

***How Successful
Distributors Lead Change
in Disruptive Times***

INNOVATE!



**“This is one of the
best business books
I have ever read.”**

—George Pattee,
Chairman and CEO,
Parksite, Inc.

Dirk Beveridge

N A W
Institute for
DISTRIBUTION
EXCELLENCE

Early Reviews

"**Every field has its rabble rousers, change agents, thought leaders**—people with the wisdom to understand the past, and the creativity to conjure up a new vision for the future. **In the field of wholesale distribution, Dirk Beveridge is that thought leader**, and this indispensable book presents his vision. Leaders can't let what they know limit what they can imagine. Let Dirk's book fire your imagination to make long-lasting change in fast-moving times."

William C. Taylor
Cofounder, Fast Company
Author, Practically Radical

"At the heart of any healthy industry is innovation -- the ability to change as circumstances dictate with agility and intelligence. In INNOVATE! How Successful Distributors Lead Change In Disruptive Times, Dirk Beveridge **provides a roadmap for creating innovation. This is an instant classic**, and has wide applicability not only in the complex world of distribution, but in the widest sense."

Admiral James Stavridis, USN (Ret) former Supreme Allied Commander at NATO and current Dean of The Fletcher School of Law and Diplomacy at Tufts University.

In INNOVATE! How Successful Distributors Lead Change In Disruptive Times, Beveridge, with captivating, self-effacing style, **outlines a path for distributors to remain relevant in this era of disruption**. The important and neglected topics he covers are a must-read for all employees within distribution and their supply chain partners. Beveridge's new voice advances the innovation conversation with passion and conviction that will **spark a renewed energy for change and an optimistic outlook** for your company's future.

Gary Shapiro
President and CEO
Consumer Electronics Association

This is one of the best business books I have ever read. I am blown away with the format, learnings, examples and guides to follow....simply amazing! The millennials and others will be using this to lead businesses going forward. Thank you, NAW and Dirk Beveridge for leading us to the next generation of Wholesale Distribution!

George Pattee
Chairman and CEO
Parksite

"INNOVATE! How Successful Distributors Lead Change In Disruptive Times is a **must read for anyone in the distribution business** who wants to remain relevant in the 21st century. No supply chain is immune from the disruptive forces of a networked world. Dirk Beveridge nails it and is bringing actionable innovation wisdom to distributors everywhere.

Saul Kaplan
Founder and Chief Catalyst
Business Innovation Factory

"Dirk nails it! Innovation is no longer just a buzzword or a luxury. Innovation today is a business necessity and a key strategy to survive and thrive. With the INNOVATE! How Successful Distributors Lead Change In Disruptive Times, Dirk **gives a not so subtle nudge that you can't wait to begin your innovation journey** while showing you how to start."

Christopher Brown
Chief Executive Officer
Wiedenbach-Brown Co., Inc.

Simply put, Dirk gets it! Being a leader of today's distribution businesses isn't just about managing for today's results. It's about motivating and innovating to get the most out of your people and the rapidly changing landscape. **This is a must read for anyone who wants to remain or become an effective leader in our industry.**

L.T Gibson
CEO
US LBM Holdings, LLC

"Dirk presents a compelling case for the need of the distributor to consider its **business model and actively pursue a deliberate process of reinvention** that will help ensure viability and vitality of their business for the future. He gives solid examples of what to do and how to do it, and a **roadmap to reimagine our business model and value proposition**. I highly recommend this book and it has been added to the required reading list at Summit."

Victor R. Jury, Jr.
CEO
Summit Electric Supply Co., Inc.

This is not simply a book about wholesale distribution; nor is it a book about innovation alone. **Rather this is a book about leadership -- and what it takes to transform a company, and an industry, that is under siege.** Drawing from dozens of case examples, Beveridge provides the kind of practical advice, guidance, and wisdom that's hard for leaders to find these days. So if you need to get your company moving, INNOVATE! How Successful Distributors Lead Change In Disruptive Times will help you get started.

Ron Ashkenas
Senior Partner
Schaffer Consulting

"INNOVATE! How Successful Distributors Lead Change In Disruptive Times **is a must-read for any distribution executive.** Wholesalers and distributors are facing the perfect storm for mass disruption in the wholesale distribution marketplace, and **the only way to weather the storm is with innovation.** Innovation is critical to transforming distribution companies and ensuring their long-term success. Concise and easy-to-read, this book is filled with great ideas on how to drive innovation in your distribution business."

