Your Changing Role as a Supplier: *Differentiate to Win*

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Automotive Aftermarket Suppliers Association

About AASA

AASA (www.aftermarketsuppliers.org) exclusively serves manufacturers of aftermarket components, tools and equipment, and related products. It is a recognized industry change agent – promoting a collaborative industry environment, providing a forum to address issues and serving as a valued resource for members. AASA is an affiliate of the Motor & Equipment Manufacturers Association (MEMA). "AASA, The Voice for the Automotive Aftermarket Supplier Industry".

About Booz & Company

Booz & Company (www.booz.com) is a leading global management consulting firm focused on serving and shaping the senior agenda of the world's leading institutions. Drawing on the talents and insights of more than 3,000 people in 58 offices around the world, we help our clients achieve essential advantage by working with them to identify and build the differentiating capabilities they need to outperform.

Methodology and Organization of the Report

The insights and findings in this report are based on extensive primary and secondary research performed by Booz & Company. To determine the changing roles of suppliers and its implications, we completed interviews with many AASA members and with senior executives at channel players that account for over two-thirds of aftermarket parts sales.

This report is organized into five sections:

I. Executive Summary
II. Frequently Asked Questions (FAQs)
III. Changing Requirements for Suppliers
IV. Channel Partners' Wants versus Needs
V. Implications for Suppliers
VI. What's A Supplier to Do?
VII. How Should A Supplier Do It?

I. Executive Summary

The role of the supplier has changed and will continue to do so. Battles for local markets and across customer segments are raging among channel partners aggressively seeking profit growth. In turn, suppliers face increasing requirements to help their channel partners compete and to provide additional services and support that strengthen the value propositions to end customers.

Accelerating information availability and speed, the impact of rapid e-tailing growth, changing end-customer buying habits, as well as low-cost-country competition all provide additional catalysts for new and changing service demands placed on suppliers.

As a result, suppliers' businesses and financial returns are under severe pressure from channel partner demands for service and support that are broad and burdensome. The costs and complexity of these demands are confusing and even contradictory. The need for more and better services will only increase in the future, as the underlying drivers (e.g., increasing channel partner power, parts proliferation, technology advancement, escalating competition among channel partners) continue unabated.

The answer for suppliers is not simply to add more service and support. The costs and investments of supporting even today's onerous requirements are untenable in the current business environment, so adding more and more is not feasible in the absence of price relief. Instead, suppliers have to make choices. Choices have to be made about which set of capabilities and resulting services and support they will develop to differentiate themselves and improve financial performance. The choices consequently must determine which services and support will be de-prioritized or eliminated to reduce costs and resources. The choices also involve deciding which channel partners to prioritize and conversely which ones not to prioritize. Making such choices constitutes developing business strategy.

Making good choices about priorities and focus requires strong understanding of value creation. Most suppliers need better channel partner relationships, data, analysis skills and processes to quantitatively and convincingly assess value and value improvement for channel partners and end customers. They need to commit the resources to accomplish this, effectively communicate and fundamentally change the nature of conversations they have with channel partners from price to value and from near-term concessions to profit improvements and growth for both parties.

It is not enough to create value; suppliers have to capture a fair share of the value created. Suppliers should seek to leverage differentiated services and support in order to grow the profit pie and earn reasonable returns for their contributions. Determining how to protect differentiated knowledge and systems, being indispensable to ongoing value creation and establishing gain-sharing arrangements are some of the ways suppliers can ensure they capture a reasonable portion of the value they create. To make informed service and support choices, suppliers also have to understand themselves well. It is necessary but not sufficient to have great value creation insights about channel partners and end customers. Suppliers

have to know what capabilities they start with, what options are most appropriate for their product categories and businesses and what their ambitions should be. The choices will not, and should not, be the same across suppliers.

There is no shortage of options for suppliers to differentiate themselves. One option is to build superior performance in must-have areas – quality product, competitive price (cost), reliable delivery or good catalogue data. Another option is to differentiate in other high-importance service and support areas, including rich and robust data, being easy to do business with, innovation, end customer support, inventory management and brand support. A third way is to find a path to radically improve a channel partner pain point such as low inventory turns, low end-customer fill rates or high return rates.

