents ranking it as their single most important priority.

It is no surprise then, that distributors' planned investment spend follows this trend, as shown in Figure 6, where a whopping 73% of respondents anticipate increasing their investment in business model innovation activities in the coming year.

Figure 4

Business model innovation is growing in importance

Survey respondents who report business model innovation increasing in importance over the last year, as % of all respondents



63% of distributor respondents report business model innovation increasing in importance due to market changes.

Figure 5

How do distributors rank business model innovation as a priority?

Distributor ranking of business model innovation by top priority levels, as % of all respondents

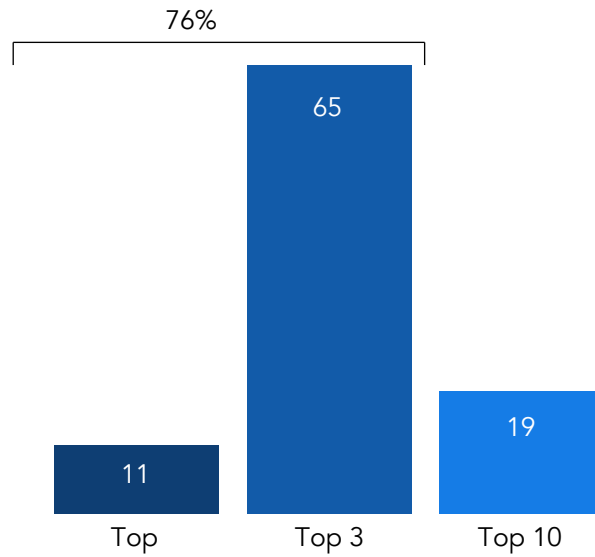
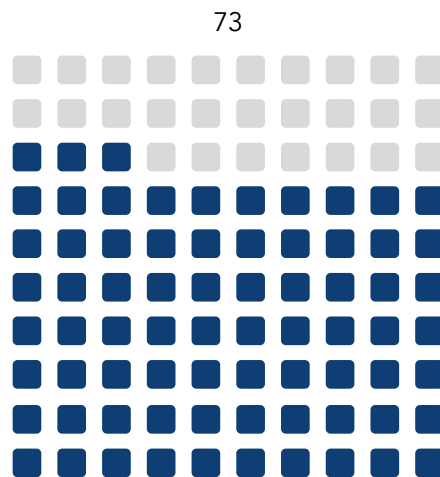


Figure 6

Distributors are increasing their investment in business model innovation in the coming year

Survey respondents who report plans to increase investment in business model innovation, % of total respondents



New revenue is the primary motivation for business model innovation, and other strategic benefits are on the radar

What's driving distributors to pursue business model innovation? Respondents were most likely – 89% of them - to report new market share and revenue streams as their primary motivation.

We also learned that distributors see a range of non-revenue motivations, including competitive distinction, customer needs, new technology, and even company valuation.

All these motivations except for one represent upside. 42% of distributors cite avoiding disruption as a motivation – the only motivation that directly speaks to risk reduction. While

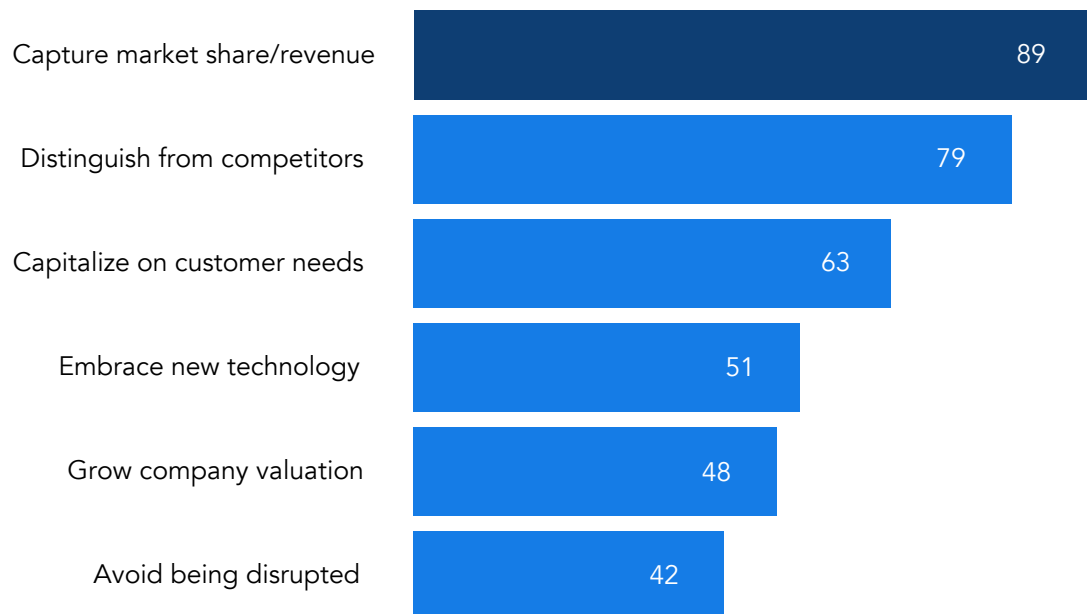
it ranks low relatively speaking, the share of distributors who cite this motivation is still significant.

We heard through qualitative interviews that some distributors go so far as to use this motivation as strategic fodder for conceiving and rationalizing innovation options. One distributor, for example, shared that their leadership team imagines the potential competitor who – if entered their category – would be most disruptive. The team built on this scenario to design their own disruptive moves, shifting from a mode of innovation defence, to proactive innovation offence.

Figure 7

Revenue tops the list of distributors' motivations

Survey respondents' motivations for pursuing business model innovation, as % of total respondents



How are distributors faring in their business model innovation work to-date?