Ranga Bodla
Director of Industry Marketing
NetSuite

"In INNOVATE! How Successful Distributors Lead Change In Disruptive Times, Dirk Beveridge artfully explains the major disruptive factors facing the distribution industry and **provides an inspirational path forward for positive change and innovation in the industry.** His emphasis on harnessing the power of existing data to make better decisions is spot on. This is a must read for distribution executives looking for a better way forward."

Greg Peters
President and CEO
Zilliant

Anyone who needs to re-charge their batteries should read this book. **It is a guarantee to get you to rally your troops and begin innovating immediately.**

Scott Costa
Publisher
TED Magazine

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Preface

As I was conducting my research for this book I was asked, “Why should distributors run their businesses any differently if their business is ‘working and profitable?’” After all, I was told, NAW Senior Economic Advisor Alan Beaulieu has reported year-over-year sales increases for wholesale trade without exception during his annual NAW Executive Summit presentations. “With only the 2008–2009 Recession as an exception,” I was told, “wholesale trade is humming along just fine, thank you.” So, why this need to innovate?

The answer is simple: The most successful businesses anticipate the changes and challenges ahead, and they make plans to meet them head-on. Managing only for the day-to-day will not ensure your success in the years to come.

Our future success will be based on our ability to innovate. So let’s begin with our definition of innovation: *innovation* means leading customers to a better future for which they are capable and willing to reward you. And this requires a continuous journey of change and evolution.

Over the years, I have had the opportunity to complete four Ironman triathlons. This took energy, focus, drive, and much training. Every Saturday morning, I would meet a group of strangers and we would ride together. We would ride from Barrington, Illinois, up to Lake Geneva, Wisconsin, and back. Depending on the route, we would be on our bicycles for 80 to 120 miles. Upon returning to Barrington, we would get off our bikes and run anywhere from 5 to 10 miles — and be back home before 1 o’clock in the afternoon.

What I loved about those Saturdays was that everyone had one thing in common: we were trying to better ourselves. We would help each other along, challenging and inspiring each other at the same time. The goal was to keep getting better. Just like training for an Ironman, in business you are never done. Things may be fine right now, but changes are surely coming. That is what this book is about. It is focused on your future. And with the disruptive changes in our future, we have no option but to change, get better, and innovate by pushing ourselves to that next level.

So, when I hear that wholesale distribution is “doing just fine” it makes me ask, “So what’s next?” For me, what’s next is a much-needed conversation throughout the industry about the need for innovation. That is what I have set out to do in these pages. It helps to explore this from three perspectives:

- Economic
- Leadership
- Personal.

Why Innovate? An Economic Perspective

We seem to have short memories. When I hear statements such as, “With only the 2008–2009 Recession as an exception,” I wonder if memories have worn thin. Have we conveniently forgotten the more than 200,000 businesses and more than 3 million jobs that vanished between 2008 and 2010?¹ Of those wholesaler-distributors that worked their way through the recession, each one was negatively affected with some combination of layoffs, pay reductions, ESOP performance, wealth and value loss, financial strains, and more. Do we lull ourselves into thinking that any positive trends we are currently riding will be sustained for decades?

“But Dirk,” they say, “we’re beyond the recession of 2008–2009, and our business is looking pretty strong. Even Alan Beaulieu is reporting year-over-year increases for distributors. We’re experiencing exactly what he is reporting.”

Well, I am not an economist, so I’ll rely on Mr. Beaulieu’s words. The following information is pulled from Beaulieu’s blog early in 2014.

- “The decline in the Housing Starts annual year-over-year comparison (12/12 rate-of-change) is a clear leading indicator that not only the housing industry is slowing now, but that the entire economy is likely to slow in the second half of the year. The sharpness of the January 2014 decline is very close to the January declines in 2007 and 2009; very chilling memories for industry participants. Builders, distributors, and all industry sectors tied to new construction should plan on slower growth in the coming quarters.”²
- “The Stock Market has rebounded of late, the U.S. Congress agreed to lift the debt ceiling for a year, and January retail sales were solid. Life seems good on the surface. Underneath the surface, things are not looking nearly as rosy. It appears that job growth will be slowing in the future, and the U.S. economy along with it.”³
- “We have looked at manufacturer, distributor, and retail sales over decades and have found that the economy is a significantly larger factor than the weather. We have looked at pool covers, yard tools, air conditioners (central air and window units), and other similar series, and they all have a stronger relationship to the economy, despite the fact that many people feel it’s the weather. Looking deeper, we find there is indeed something to be concerned about, but it is not the weather. The rates-of-change (the tool we use to see what the business-cycle pressure is on any given economy, industry, or company) are moving lower, and the annual moving total has stopped rising.”⁴

