

## Technical Distribution Specialist

To achieve the creative intensity essential for best-in-class performance it is not possible to combine commodity and speciality distribution in one organisational culture.

This paper briefly explains the differences in operational and strategic models for commodity and speciality distributors based on modern business principles. It continues with speciality distribution by describing the source chain of competitive advantage in terms of assets and capabilities. Finally, the proposition is that the organisational capabilities of a speciality distributor are the only source of sustainable competitive advantage because they cannot be copied or transferred.

The conclusion for distributors is that the non-transferable organisational capabilities make a speciality distributor a Technical Distribution Specialist. Although business strategies combine speciality and commodity distribution in one business model, this paper would suggest that no company has yet succeeded.

### Fundamental Business Drivers

When developing the growth strategy of a company the CEO must identify the key sources of advantage and provide the resources to underpin them. The success of the strategy will be seen through market share and profit growth. The strategy will impede competitors and put in place a culture of renewal where competitive advantages are reinforced by a long term iterative process.

The final strategic choice of the CEO can be derived from three accepted value drivers for the business known as *Operational Excellence*, *Customer Responsiveness* and *Performance Superiority*.

*Operational Excellence* underpins commodity distribution where low cost, high volumes of consistent quality raw materials are the key to success. Competing against like products by asking for the order rather than developing the sale is a trait of sales personnel. Business processes are standardised to meet the requirements of a “sales production line” and internal rather than customer facing sales is an important asset.

The *Customer Responsive* distributor tailors the choice of raw material to meet the needs of the customer. Here we are focussing on a speciality raw material where the customer facing technical sales professional has worked in the industry of his customer, understands the technical market forces of his customer and can support the customer relationship by providing application and, increasingly, regulatory knowledge. In essence my customer’s success is my success and my industry’s well-being is my well-being.

A desire for *Performance Superiority* for a distributor strongly depends on the abilities of the Manufacturing Principals and the strength of the Manufacturer-Distributor alliance in responding to new customer needs. Performance Superiority is bedded in the superior

technical performance of raw materials of core strategic importance to the manufacturer and therefore sometimes excluded from a distributor's portfolio.

For example, 3M achieves Performance Superiority by creating paradigm shifts in product performance as a result of continuous investment in new product development. However, it is interesting to note that the cut-back in technical sales personnel by specialities manufacturers is opening the way for distributors to play a more structured role in the introduction of new and novel raw materials on behalf of the Manufacturer.

A Manufacturing Principal leveraging off advantages of scale can achieve Operational Excellence. A logistics based commodity distribution organisation can achieve Operational Excellence. Customer Responsiveness is often achieved by Manufacturing Principals in combination with Operational Excellence. Can the same be achieved by distributors?

Employing technically trained professionals within a Commodity Distribution organisational culture provides a valid service but does not fulfil Customer Responsiveness. In contrast a **Technical Distribution Specialist** (TDS) will focus entirely on Customer Responsiveness and attempt to enhance services by developing Performance Superiority as the second key business driver. The ability to offer a first class logistics and warehousing service is an essential ticket to play in the distribution game but is not a key business driver for a TDS.

Schematic: Characterisation of Business Models on the way to Best-in-Class

<i>Business Type</i>	Business Driver	Operational Excellence	Customer Responsiveness	Performance Superiority
Commodities Manufacturer		<b>X</b>	<b>o</b>	-
Commodities Distributor		<b>X</b>	<b>o</b>	-
Technical Manufacturer		<b>o</b>	<b>o</b>	-
Technical Distributor		<b>o</b>	<b>o</b>	-
Specialities Manufacturer		<b>o</b>	<b>X</b>	<b>o</b>
Technical Distribution Specialist		-	<b>X</b>	<b>o</b>

X= must be achieved, o = must be strived for, - = not achievable

### The Source Chain of Competitive Advantage

Competitive advantage for a distributor is achieved through the market strength of the Manufacturing Principal and from the sales and marketing resources of the distributor.