While this is the first year MDM has conducted a survey on business model innovation of this type, we were encouraged by the progress distributors have made on innovation initiatives to date. Nearly 60% of distributors surveyed report attempting at least three business model innovations. Still, nearly 10% of distributors have yet to dip their toes in the water. Figure 8 provides a more detailed breakdown of survey respondents by number of business model innovation attempts.

Beyond attempts, our survey revealed a more promising trend: distributors are starting to reap notable benefits from their investments in business model innovation. As shown in Figure 9, approximately one third of distributor respondents report that between 10% and 20% of their annual revenue is attributed to business model innovations launched within the last five

years. This indicates that innovation efforts are delivering a significant portion of distributors' growth, with a notable average revenue boost of around 13% across the board. Later in this report, we also look at distributors' *anticipated* revenue generation from business model innovations by 2029.

While there's no right answer on how much revenue a distributor should be generating from recent innovation initiatives, we did ask respondents to tell us how they perceived success. 62% of distributors surveyed report that their business model innovation outcomes are meeting or exceeding their expectations (Figure 10).

With nearly 40% of distributors, however, feeling their efforts aren't delivering as expected, significant work is still required to bolster greater success and outcomes.

Figure 8

Most distributors have attempted numerous business model innovations

Share of respondents by number of business model attempts, % of respondents

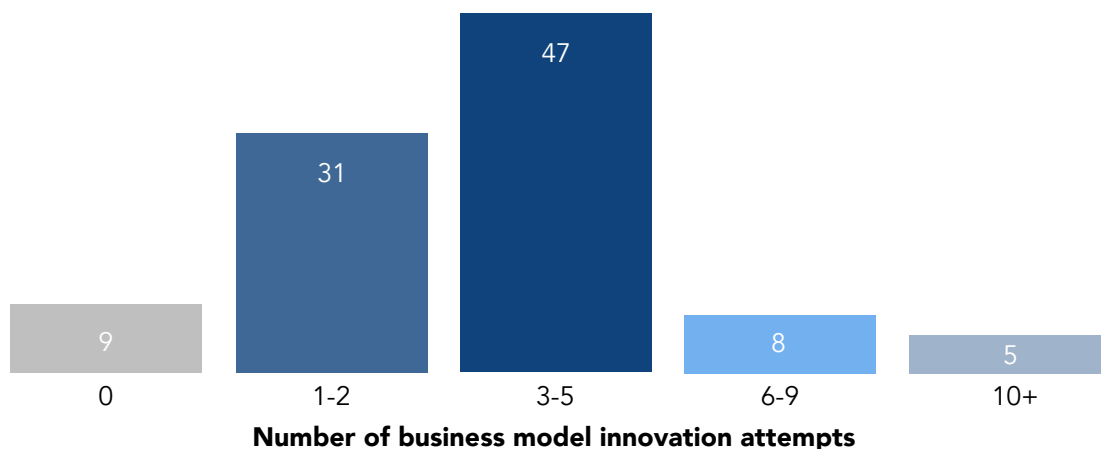


Figure 9

Business model innovation is producing significant revenue for distributors

Share of revenues from business model innovation activities pursued within the last five years, as % of total respondents¹

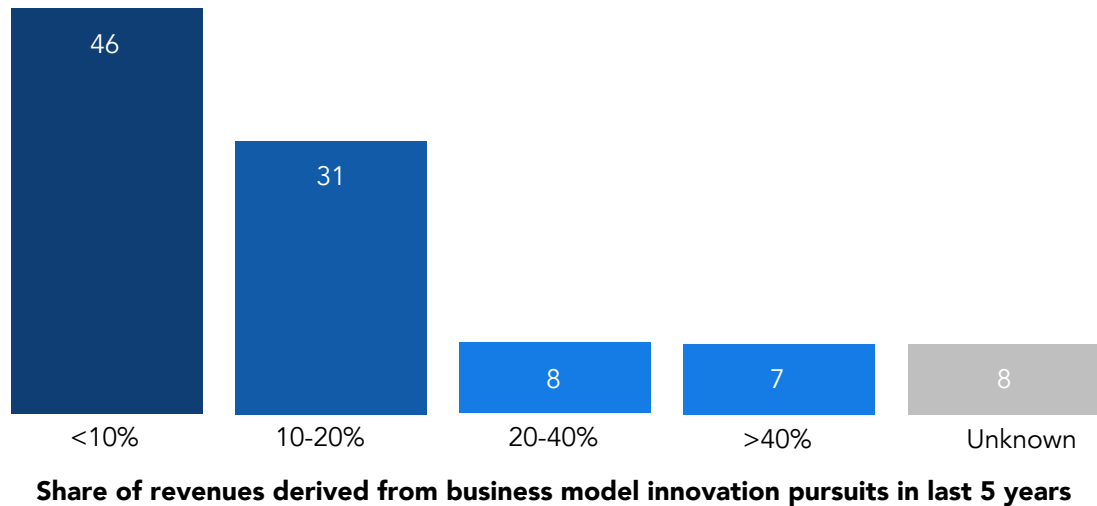
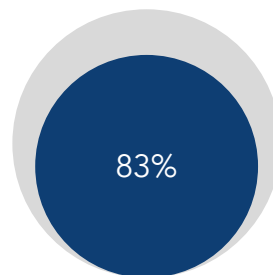


Figure 10

Distributors overwhelmingly report that business model innovation activities are meeting or exceeding expectations

Survey respondents who report business model innovation activities meeting or exceeding expectations, as % of total respondents



Distributor satisfaction with business model innovation is not to say that there aren't significant challenges. Our research sought to understand the barriers distributors face which they feel are impeding success.

At the top of the list, as shown in Figure 11 on the following page, are lack of capacity and lack of skills, with over half of respondents experiencing these challenges.

Interestingly, despite revenue generation outcomes, a quarter of respondents say lack of a business case is holding them back.