Beaulieu also suggests that whatever wave distributors are riding today is not guaranteed to last into the future. In fact, by 2030 Beaulieu says he sees the potential for a “Great Depression” due to the end of a normal inflationary trend, continued governmental spending, and the fact that the U.S. government will no longer have the ability to borrow or spend.⁵

In their forthcoming book, *Prosperity in the Age of Decline: How to Lead Your Business and Preserve Wealth Through the Coming Business Cycles*, Alan Beaulieu and his brother and coauthor Brian Beaulieu suggest the following: The changes are too dramatic between now and the coming Depression to just focus on the downside. The imbalances and maladjustments have a while to play out and there will be opportunities to be had in the countdown period.⁶

The message is clear: despite any economic good fortune distributors might be experiencing today, the future business environment will call for new, innovative strategies to compete in what appears to be turbulent economic times ahead.

Why Innovate? A Leadership Perspective

Historically, wholesaler-distributors have followed a cycle of riding economic waves. In tough economic times leaders must do what is required to survive; they fall into a mode of preservation. When business tightens, they are not in a position to focus on and/or invest resources in innovation. On the flip side, sales growth returns in good times and distributors look to “keep this going.” This success leads to complacency and a lack of urgency to innovate during these good times.

Most business leaders understand that good times should be viewed as a prime opportunity for innovation. Yet most fail to do so.

In the quintessential *Harvard Business Review* article “Marketing Myopia,” Theodore Levitt makes the case: “Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others that are thought of as seasoned growth industries have actually stopped growing. In every case, the reason growth is threatened, slowed, or stopped is not because the market is saturated. It is because there has been a failure of management.”⁷

In good times, many distributors don’t feel the urgency to change, transform, or innovate. “Why should I run my business any differently if my business is ‘working and profitable?’” is not an uncommon thought.

Yet, it is during good times that distribution leaders must commit themselves to becoming innovative. This is easier said than done for many wholesaler-distributors because the urgency of innovation and the ability to innovate are inversely related. So to answer the question directly: “Why innovate if my business is ‘working and profitable?’” Because what better time to focus on the future than when business is running smoothly and you are free of the crises and challenges that are more likely to rear their heads in tough times?

Transformative leaders create the urgency and propensity to innovate in good times. It is in these times that the energy and focus can be called upon to create an even stronger future.

Why Innovate? A Personal Perspective

A third reason to innovate during good times is for personal fulfillment. Many business leaders have forgotten why they went into business in the first place. Instead of focusing on what “gets them out of bed in the morning,” they are mired in the negative — worrying about “what keeps them up at night.” Innovating means thinking about ways they can change their businesses for the good.

I love what Jeff Bezos told *Washington Post* employees upon purchasing the newspaper in 2013. Setting the tone for innovation and the need to transform the business, he said: “All businesses need to be young forever. If your customer base ages with you, you’re Woolworths.”⁸

I have experienced this firsthand — by walking into distributor businesses, branches, and even sitting for a day in the right-hand seat of the outside salesperson’s car. There are wholesaler-distributors who are feeling as if they are Woolworths. They have lost that spring in their step. There is a lack of meaning throughout their organization.

When was the last time you did something for the first time? Think about your last month, quarter, year. Within that timeframe, when was the last time you challenged yourself and your team to step from your comfort zone and fight the gravitational pull to the status quo?

When you walk into the companies that are fighting that status quo, you can feel it in the air. There is a sense of purpose. There is action. There is tension. There is life.

Why innovate when times are good? Because when you do, you are alive. Innovation infuses your business with a sense of vision and purpose — that same vision and purpose with which it was founded. Your ability to innovate directly affects your company's ability to navigate economic challenges, develop the talent required to achieve long-term success, and create a culture of personal success and fulfillment.

Introduction

You are about to discover how innovation can change your business.

As I look back to when the idea for this book started to germinate and I began my research, I am inspired by the conversations I have had, the people I have met, and the interviews I have conducted. It has been awesome. I have learned with every touch and have been inspired along the way.