Suppliers who do not make choices and differentiate will suffer. "Differentiate to win" is a critical call to action. Lack of differentiation will lead to commoditization, a trap many suppliers are already falling into. Failure to make choices leads to trying to be all things to all channel partners, which a losing proposition is given the increasing demands from ever-larger, more sophisticated customers, for more and more services and support.

The automotive aftermarket will be shaped by the suppliers who respond to the differentiation imperative and how well they do it. The future winners among suppliers will be those who successfully differentiate to earn attractive returns. They will take share from weaker competitors and may drive supplier consolidation to help level the playing field with top channel partners. Some niche suppliers may also thrive by finding ways to serve a limited set of channel partners well in focused areas. Still others will become aftermarket zombies, suppliers who may exist for some time without succumbing but who will be not be attractive investments or fun places to work.

II. Frequently Asked Strategic Questions (FAQs)

- **What have been the biggest changes in the role of the supplier?**

Suppliers are being pushed to provide even more, better and varying services and support to their channel partners. Traditional requirements around good product, delivery, price and doing the basics are not enough to distinguish a supplier and generate adequate returns. The service and support requirements are becoming progressively more painful to bear as channel partners' businesses become more advanced, complex and competitive. In addition, the list of service and support expectations is confusing and even contradictory, as some channel partners take on what were previously suppliers' roles and vice versa. Large differences among channel partners with regard to want they want add to the challenge. On top of price and terms pressures, these demands for more service and support cannot be feasibly funded. Suppliers are struggling to determine how best to respond. *(Refer to page 8)*

- **What are the biggest changes in the role of the supplier we will see over the *next* decade? What are the key uncertainties?**

Channel partners will continue to demand more and better services and support from suppliers that in combination become less and less tenable. So to be successful, suppliers will have to make choices about where they will differentiate themselves and as a result what services and support they will prioritize and de-prioritize. Opportunities for differentiation based on services and support will grow. Suppliers who build capabilities and develop the associated services and support to significantly improve channel partner pain points (e.g., SKU complexity, high returns, low end-customer fill rates, inventory management, new market segment penetration, e-tailing and innovation) can create tremendous value for channel partners and themselves. Suppliers who successfully differentiate themselves will prosper; others who do not will suffer. Simply adding more and trying to be all things to all channel partners is not a viable strategy. *(Refer to page 10)*

- **What should suppliers be doing in the future to add more value and differentiate themselves from competitors?**

Suppliers have to make a commitment to fundamentally renew themselves. They have to develop better quantitative understanding of value through the channels to end customers and of value improvement levers. They need to use these insights to make informed choices about how to differentiate themselves. There is no shortage of capabilities where suppliers can differentiate themselves. It is possible to build superior performance in some must-have areas – quality product, competitive price (cost), reliable delivery or good catalogue data. Another option is to differentiate in other high-importance service and support areas, including rich and robust data, being easy to do

business with, innovation, end customer support, inventory management and brand support. A third way is to find a path to radically improve a channel partner pain point such as, low inventory turns, low end-customer fill rates or high return rates. *(Refer to page 23)*

- **How can I add more value that my channel partners – and their customers – are willing to pay for?**

A supplier has to carefully determine specifically how they will add value. This starts with a good understanding of value and value improvement opportunities for channel partners and their end customers and with a good self-understanding of the supplier. If a supplier can create substantial, tangible value (i.e., more volume, higher price and/or lower cost) and prove it, then getting channel partners to pay for it is possible. *(Refer to page 19)*

- **Could some of the services that our industry takes for granted and perceived as not adding enough value be reduced or eliminated? Alternatively, should some services be enhanced or developed to create more value for suppliers and channel partners?**

Suppliers simply cannot excel in all services, and they should not try to be all things to all channel partners. Instead they should determine where and how they can really differentiate themselves so that they are indispensable to some channel partners. Then they have to identify cost reduction opportunities in other product and service categories to help fund investments in priority areas. If good choices and priorities are made on where to create value and the value creation is substantial and quantifiable, then it becomes much easier to push back on demands for expansive services and support across the board. *(Refer to page 12)*

- **Can suppliers increase both their margin and help increase channel partners' margin, or is this a zero-sum game?**