Perhaps, despite revenue generation being quite significant, we have more to learn about the capital outlays required to develop and launch these new revenue streams, leading to this challenge being so prominently ranked by distributors.

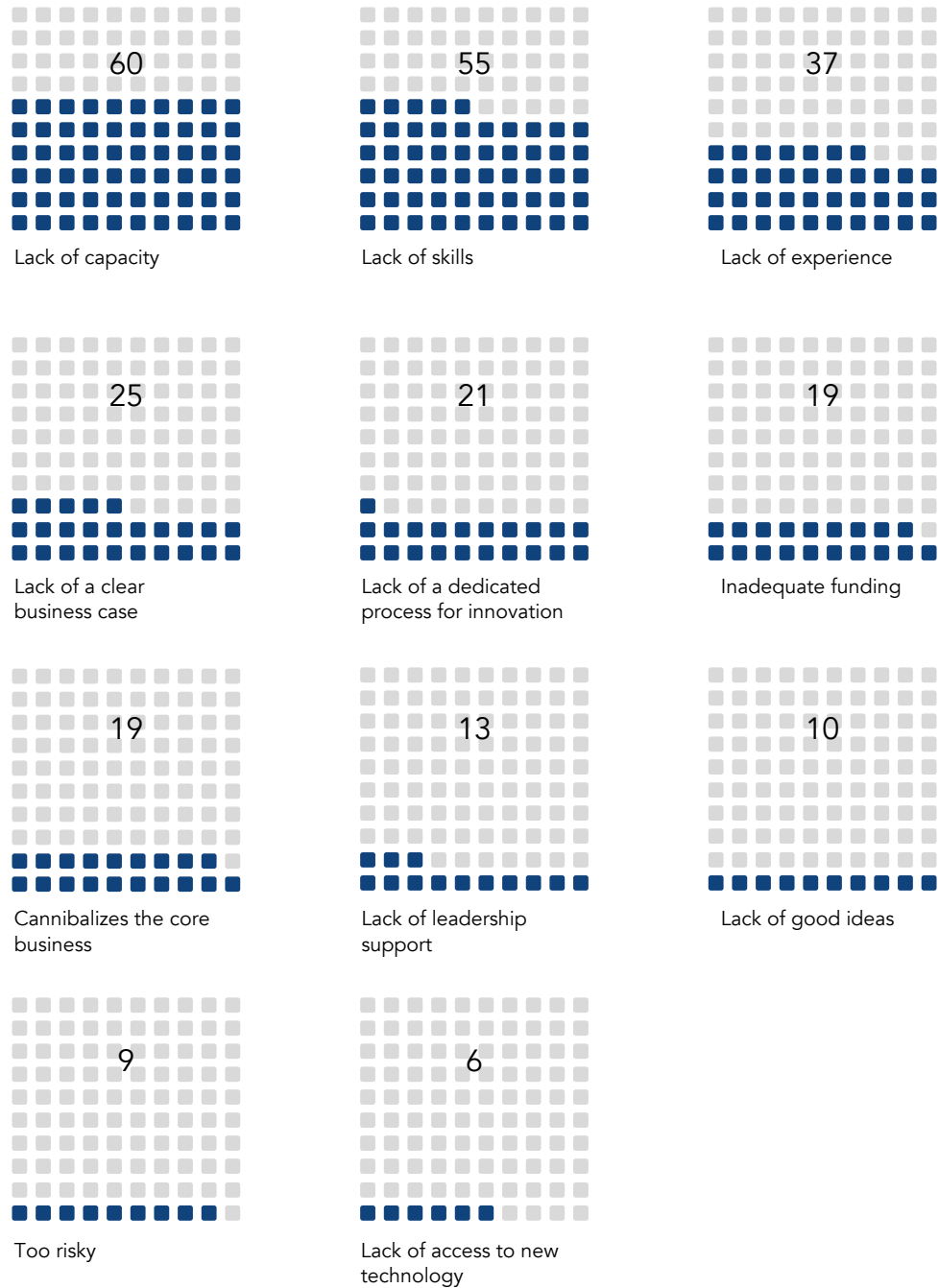
Notably, the highest-revenue-generating distributors in our study were 50% less likely than their lower-revenue peers to report lack of capacity an issue, signally the enormity of that challenge specifically, and the value in building systems to overcome it – something we'll discuss later in this report.

¹ Percentages may not total 100%, as they've been rounded for the purposes of data visualization and publication throughout this report.

Figure 11

Distributors cite lack of capacity and lack of skills as the biggest challenges impeding their business model innovation success