In business, you are never finished. That is the central premise of this book about the need for innovation in wholesale distribution. Quite simply, innovation means leading customers to a better future for which they are able and willing to reward you. And that requires constant work and focus. I am thrilled with the stories, insight, and new ideas that you are about to discover in the following pages. And I am confident that this book will become central to your conversations internally about creating a new, better, and stronger future for yourself and your company.

This book is just the start of a much-needed conversation throughout wholesale distribution about innovation. It is designed to inspire you with stories, anecdotes, and new ideas from inside and outside the wholesale distribution industry. By no means do I consider this book to be the encyclopedia or the definitive textbook on how to innovate. There are tons of books out there on that. What's needed first is a conversation throughout the industry about why wholesaler-distributors must transform their businesses by innovating. We need to create a new spirit of innovation throughout the industry, and that is what I have set out to do in these pages.

This book is about being alive. It is about being optimistic. It is about the great wholesaler-distributors and business leaders I have met during the course of my research and the stories they have told.

Self-Reliance and Innovation

Innovative distributors will ensure that those on their teams relish the challenge — and feel prepared to be a part of the change and transformation — that comes with innovation. They also will empower those individuals to think critically about how to improve their jobs and their companies — and to take action on their ideas. That's because innovation requires self-reliance. How many times have you heard throughout your career, “If you don't like

it, change it.” We hear it all the time, but too few of us do the changing. We realize the fundamental truth that change and innovation are hard. And as a result, we are pulled back to safety, comfort, and the status quo.

In his essay *Self-Reliance*, Ralph Waldo Emerson writes:

There is a time in every man's education when he arrives at the conviction that envy is ignorance; that imitation is suicide; that he must take himself for better, for worse, as his portion; that though the wide universe is full of good, no kernel of nourishing corn can come to him but through his toil bestowed on that plot of ground which is given to him to till. The power which resides in him is new in nature, and none but he knows what that is which he can do, nor does he know until he has tried.”¹

For innovation to take place, your leadership team must be prepared, willing, and excited to toil the land. They must understand that the ability to transform for the future resides within them. Innovating is not up to the banker, accountant, or even the consultant who will lead your innovation workshops.

To speak out against the status quo requires confidence.

To suggest a bold initiative that doesn't make sense on paper because the numbers don't add up requires a form of fearlessness.

To lay out a new, transformative service that will lead your customers to a better future requires self-reliance.

However, if you rely on others, there is no reason to look at the world, your business, or your job, any differently. There is no need to innovate.

Some will immediately react and say: “But what do you mean? You need a team around you to innovate.” That is true. But without self-reliance — *without the internal awareness that you have the power to change things* — your business will always be pulled back to the status quo. In the course of doing research for this book, one CEO said, “Most distributors don't change until someone says ‘we need to close these branches.’” Within those distribution businesses there is a void of individuals who take responsibility for improving their lot by toiling the land.

Jay Steinfeld of Blinds.com (who we will talk about in chapter 2) has developed a culture of innovation in part because he hires the self-reliant. In an UnleashWD presentation, he described a tenet of his recruiting process as “only hiring those who are trying to improve.” Those self-reliant types are who “we deliberately try to hire and we build our interviewing questions around it. What do you do in your personal life to improve? It could be cooking classes, it could be reading, whatever. Tell us that you are not only willing to change, but that in your personal life already demonstrate the behavior that you can prove to us that you want to change. That this is how you are. Because when we have people that are open and take active steps to making themselves better in some way, we know they have the mindset when they come in, we know that they will fit the culture.”²

Steinfeld and the Blinds.com team know they have self-reliant individuals who are ready to be part of the new future that an innovative culture is creating.

What’s more, innovative distributors will invest in their people to continually develop the team’s self-reliance. One distribution owner interviewed as part of the research for this book is in the process of developing a program to help his managers become innovation leaders. He says they need training on innovation, new ways to think, and the Lean Startup approach so that they “stop being stuck in their office, falling in love with their ideas, and rejecting other new ideas before they are even tried.”³

Innovative distributors will have “the right guy” on the team with the skills, capabilities, confidence, and self-reliance required to succeed. As you build your team, build it with people who do not mind being disrupted. Most are uncomfortable with disruption, but some can adapt and say, “Okay, I understand, this is the way we operate here. I’m going to get on board. I’m going to transform myself so that I can be part of this disruption and not be left behind.”