Suppliers certainly can increase the value pie. Many opportunities exist to substantially increase volume, raise price and/or lower costs. Some examples include: improving end-customer fill rates, reducing warranty and return rates, cutting inventory costs, reducing overlap costs between suppliers and channel partners and raising online customers' rates. These opportunities can create large amounts of incremental profit for channel partners and suppliers, not simply shifting profit between pockets. *(Refer to page 19)*

- **How do I get customers to pay for the value I provide as a supplier?**

The prerequisite to capturing value is creating it – substantial, quantifiable, incremental value. If the profit pie is growing, suppliers should get part of the upside as long as they are meaningfully contributing to its expansion. Then suppliers have to plan upfront how

to protect differentiated knowledge and systems, ensure they are indispensible to ongoing value increases and negotiate gain-sharing arrangements as potential ways to help capture some of the value they create. Suppliers need the ability to convincingly communicate what the value is as well as why and how they should share it. In this way, they can better balance bargaining power with channel partners. *(Refer to page 17)*

- **How do I have a different conversation with customers? How do I move conversations from price to customer value, from simply reducing price to increasing the profits?**

Having truly differentiated services and support that create quantifiable value for channel partners provides the basis for changing the conversation from price to value. Discussions about growing the pie can displace those about splitting the pie if the prize is big enough, verifiable and feasible. Leveraging more top-to-top commitment to joint value creation efforts and adding other functional skills beyond sales and purchasing to the equation can make a big difference. Making changes to the relationship intent and people involved are usually required and are appropriate if a supplier has something big to offer. *(Refer to page 16)*

- **Okay, the ideas sound appealing in concept. What do I need to do to achieve this and how can I implement it? To achieve all of this, what do I need to wake up tomorrow and do differently? What do I need to be doing differently one year from now? Five years from now?**

Suppliers need to do five things: 1) make a top leadership commitment to change in a fundamental way, 2) develop a strong understanding of service value, 3) make choices about which services and channel partners to prioritize for differentiation, 4) manage changes rigorously and 5) keep investing and adding to the capabilities. The first step typically begins with either an internal exercise or joint supplier/channel partner effort instigated by top management. Specific action plans and performance tracking should be in place to track progress over time. Initial successes should prove out the value proposition and in a few years a supplier should strive to be clearly industry-leading in the chosen differentiation area(s). *(Refer to page 27)*

III. Changing Requirements for Suppliers

It is common knowledge that automotive aftermarket suppliers are under severe pressure. They are finding it harder and harder to make attractive returns and grow. Suppliers are being pushed to provide even more, better and varying services and support to their channel partners. Traditional requirements around good product, delivery, price and doing the basics are not enough to distinguish a supplier and generate adequate returns. The service and support requirements are becoming progressively more painful to bear as channel partners' businesses become more advanced, complex and competitive.

Channel players are straining to drive profit growth by enhancing their own differentiation and pushing into new customer segments. In turn they are not only squeezing suppliers on price and terms, they are pushing for increased support and services. Some channel partners are taking on what were previously suppliers' roles and vice versa, and large differences among channel partners with regard to what they want are adding to the challenge. Consequently, the list of service and support expectations is confusing and even contradictory. The expanding requests make it increasingly difficult for suppliers to determine how to invest and how to adapt their businesses for sustainable profitability.

The demands for more and better services and support stem from several root causes. First, as pointed out in the AASA *Aftermarket Outlook 2020* report in 2011, as channel partners consolidate and amass greater strength, they shift the balance of power, extracting more from suppliers – *"channel partners are moving costs to suppliers whenever they can," "channel partners come to expect these services as the norm and want more."*

Second, channel partners are having difficulty handling the mushrooming number of SKUs and technical product complexity. OEM-driven vehicle complexity; proliferating makes, models and content options; the aging car PARC; and more price points and brands collectively create tremendous tension for the entire industry. Channel partners do not have the ability or resources to adequately address the challenges across all product categories, and, consequently, they seek to shift the burden on suppliers.

Third is the relentless march of technology. Vastly greater amounts of information along with more powerful systems and analytics continue to offer improvements in most every aspect of the business operations, such as automating and speeding transactions, forecasting demand, managing inventory, pricing and promoting products.