Challenges impeding business model innovation success, % of total respondents



Distributors are building capabilities to pursue new and bigger innovations

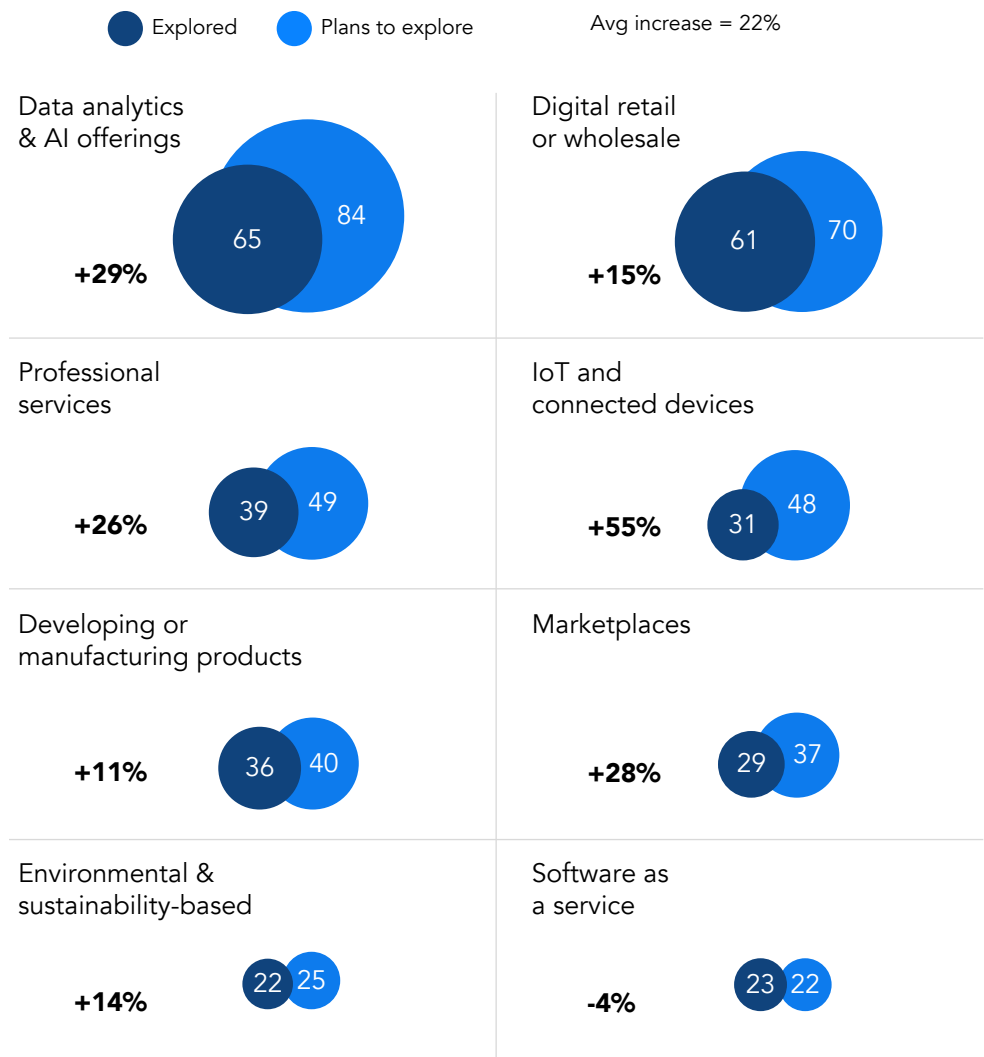
Distributors are eyeing new types of business models compared to those they've explored in the past. We asked distributors to share with us the types of business models they have pursued to date, as well as those they anticipate pursuing in the next five years. Here, we see distinct patterns in areas that may

have reached saturation – such as digital retail - but significant changes that signal new and/or growing interest in others, such as in Data analytics and AI-based offerings, surely as distributors sense that technology has become more widespread, and adoption seems less uncertain.

Figure 12

Distributors plan to explore new types of business models over the next 5 years

Business models explored to-date vs. plans to explore in the next 5 years, as % of total respondents



Pursuing such a broad range of business model types so profoundly different from the traditional distribution model requires new and distinct capabilities. Our research team was curious to learn which capabilities, precisely, distributors are putting into place, and even more interested to understand what correlations might exist between certain capabilities and business model

innovation success. Figure 13 below provides a visualization of these capabilities in order of prevalence. In the following pages, we'll also share how the highest-performing distributors in our survey – in terms of revenue generation and business model innovation activity – differ in terms of putting the capabilities they have prioritized and built.

Figure 13

Distributors are adding and growing capabilities specifically for pursuing business model innovation

Capabilities put in place by distributors for the purposes of business model innovation pursuits, as % share of all respondents



With their sights set on new business models, and armed with deepening capabilities to pursue innovation, distributors have ambitious plans for future revenue growth.

Whereas nearly half (46%) of distributors report that less than 10% of their *current* revenue comes from business models pursued within the last 5 years, only 10% of distributors say that will be the case for them 5 years from now.

Instead, 29% of anticipate that they will

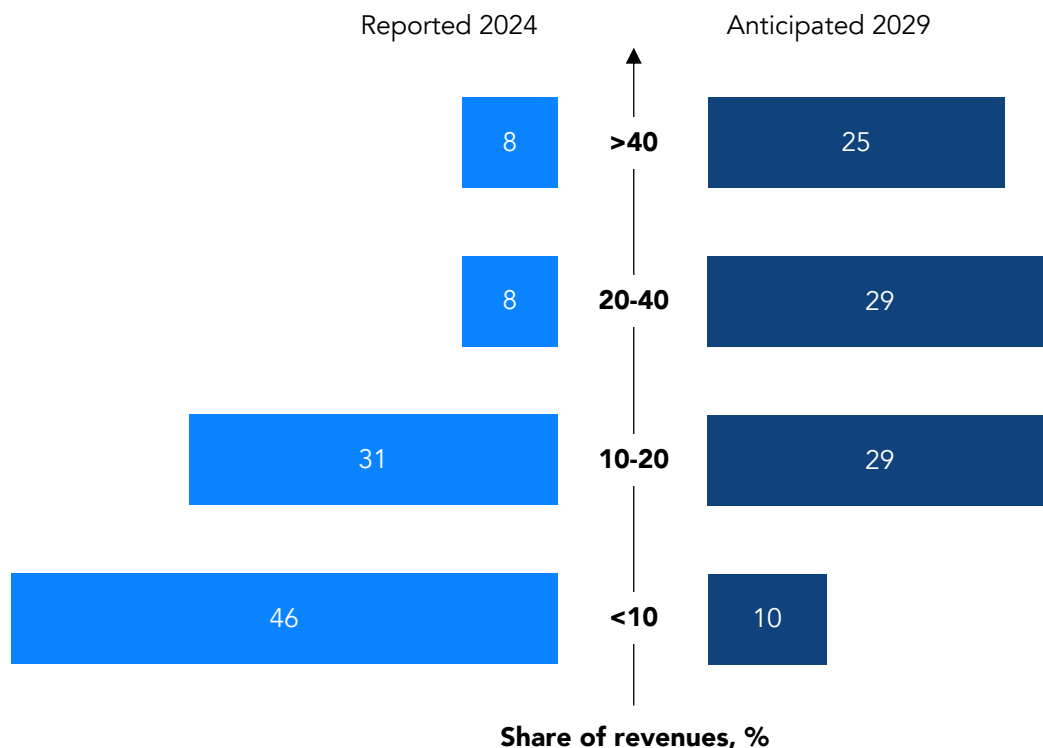
generate 10-20% and 20-40% of their revenue from innovations by 2029. And a striking 25% are even more aggressive, saying they'd like to see more than 40% of their revenue derived from new business models.

