



# COMPLEXITY, COMPETITION & SKILLS: DYNAMICS HINDERING MRO GROWTH

A reimagined playbook for  
MRO/industrial distributors

WHITEPAPER



# COMPLEXITY, COMPETITION & SKILLS: DYNAMICS HINDERING MRO GROWTH

## A Reimagined Playbook for MRO/Industrial Distributors

### TABLE OF CONTENTS

- I. MRO Market: Complexity, Competition & Skills
- II. Growth-Hindering Dynamics
- III. Plays to Retain Share, Margin and Reps
- IV. Conclusion

### I. MRO MARKET: COMPLEXITY, COMPETITION & SKILLS

Look around any office, auto shop, manufacturing floor, building or other business and you'll see products of the maintenance, repair and overhaul (MRO) and industrial distribution industry in every nook and cranny. MRO distributors have turned the nuts, bolts, cogs, washers, screws, and literal millions of replenishable objects required to power industries of all varieties into a formidable market force.

A massive global industry, it's projected to continue growth at a steady CAGR of 1.72 percent until 2020, according to Beroe Inc., a procurement intelligence firm, which also estimates that the MRO market will reach \$660 billion by 2020.

Despite the steady uptick, which certainly is a welcome positive outlook compared with the retracting manufacturing industry, to name one of many examples, MRO distributors aren't short on their own challenges when it comes to retaining and growing their market share.

There are several factors hindering MRO companies from retaining the share they have and claiming more. Namely:

- Complexity:  
Their large customer counts and behemoth SKU counts render it impossible to give reps market-aligned pricing guidance and sales intelligence;
- Competition:  
MRO is ripe for poaching by Amazon, and as a result, traditional distributors continue to see market share slipping away to the online giant; Implement
- Skills:  
A massive generational shift in the workforce is resulting in a skills gap that's proving particularly problematic to fill.

In this playbook for MRO and industrial products distributors, we will discuss how growth is hindered in this dynamic industry and provide reimagined strategies for retaining and growing share. First, a quick look at the unique challenges of MRO/industrial distribution.

## II. GROWTH-HINDERING DYNAMICS

### Complexity

MRO distributors are typified by their large customer counts and behemoth SKU counts with some boasting up to 1 million unique items for sale. SKU counts have grown to epic proportions in part due to growth via acquisition, but also due to the many sizes one product is available in. For example, one single product type, like a washer for instance, may be available in up to 20 sizes. The dynamics of which make inventory and availability key competitive advantages. Having the right products when customers need them - not earlier or later - forges solid customer relationships over time.

Incredible product and customer complexities within one MRO distributor are compounded by the many ways orders are priced which include: direct bid business, system pricing, customer-specific pricing agreements and deviations or overrides of system prices.

Complexities of this magnitude result in an environment where generating relevant prices for each selling circumstance is nearly impossible with the traditional go-to methods of generic manual spreadsheets and tools. A direct consequence of relying on generic tools is overly general pricing, which only pushes the sales team to request more customer specific pricing and overrides or deviations to the prices provided by pricing teams. Pricing teams then focus on compliance to system pricing, tying up valuable time that could be used devising more sophisticated pricing strategies for the company.

### Competition

Many B2B industries are plagued by the entrance of Amazon, but MRO is particularly so, given typically small product sizes that fit neatly into small packages, which is Amazon's logistical wheelhouse. Customers increasingly enjoy the ease of ordering online where they can compare products and pricing as well as get speedy delivery of must-have items. As such, Amazon has put MRO distributors on the defensive when it comes to providing customers with the ease of online shopping.

Remaining competitive online requires not only lightning-fast digital and operational capabilities, but also a level of intelligence in terms of the selling experience. Customers expect to see prices that reflect their unique relationship with the company as well as a personalized shopping experience based on their needs. Getting to that level of personalization can be tough for traditional players but doing so is possible with the right B2B data science solutions at hand.

Additionally, while the market is anticipated to continue steady growth, the global economic uncertainty remains a compelling factor driving strategy. MRO distributors will be keen to find any advantage that will help all sales channels – online, in-person with a sales rep or otherwise – to grow wallet share, retain more customers and purchase volume, and increase the average size of each transaction from a line item perspective.

### Skills

If creating relevant pricing and retaining and growing share weren't challenging enough, MRO/industrial distributors have been particularly challenged with a growing skills gap. Consider this excerpt from Modern Distribution Management:

*"The future of the [distribution] industry is centered in the strength of its people. MSC Industrial acknowledges the growing skills gap — with an expected 2 million jobs vacant in the next five or six years — and is tackling it head-on. Its Better MRO website aims to be a 'a hub of the community,' says Steve Baruch EVP, chief strategy and marketing officer, bringing together nearly 100,000 active users a month to learn about the latest skills, share knowledge and interact with each other. Graybar is participating in an innovation lab at the University of Illinois where more than a dozen interns are addressing complex business problems, setting up prototypes and working through the challenges of today and the future. 'There's some really exciting stuff happening there,' says Graybar SVP and Chief Strategy Officer Randy Harwood."*

The inherent challenge with the skills gap is that a veritable wealth of tribal knowledge around pricing, customers, products and various industry dynamics is leaving the company along with its most valuable players. Finding a simple, intuitive solution to get new reps up to speed to sell effectively and profitably will be a critical factor of success in the coming years.

### III. PLAYS TO RETAIN SHARE, MARGIN AND REPS

Most pricing discussions center on how to maximize margins. While pricing is certainly the biggest lever to improve margins, in a highly competitive environment it can also be used to maintain, or even win share, and help distributors balance margin and volume goals. Taking a closer look at how pricing decisions are made, how customer-specific price agreements are maintained, and how you infuse personalized pricing and sales guidance into all sales channels, may be the keys to retaining share, margins and reps.

Reimagine your price setting process. Take a closer look at how price optimization can produce market relevant prices to drive volume or margin growth, depending on your goal and the market conditions. True price optimization drives the following benefits:

- Optimizes system prices to ensure they accurately reflect the market reality and will be used by the sales team more frequently
- Provides override guidance with guardrails to reduce over discounting
- Delivers optimized customer-specific guidance
- Visual analytics to pinpoint and correct where unnecessary price deviations exist
- Enables a more strategic pricing response to cost volatility

Reimagine customer price management. Provide visibility to and a simple way to mass update customer-specific pricing or prompt sales reps to update customers' pricing, outside of the ERP system.

Reimagine sales and order guidance with a prescriptive approach to growing wallet share and increasing lines per order:

- Action plans pointing sales reps to opportunities to increase wallet share with existing customers
- Real-time guidance alerting reps when customer accounts are beginning to defect on certain product lines
- Intelligence that suggests complementary products that can be used for online shopping carts or for inside sales teams to increase average order size

Calling these plays – however seemingly complex – is possible. It just requires a reimagining of the legacy methods and systems that have left MRO/industrial products distribution companies in this conundrum. Between years of data and decades of expertise, most companies already have a vast wealth of knowledge within their four walls.

Interestingly, tapping into that knowledge provides MRO companies with the competitive advantage of disseminating decades of in-house expertise into intuitive pricing and sales guidance for new and existing sales reps alike.

### IV. CONCLUSION

When data science is designed to solve the pricing problems unique to MRO, applied to relevant in-house or other data sources, and fine-tuned with the guidance of internal pricing experts, the issues of scale and speed in responding to external forces are mitigated. The technology to achieve this as well as sales guidance that grows wallet share and increases average order size exists today.

For more information, visit [www.zilliant.com](http://www.zilliant.com)