The growth and dramatic impact of digital commerce in the automotive aftermarket is a critical example of information technology's pervasive affect. The impacts of e-tailing are forcing many channel partners to quickly respond to changing consumer shopping habits and to new competitive challenges. Most channel partners are developing their own online offerings. So, they require new and varying types of support and service, including advanced digital content, data and analytics, different marketing programs and possibly product delivery. As noted in the AASA 2013 *e-Tailing Supplier Success Strategies*, most suppliers urgently need to invest in digital content and analytics and exploit e-tailing and online opportunities so as not to be left behind.

Fourth, large channel partners themselves are finding it harder to grow profits as in the past. Consolidating weaker competitors and reaping supplier concessions fueled superior performance for several top channel partners for a good while, but these strategies are running out of gas. So, they are competing more aggressively with each other and seeking new avenues of growth. Retailers are targeting commercial business and vice versa. They are expanding into other segments as well – e.g., heavy trucks and national accounts. With the high store penetration in most geographic areas, major channel partners are struggling to differentiate from their competitors across the street. They are pushing suppliers to help them distinguish their businesses – *"we want help to be more competitive against other players," "help us be more successful"* – and are looking for more exclusiveness. So, their service and support requirements grow more sophisticated as their businesses become more advanced and complex. Their needs are becoming more customer-specific as well.

The range of services and support increasingly required from aftermarket suppliers are vast and varying. They can broadly be segmented into five categories *(Exhibit 1)*.

Exhibit 1
Portfolio of Services and Support Provided by Suppliers

Service and Support Category	Common Services and Support
1. Making the Product	Product innovation In-house manufacturing New tooling investment Engineering Quality assurance
2. Selling and Marketing	New-product introduction and launch Competitive benchmarking Cataloguing (ACES, PIES, customer-specific) Interchange guides Buyers guides and numerical listings Tri-lingual instruction sheets Digital content and analysis Selling to the channel Field sales support to end customers Technical hotline support and training Market research OE research Advertising and pull-through selling Merchandising and promotions Brand development and support Strategic pricing support Category management Product movement and model-stock advice
3. Delivering the Product	Special packaging and palletizing High-fill-rate shipping Short turnaround times and expediting Demand forecasting

	Finish goods inventory management Regional warehousing Global sourcing Factory-direct shipping Customer-specific shipping requirements
4. Managing Order-to-Pay Process	Customer service Electronic ordering Collections Extended terms Customer-specific invoicing & payment processing
5. Managing Quality and Returns	Qualified, trained and stable workforce Testing products Certifying products Complying with government regulations Handling returns, including re-boxing & re-stocking Analyzing alleged defective returns Stock adjustments and inventory lifts

The costs for these services have swollen over time, weighing heavily on suppliers. According to aftermarket supplier executives *"supplier services costs have increased 25-30% in the last ten years."* Since the forces driving expanded channel partner power and demand for support and services are still intensifying, the future role of the supplier can only promise to bring greater change and challenge in terms of services and support. At the same time, the ability to recoup the costs of these services through higher price will be very limited, given more powerful channel partners, growth of LCC competitors and expansion of private label.

The costs of these services differ depending on the supplier and the level of services they provide. Sample cost ranges based on supplier interviews are shown below *(Exhibit 2).*