If distributors' aspirations play out as reported, the share of distributors generating 10% or more of revenues from innovation is nearly double what it is today, signalling a coming wave of innovation investment and activity across the industry.

Figure 14

Distributors are eyeing bigger and faster revenue generation from their business model innovation investments

Share of revenues generated from business model innovations to-date vs. anticipate revenue share 5 years from now, % of respondents¹



¹ Percentages may not total 100%, as they've been rounded for the purposes of data visualization and publication throughout this report. For this graphic specifically, we chose not to display a category of respondents who don't measure revenue generation and don't have plans to.

What separates the most successful business model innovators in distribution?

Our survey data reveals that more so than company size or industry vertical, the single biggest differentiating attribute of the highest-revenue-generating distributors was the number of attempts they have made at business model innovation. In other words, practice makes profit.

Distributors who reported attempting five or more business model innovation projects to date were 3x more likely than distributors with fewer attempts to have 10% or more of their revenue today be a direct result of innovations pursued within the last five years.

Of this group of high-frequency and high-revenue-generating innovators, 100% reported that business model innovation is a top three priority in their organization.

Our findings also reveal a set of distinct patterns about the capabilities these innovators have put in place in their companies. They were twice as likely as other groups to have dedicated funding allocated to innovation activities and were 2.5 times more likely to report

leveraging partnerships in efforts.

Even stronger was the finding that these distributors see innovation as an area to be championed and supported at the highest levels of their company, with the group being 3 times more likely to have a dedicated executive overseeing innovation.

Most striking, though, is the intense and dedicated focus on future opportunities by these distributors. The high-revenue-generating group was 4 times more likely than other groups to report having a process in place for sensing future trends and opportunities.

These attributes together – numerous attempts, high prioritization of innovation, dedicated funding, use of partnerships, executive oversight, and future-focused sensing – all add up to a systematic and deliberate approach to innovation that breaks down barriers and overcomes many of the challenges we heard throughout this study. These distributors were 50% less likely to report lack of capacity as a barrier, the most cited challenge in our survey.

Figure 15

Distributors who have attempted five or more business model innovations are significantly more likely to report success

Generating more revenue:
High-frequency innovators were 3x more likely to report that >10% of current revenues are derived from recent innovations

Overcoming major barriers:
High-frequency innovators were 50% less likely to cite 'Lack of Capacity' as a barrier impeding their business innovation success

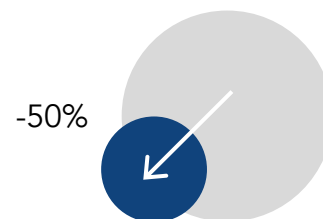
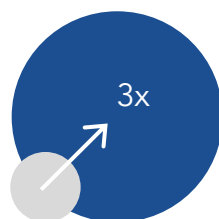
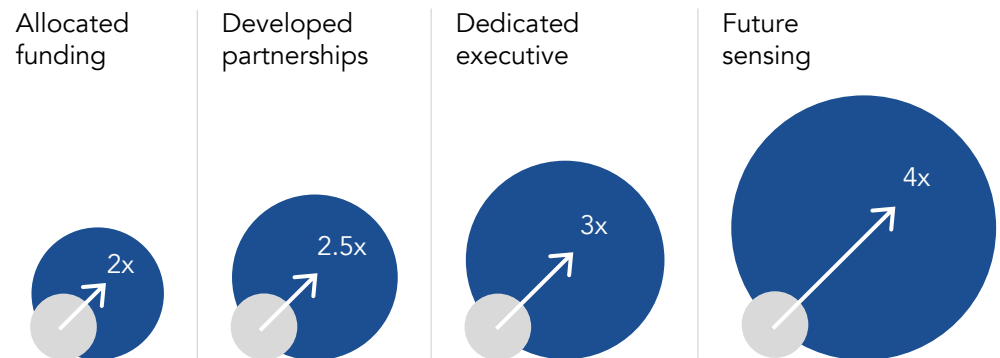


Figure 16

High-frequency distribution innovators exhibited key differences in the capabilities they've built

Likelihood of high-frequency distribution innovators to report specific capabilities vs. lower-frequency distribution innovators



To be clear, we believe it is more than sheer *numbers* of attempts that separates the great innovators from the rest. We deliberately used the term *attempts* in our research because innovation, by definition, inherently involves at least some component of new and unknown territory. Exploring business model innovation, therefore, means accepting that not all attempts will work.

This notion leads us to three speculative hypotheses for why the number of attempts is so strongly linked to innovation success. First, we suspect that with each attempt, a distributor builds and develops their innovation capabilities, making them more equipped to pursue the next. Second, we suspect that across any distributors' portfolio of business model innovation initiatives, some number are likely to

fail, some to moderately succeed, and a smaller number to be outsized successes – not unlike a venture capital investment model which acknowledges the huge risk and return factors at play. Finally, these two notions combined – the idea that a 'hit rate' exists amongst a portfolio of initiatives, and that a hit rate can be improved as new capabilities are developed with each initiative, may explain the findings in the data. These are factors we're keen to explore in future research.