Throughout these pages you will read about distributors that are far along on their innovation journey — organizations for which innovation has been a part of the company culture for many years and that many in the industry hold up as both role models and, at times, threats. Others that you will read about have just begun their innovation journey. At first blush these distributors will not come to mind when you think of defining The Innovative Distributor™ — a term that describes companies that have embraced the models outlined in this book. Yet, they have begun their innovation journey. They know that they are at risk of becoming irrelevant and disrupted if they don’t start now. So they have started, and that is inspirational.

They are looking to break through nostalgia, legacy, and the pull to the status quo. This is no easy task by any means. These wholesaler-distributors move forward with no guarantees. Yet, they try. Their leadership has seen the light that says innovate or become irrelevant. And they decide to innovate. You have the same choice. I hope these pages inspire you also to say: “It’s time to innovate.”

Assessing the State of Innovation

This book is part of a larger research project on innovation in wholesale distribution. The goal was to assess the state of innovation in the industry, identify some necessary steps forward for companies looking to build a culture of innovation within their organizations, and, ultimately, to start a larger conversation about the need for innovation industry-wide. The research involved an industry assessment survey conducted by the NAW Institute for Distribution Excellence; a supplemental survey by the Canadian Institute of Plumbing & Heating (CIPH), a major Canadian trade association representing wholesalers and manufacturers; and one-on-one interviews with distributors in multiple lines of trade.

The NAW Institute survey asked C-Suite executives and vice presidents of member companies a series of questions about the current state of their businesses and the industry and whether they thought business leaders are prepared to meet the changes and challenges ahead. The majority of wholesaler-distributors surveyed agreed that we are living in unique times that call for a new spirit of innovation throughout wholesale distribution:

- 76% of distributors surveyed said they believe we are living in an environment we could call “the age of disruption”
- 85% said they feel they need to “reinvent” their business before someone else does
- 81% said that much of the distribution industry is operating from “dated” business models.

Despite this pressing need for innovation, change, and transformation, the distributors surveyed said their companies were doing little to act on it:

- 72% said they think their companies are slow to make changes to the business
- 78% said they get trapped in the day-to-day and don’t focus enough on creating the company’s future
- 42% said they feel like they are “too rooted in the past” rather than focused on innovating for the future.

As a result of all this, 57% of the distributors surveyed said that many wholesaler-distributors are “already out of business — they just don’t know it yet.” There is good news, however: 95% of the distributors surveyed said they feel personally empowered to be a “disruptive change agent” within their business. This is an especially important point. As we will discuss throughout this book, innovation and change require the will, energy, and focus. Without a commitment to change from company leaders and rank-and-file employees alike, your innovation journey cannot begin.

The CIPH survey yielded similar results, and we will share some of those in the coming chapters. The third and largest piece of research for this project were the many interviews conducted with wholesaler-distributors throughout the country, which included long conversations in offices and conference rooms, in the field with sales representatives, and across the dinner table with company owners and managers. It was these conversations that revealed the most about the state of innovation, providing insight into the frustrations that abound among many executives and managers and offering a glimpse at what some successful companies are doing to begin their innovation journey. These conversations — along with additional research from a wide range of industry and non-industry sources — provided a wealth of data in the form of stories, models, and tools you will find throughout this book.

Sparking a New Conversation

There are challenges to developing a culture of innovation. We’ll talk about them in the opening chapter. But this book is about moving beyond challenges and focusing on continuous improvement and even transformation. It’s about surrounding yourself with like-minded people who believe they have the power to change their businesses — and themselves — for the better.

I hope that this book, if it does nothing else, sparks a new conversation and even a movement — a new optimism and a new focus — on cutting through the red tape and putting the words “fun” and “excited” back into our conversations.

Throughout the course of this project, I have had the great fortune of being surrounded by wholesaler-distributors that are focused on bringing a new spirit of innovation to their organizations. I have met with them, interviewed them, and watched how their businesses function. Through these efforts, together we have focused on business model innovation, the need to disrupt yourself before you can lead change in disruptive times, the art of removing

complexity from our businesses, how revolutions provide keys to engaging employees, and more. During our meetings and conversations, these comments were given:

- “I feel I can truly be a disruptive agent.”
- “You have changed my mindset.”
- “When you explore other companies that have done something that you thought was impossible, it makes you rethink ‘what’s my ceiling?’”

And, maybe my favorite, one individual said, “I might be an old dog, but you have my tail wagging.”

That statement is my hope for this book. I want the stories you are about to read, the lessons that we will present, and, more importantly, the thinking and conversation it will generate in your business to spark a new culture focused on innovation. I hope these pages that define The Innovative Distributor will have your tail wagging.