### **Superior Assets of the Manufacturer**

When the market position of the Manufacturing Principal dominates the Manufacturer-Distributor alliance, the technical selling ability of the distributor is less important. Thus a distributor with weaker technical selling resources but stronger order processing and

physical distribution capabilities is adequate to “move” product on behalf of the manufacturer.

The advantage to the distributor of working within a well structured and secure alliance with a market leading manufacturer is positive cash flow. The manufacturer has peace of mind. Competitive advantage in the manufacturer’s market is achieved by product differentiation and is therefore given to the distributor. Defence of market position is dominated by the strategic competence of the manufacturer.

The assets of this alliance are clear to count and they are:

- Market leading product of the manufacturer
  - Manufacturers assets e.g. marketing (strategic planning, product management, strong brands), technical selling (sales force), new product development (patents), manufacturing (plant, process, logistics)
- Logistics and distribution capability of the distributor
  - Distributor’s warehouse and logistics
- Order processing capability of distributor
  - Business process (including use of electronic media, e.g. internet, and ability of staff to follow instructions)

The alliance is therefore dominated by the superior assets of the manufacturer and not based on distinctive, hard to duplicate, technical selling resources of the distributor. All competitive distributors could play in this game since the assets of the business model are in the public domain and can be copied.

### **Distinctive Capabilities of the Technical Distribution Specialist**

The Technical Distribution Specialist has highly valued, technically driven and experienced commercial sales people. These prime assets have received a technical education, they have worked in industry, they are members of industry associations and they will identify their future with the future of their customers and their industry. ***The organisational culture that holds these technical selling assets together is the key distinctive capability of the Technical Distribution Specialist and a key source of competitive advantage.***

Organisational culture is a complex bundle of skills and knowledge exercised through organisational processes to enable the TDS to coordinate its’ activities, utilise assets and continuously learn and improve. These people based capabilities are so embedded in the organisational routines and practices that make up the culture of the TDS that they cannot be traded or imitated.

Components of this capability include the accumulated knowledge and skills of the employees which makes hiring the right people a premium process for the TDS. The augmentation of employee skills with modern information management and bespoke customer relationship management tools is a must to achieve best-in-class performance.

The team must be driven by leadership values that combine the need for sales with the management of commercially relevant technical knowledge i.e. what knowledge is important and how it should be used. When taken in total the distinctive capabilities of a Technical Distribution Specialist are robust and when reinforced in an iterative manner they speed the ability to adjust to change, a key role of the distributor.

This organisational culture is the sustainable source of competitive advantage for the TDS and is valuable because it gives superior value to the customer and therefore to the Manufacturing Principal. It is durable for as long as the people determining the business culture survive and it cannot be replicated since competitors are unclear as to how or why the source of advantage works.

### The Problem of Growth by Acquisition

When the organisational elements of a Technical Distribution Specialist are strong in an acquired distribution company the chance of successful integration for any acquirer are small. The management skill needed to integrate the acquisition is immense and it is unlikely that the acquired distributor will fit easily into the organisational structure of the new parent.

Finding the skills to manage the human resources of a Technical Distribution Specialist is one key reason why a TDS either will not continue to grow or will grow by moving into the commodity arena rather than by continuing to focus on specialities. It is also the reason why commodity oriented distribution companies will find integration of acquired speciality distributors a real struggle.

### The Ultimate Goal

Distributors and manufacturers will agree that the chemical industry needs excellence from Chemical Logistics Companies, Technical Distribution Companies and Technical Distribution Specialists. By segmenting the key business drivers, the route to excellence in distribution is more easily recognised and the chances for successful Distributor-Manufacturer alliances will be increased. Achieving best-in-class performance will enhance the service of distributors to raw material manufacturers and to customers in chemically based manufacturing industries. This, of course, is our ultimate goal.

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