Regardless of the underlying reasons for these findings, the bottom line is this: distributors of all shapes, sizes, verticals, and categories can expand beyond their core businesses to sense, conceive, launch, scale, and derive revenue from bold new business models.

The bottom line is distributors of all shapes, sizes, and industry verticals can **expand beyond their core** business to sense, conceive, launch, scale, and derive revenue from **bold new business models.**

IN CONVERSATION

The expert's take: How Amar Mehta sees distributors seizing new opportunities



Amar Mehta serves as a Partner at Ernst & Young and Leader of their Advanced Manufacturing and Mobility group. Having served industrial, manufacturing, and distribution business as a senior consulting leader, Amar has gained deep insights into customer-focused business models and effective growth strategies. Amar spoke with MDM about the opportunities and challenges facing distributors as they explore and pursue business model innovation. The below is an edited version of our interview.

MDM: What's happening in the world of wholesale-distribution when it comes to business model innovation?

Amar: There are several big shifts happening across industrial product manufacturers and OEMs that, ultimately, are shaping how distributors need to be thinking about their business models. One is portfolio simplification, where companies are divesting non-core assets to focus on strategic areas. This streamlining allows them to allocate resources more effectively, whether it's investing in research and development, expanding into new markets, or reducing debt.

Another key aspect driving innovation is what I call the next S-Curve of growth. After navigating the challenges of the pandemic and

supply chain disruptions, companies are now exploring new business models to drive revenue. For instance, many traditional product manufacturers are transitioning towards service-oriented models, offering bundled solutions that include software, services, and additional capabilities alongside their physical products. This shift not only creates new revenue streams but also enhances margins and customer stickiness.

Strategic cost management remains a constant focus for distributors and manufacturers alike. Companies are continuously evaluating their cost structures to optimize operations. This is particularly crucial as changes in the portfolio and business model affect the affordability and profitability of different business units.

Geopolitical tensions and enterprise risk are also shaping strategy for distributors. Factors like nearshoring and reshoring are prompting companies to reassess their supply chain networks and geographic footprint, with a growing emphasis on resilience.

Finally, artificial intelligence (AI) is increasingly on the radar of distributors and beginning to play a bigger role in decision-making processes and operational improvements.

MDM: Are distributors pursuing business model innovation at the pace they should be? Are they too slow? Too fast?

Amar: I'd say there's a spectrum. For distributors working in more traditional sectors where physical products are being manufactured, they're innovating appropriately, adding value for customers, and adapting to new needs. However, in sectors where customers are beginning to demand more service-oriented, software-enabled solutions, some distributors are struggling to keep pace.

Adapting to these changes poses challenges. Distributors accustomed to selling physical products may find it daunting to enter the realm of software and services. As customers demand more technologically advanced and connected products, distributors must acquire new skills and adjust their selling strategies accordingly. And while these innovations are quickly gaining ground, it can take time for the full impact to be realized in terms of revenue streams. If a \$10 billion industrial automation company transitions into software and services, the change won't happen overnight.

One thing that can help is improved go-to-market collaboration between OEMs and distributors. The goal is to

ensure smoother coordination, and goal alignment, to increase the speed and impact of this next wave of innovation in the industry.

MDM: What might the distributor of tomorrow look like given the trends you're seeing in business model innovation?

Amar: The distributor of tomorrow will likely resemble a tech company in many ways. Take the example of a traditional HVAC manufacturer. In the past, they relied on distributors to deliver their products to customers. Now, they've evolved, incorporating sensors, analytics, and apps to provide added value. This shift towards digitalization requires distributors to adapt their skill sets accordingly.

To become more tech-oriented, for example, distributors might need to develop customer success teams focused on helping clients optimize their assets and configurations. They may also provide maintenance services or collaborate closely with manufacturers in this regard.

These new capabilities being build means it's increasingly important to

identify clear handoff points in the sales process to avoid duplication and maximize efficiency. The good news is that many distributors and manufacturers have already navigated similar challenges in managing direct and distributed sales channels. They've developed strategies for account segmentation and conflict management, particularly when dealing with large retailers. The key now is to apply these principles to a broader range of services beyond physical products.

As the portfolio becomes more complex with the integration of these digital solutions, distributors must find ways to evolve their relationships with manufacturers. Future-forward distributors now act as partners in innovation rather than just intermediaries in product delivery.

MDM: What should distributors be thinking about as they start their business model innovation journey?

Amar: Distributors should be adopting new ways to sense innovation opportunities. If you're a distributor today operating in the chemicals market, you should be

developing more sophisticated methods for tracking manufacturers and customers capex, strategies, and new growth markets. Lots of that data is accessible and public. Beyond that, getting to deeper customer insights is the key to understanding where the puck is headed.

From there, it's about using that insight develop new offerings, which means making choices about markets to enter, and capabilities to develop. A whole range of options is out there including building new service or software solutions, but also partnering or acquiring.

Looking to startups or smaller suppliers can provide valuable insights and access to cutting-edge technologies. These partnerships enable distributors to stay agile and responsive to market dynamics without requiring substantial investments or acquisitions, but minority equity investments in promising startups can also offer early access to new capabilities, a stake in future success, and options to buy down the road.

“Future-forward distributors **now act as partners in innovation**, rather than just intermediaries in product delivery.”

IN CONVERSATION

The venture builder's take: How Motion Industries is turning customer insight into bold innovation



Mike Nagy is Motion Industries' Vice President of Industry Segments and MI Services. Lisa Solomon is Senior Vice President of Corporate Accounts. Mike and Lisa spoke with MDM about one of Motion Industries' newest business models, P2MRO. The following is an edited version of our conversation.

MDM: Where did the idea come from for your P2MRO venture?