Exhibit 2
Examples of Supplier Costs for Sample Services and Support

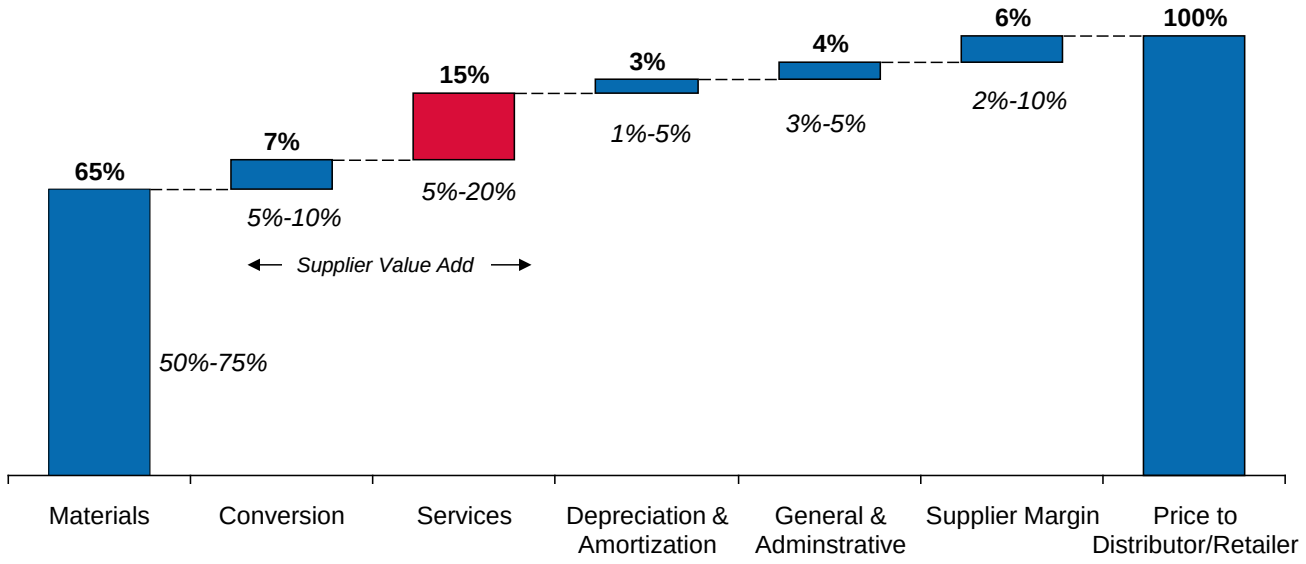
Services & Support Category	Services & Support	Supplier Cost (% of Revenues)
Selling & Marketing	Factory sales support	3%-5%
	Marketing and Program Support	2%-5%
	Advertising / Co-Op	0.5%-1%
	Catalog and technical support	1.0%-2%
Managing Order to Pay Process	Electronic order capability (supplier expense)	1%-1.5%
	Electronic order capability (channel partner fee)	1.5%-2%
Delivering the Product	Outgoing Freight	3%-5%
	High fill-rate / Emergency shipments	3% -4 %
Managing Quality & Returns	Full warranty returns	2%-3%
	Installer labor protection	0.5%-1%

Costs of a number of other services provided by suppliers are harder to quantify. Some examples include:

- *Full product lines covering almost all vehicles in operation*
- *Late model product coverage*
- *Engineering support (for form, fit and function),*
- *Product liability protection*
- *Branding*
- *Pricing optimization*

The costs of services range from 5% to 20% of sales, depending on the supplier and the types of services provided *(Exhibit 3)*. This can translate to 30%-75% of supplier value-add depending on product category, company and customer.

Exhibit 3
Illustrative Automotive Aftermarket Part – Costs to serve and profitability



Suppliers know that they can and should improve the support they provide – *"we would like to provide more," "we need better data and analytics," "there is a lot of room for improvement."* Many understand that the industry state of the art, in areas such as category management and demand forecasting, are inadequate – *"forecasting and inventory management in the industry are really bad."* Still, suppliers are struggling to keep up with yesterday's basic service and support requirements and do not have the luxury to invest in leading capabilities.

Ever improving information systems, processes and analytics are increasing the possibilities and expectation for service value-add all the time. Furthermore, some of the largest channel partners have the resources and motivation to develop their own capabilities as suppliers fall short. The largest channel partners are investing to build proficiencies in areas such as category management, inventory management and sales. Thus, the bar that suppliers have to meet to really distinguish themselves in these areas in the future will be much higher. If they cannot, they run a greater risk of being commoditized and substituted for low-cost-country providers.

Suppliers are aware that winning takes more than just good product. As in most industries, good product has become readily available from alternative sources. Competitors can match product attributes better and faster than ever. Very good product at an attractive price is not enough for most suppliers to win in the market. What often sets apart the best suppliers is the specific services and support in which they excel, combined with the product they offer.

Simply adding more and then some more services is not the answer. The costs of all these services taken together compounded over time are unsupportable. Given severely constrained resources, most suppliers cannot add more costly services and support, and satisfying the varying wishes of different channel partners is simply prohibitive – *"we can't make money doing what we are doing, so how are we going to do more?"* It is impossible to meet, much less exceed, the expectations of every channel partner.