Mike & Lisa: The idea for our P2MRO venture stemmed from a combination of factors. First, there's been a noticeable increase in demand for smarter warehousing solutions stemming from things like labor shortages, the growing need for trades, and the rise of onshoring. This surge in demand is intensifying the need for solutions that optimize maintenance and operational efficiency. Our approach at Motion has always been to put the customer at the heart of innovation and, in the past few years, this we saw this need becoming even more pronounced with customers seeking analytics-based solutions to address and avoid maintenance issues.

When we say we put the customer at the center of the process, a lot of that is built on developing long lasting, trusting relationships. It puts us in a position to have insightful conversations with customers that

point to new needs and, ultimately, big opportunities. We get to ask how we can make their business better, satisfy new pain points, and strengthen collaboration. Figuring out how to better their business points the way for ours.

MDM: The idea itself comes from understanding customer needs, but how did you decide to pursue something that's so different from your traditional core business model?

Mike & Lisa: We sensed that – beyond customer needs – there was competitive and strategic rationale to expand the way we think about our business. From there, it was easier to have a richer conversation about how Motion could stand out in that future. We concluded that being more service-oriented was key. We needed to embed ourselves in our customers' operations and offer a core service that surpassed anything else available. This realization, coupled with advancements in IoT technology, made new things possible. IoT empowered us with data and analytics that were groundbreaking and able to support our customers in new ways.

MDM: It seems like so much of Motion's success with business model innovation comes from zooming out and sensing big, emerging changes in the future – and acting on those. Can

you share how Motion approaches thinking about the future?

Mike & Lisa: We strongly believe that we have to earn our place as the premier industrial solutions company every day. To achieve this, we constantly look ahead, anticipating future market needs and our customers' evolving requirements. It's not just about discussing future trends; it's about implementing changes. For example, our initiative for rapid fulfillment is a direct response to the need for faster service in today's fast-paced environment.

That means making a meaningful impact on the lives of our customers, at a human level. Last week, a customer shared how plant disruptions forced him to leave his son's baseball game, and it hit home for us. Our solutions should not only address business needs but also consider the personal lives of the individuals involved. That's why we listen closely to our customers' challenges, knowing that great ideas can come from their perspectives.

MDM: How did you go about acquiring the technology and data capabilities required for the new business model?

Mike & Lisa: We realized that to excel in this space, we needed to

learn from software companies experienced in sensor technologies.

We partnered with them on projects and that helped us along the learning curve. But we also recognized that while these software companies excelled in data analysis, they lacked expertise in industrial equipment. This realization led us to position ourselves as a vendor-agnostic solution provider, offering the benefits of

advanced software platforms coupled with technical expertise in industrial equipment.

Getting technologists to come work for us, though, was a challenge in the early days. These individuals, while highly skilled, were new to our culture and more accustomed to environments like tech startups. Integrating them into our culture required careful management and a

different approach to how we challenge them and support them. That's been a learning curve as well but it's been a great experience and we're well on our way now.

“We looked out into the future and asked ourselves who **the scariest, toughest competitors might be if they were to enter our space.** How would *they* approach solving the needs of our customers?”

IN CONVERSATION

The manufacturer's take: How distributors and manufacturers can co-create the future



Kim Trevisan is Chief Information Officer (CIO) of one of the world's largest building materials companies and leads the company's charge in aligning technology with business transformation across North American operations. With a focus on modernization, innovation, and building a world-class team, Kim embodies a new wave of manufacturer-distributor outlook. We had the opportunity to sit down with Kim to discuss her insights on business model transformation. The following is an edited version of our conversation.

MDM: What has your experience been with business model innovation?

Kim: Business model innovation is an evolution, more so than a revolution. Manufacturing and distribution tend to have a long-term mindset, investing in production lines that may run for decades without substantial updates. However, technology doesn't wait for 30 years to evolve. As a result, there's a significant amount of technical and innovation debt in our industry, something we must address in a digital age.

Many organizations, including ours, have embarked on digital transformations which, at its core, is about efficiency. Yet, efficiency alone isn't sufficient.

We also need to enhance the customer experience, understanding that it's not just about our immediate customers but also considering their customers. This requires deeper insights into new customer segments, something our industry has historically lacked due to technical infrastructure limitations.

In our case, we've expanded our perspective and transformed from primarily selling paving products in the 1980s to offering comprehensive outdoor living solutions.

MDM: What specifically has changed about your business model as you've redefined what you do and who you serve?

Kim: First, we began to consider adjacent products that complemented our core offerings. This involved thinking about what our customer's customers would want to see in their outdoor spaces.

We went one step further and challenged ourselves to consider how we design the entire end-to-end customer experience. That meant rethinking even the types of data we gather and at each stage of the buying cycle. For example, while we traditionally have sold products to distributors and dealers today, we often don't have precise visibility into

where those products end up and how they get used. To provide solutions that simplify the entire process for our customers, these were the types of problems we knew we needed to solve.

MDM: What are some of the challenges you've faced – and anticipate facing – in innovating your business model?

Kim: For one, striking a balance between being strategic and bold. Our leadership team has demonstrated remarkable foresight in steering us towards becoming an outdoor living provider that sets the focus, but the decision to expand our offerings has not been without its challenges. Integrating new products requires a significant shift in operational processes.

Our team's deep and growing understanding of market strategies, and customer demands gave us the confidence to navigate this transition, knowing that big opportunities await if we can overcome the challenges.

Looking ahead, we are preparing for future challenges including the sustainability of our business model, both environmentally and in terms of labor force dynamics. We know we must innovate to ensure longevity and relevance in the market.

MDM: How are you approaching partnerships for solving customer problems, accessing technology, and ultimately innovating your business model?

Kim: We recognized that some of our customers want more than just materials; some were searching for complete solutions. That included recommendations for general contractors who can handle every aspect of their backyard build. They want to partner with experts who understand how to create a backyard oasis tailored to their needs throughout the buying cycle. That's different than solely focusing on selling products.

Partnerships are helping us do that better and faster. While emerging technologies like AI are talked about a lot right now, we're taking a more practical approach. Instead of developing these technologies ourselves, we're exploring how to leverage others' platforms and tools.

For example, we've partnered with, a fast-growing online landscaping service. By having a presence earlier in the customer journey, we're helping customers imagine and discover dream backyard options better than we could alone.

That's a perfect example of why we don't need to always build applications from scratch. Others have already developed similar or better solutions, and they're more efficient and market-ready. By collaborating, we benefit from their expertise and progress without getting bogged down by technical debt or development challenges. It's about finding the right partners who can help us co-create solutions that meet our customers' evolving needs.

MDM: What innovations do you wish for from distributors you work with?

Kim: We all need to think beyond selling products. What we're seeing is that our savviest distributors are

transforming with us into providers of complete outdoor living solutions, in addition to offering inspiring products.

This transformation means they're creating immersive experiences for customers and, in our case, focusing on the needs of dealers and contractors. We need to step outside our traditional roles and gain insights into both the customer and manufacturing sides of the business. I am particularly keen on having better visibility into how products are used – not just how they're sold - as this data could greatly inform our decision-making and enhance customer experience.

Ultimately, I believe distributors are going to continue the transition from being intermediaries to becoming conduits, fostering strategic partnerships, and improving collaboration throughout the value chain.

“Our savviest distributors are transforming with us into providers of complete solutions and immersive experiences, rather than simply offering individual products.”

The innovator's take: Why First Supply looks to early adopter industries for innovation inspiration



Michael O'Brien serves as Director of Information Technology at First Supply, where he oversees all aspects of the midwest distributor's digital infrastructure and applications. Michael spoke with MDM about the company's ambitious efforts to transform their existing business model to make way for a brighter and bigger future. The following is an edited version of our conversation.

MDM: What are the business model innovations that First Supply is exploring and pursuing?

Michael: I oversee a range of business initiatives, primarily focusing on two main areas: applications and infrastructure. On the infrastructure side, my responsibilities include managing data centers, cybersecurity measures, servers, firewalls, and other essential hardware components vital for our operations.

As for applications, I'm tasked with overseeing our entire application portfolio, which encompasses everything from our e-commerce platforms to ERP and CRM systems. These initiatives are crucial for enhancing efficiency, optimizing customer experience, and ensuring our competitiveness in the market.

MDM: How is prediction and AI unlocking new business model opportunities for you?

Michael: As we look to the future of our business model, I believe that prediction and AI will be critical enablers of new opportunities. The ability to forecast trends, anticipate customer demands, and optimize operations through advanced analytics and AI holds immense potential for driving growth and staying ahead.

We're particularly interested in how they can be used to gain deeper insights into consumer behavior and supply chain patterns. From inventory management and logistics optimization to personalized customer experiences and predictive maintenance, AI enables us to streamline processes, reduce costs, and deliver greater value.

MDM: What role has failure and experimentation played in your business model innovation efforts?

Michael: Failure and experimentation are critical components of innovation. For a fifth-generation, 126-year-old family-owned business, we're incredibly forward-thinking and embrace the concept of failing fast. Our leadership team understands that to grow and adapt, we need to be willing to take risks and experiment with new ideas.

We're constantly exploring innovative solutions, even if they don't always

succeed. We recognize that failure is an opportunity to learn and refine our strategies for future endeavors. By embracing a culture of experimentation and learning from our mistakes, we can continually push the boundaries of what's possible and drive meaningful innovation within our organization.

MDM: Are you seeing the trajectory of innovation in the distribution industry change? Why or why not?

Michael: The pace of innovation is changing, but it's not yet at the level it needs to be, particularly in understanding and meeting consumer expectations. We're witnessing significant advancements in various sectors, such as banking, where consumers have come to expect seamless digital experiences. However, when it comes to distribution, there's still a gap between consumer demands and industry capabilities.

Consumers are accustomed to the convenience and efficiency offered by platforms like Amazon, where they can easily browse products, check stock availability, and make purchases with just a few clicks. This level of convenience has set a new standard, and consumers are increasingly questioning why other industries, including distribution, aren't keeping up.

MDM: Why hasn't the distribution sector been out front on these changes?

Michael: One of the challenges in the distribution industry is the prevalence of long-term, locked in ownership groups, many of which have not traditionally prioritized technological innovation. These smaller, local, or regional businesses may not have been pushed to embrace technology until now.

At First Supply, we recognize the need to bridge this gap and embrace innovation to meet the evolving needs of consumers. With leadership from our CEO, Katie, who is passionate about driving change and embracing new technologies, we're committed to staying ahead of the curve. Katie's proactive approach encourages us to embrace technology and push boundaries,

rather than being content with the status quo.

As we undergo a generational shift and welcome new leadership, there's a renewed focus on leveraging technology to enhance the customer experience and streamline operations.

MDM: What big innovations are you working on today that will propel your business model forward?

Michael: Our most ambitious undertaking is the construction of a state-of-the-art distribution center in Wisconsin. This project represents a transition from a semi-distributed model to a centralized approach to distribution. With a footprint of approximately 300,000 square feet, this facility will not only be one of the largest in Wisconsin but also among the most innovative, featuring

cutting-edge automation and robotics.

This initiative has been driven by a commitment to revolutionize our supply chain and position our business model for future success. By consolidating our distribution operations into a single location, we aim to streamline our processes and gain a deeper understanding of our buying and selling patterns.

The heart of this project lies not only in the physical construction of the facility but also in the transformation of our approach to inventory management and sales. With the implementation of advanced warehouse management systems and goods-to-person robotic solutions, we're not just building a warehouse; we're reshaping the way we do business.

“We're not just building a warehouse. We're **reshaping the way we do business.**”

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