The solution for suppliers cannot simply be to add more and better services of every stripe. Suppliers will have to make critical choices about what they will do to clearly differentiate themselves from competitors and then become exceptionally good at it. This will then guide choices about which services to prioritize and choices about how to serve various channel partners differently. It means being very clear about which capabilities to excel in and then which ones to de-prioritize. Half the battle is carefully determining what not to do or what to do at basic, low-cost levels. As services become more important these choices in turn are fundamental to how suppliers compete and perform. For many suppliers the choices will be truly crucial, requiring them to differentiate to win.

IV. Channel Partners' Wants versus Needs

Okay, so channel partners want more and better services and support. But what is it they really need … and will value? Unfortunately the answer to this question is not straightforward. Supplier demands for services and support can be confusing and even contradictory. Suppliers have to carefully ascertain the specific channel partner needs in which they will excel.

The answer is not generic. Not all channel partners want and value the same things. They have different views about what is important for their particular business and set of end customers. They think about the question differently. Some acknowledge the value for a particular service, while others do not – *"we want better category management"* versus *"all suppliers want to do is push their own products…we don't trust their category management."*

Some of the differences are rooted in variations in the business strategies of the channel partners. For instance given retailers' relatively heavy focus on the DIY market, they value outreach to consumers – *"help educate the consumer on your brand"* - and usually do not want to cover the costs of a supplier's sales force. Wholesalers and those channel partners focused on the commercial market tend to place higher value on manufacturers' field sales forces calling on service technicians – *"we want manufacturers out there creating pull for their product," "we would like support from suppliers to better help sell their products…in areas such as field support."*

Even channel partners of the same type prioritize various services differently. As noted earlier, some channel partners are resorting to building their own capabilities and then no longer value a supplier's basic support in that area. It is clear that most channel partners sincerely want and need stronger relationships with their suppliers and benefit from high-value services – *"we what more collaboration with our suppliers," "we prefer having a full-line long-term, strategic partnership with suppliers," "there is great possibility for channel partners and suppliers to collaborate," "we value the relationship with our top suppliers and want to maintain them," "I can always get a part cheaper somewhere else, but then I have to catalogue it, figure out how to explain it, how to warranty it."* However, there are also some channel partners and certain individuals who want to pit suppliers against each other and commoditize products – *"suppliers just need to focus on manufacturing," "we want to source from multiple suppliers."* This latter type puts less value on the same supplier services and support that other channel partners greatly appreciate. Moreover, while all channel partners see the need for improvements in supplier services and support, some are more satisfied with their top suppliers than others. All these differences in characteristics and perceptions make it especially difficult to know exactly what channel partners want.

Service and support needs are changing. As indicated earlier the underlying industry factors driving more and better services and support are continuing unabated – i.e., more powerful channel partners, parts proliferation, technology advancements and the battle for new customers and differentiation among channel partners (commercial market, e-tailing, heavy trucks, etc.). The amount, mix and sophistication of services and support required in the future will grow as a result. As challenging as it is to meet the current requests for support today, suppliers have to look to the future to determine how best to innovate and

differentiate. Just asking channel partners what they want at present is not sufficient, as their real needs are shifting quickly.

Some examples of how services may change and how suppliers might find new ways to create competitive advantages in the future are listed below (*Exhibit 4*). The list is not exhaustive, but offers an indication of the breadth of potential service needs and changes that suppliers will need to consider and act upon.

Exhibit 4
Examples of Potential Future Services

Services and Support Category	Potential Future Services
1. Making the Product	• Much faster response to new vehicle introductions and problem components • Innovate ways to utilize single part for multiple applications • Differentiated product by channel partner • New tooling technology to reduce minimum volume requirements for new parts • New materials that reduce aftermarket part costs well below OE costs for similar quality • New quality management systems to significantly reduce quality issues
2. Selling and Marketing	• Advanced category management with dedicated category management staff co-located at customer site, robust multi-source data, state-of-the art information systems and proprietary analytics • Collaboration joint planning with pre-established scorecards and gain-sharing agreements • Exceptional training – unique, interactive, social, bilingual; supported with personal contact • End-customer-centric marketing programs including loyalty programs, contests, social media, interactive online systems • Sales support that is more data and value oriented leveraging hand-held systems to guide and augment interactions • Cost sharing of sales force additions • Advanced trade promotion management systems, planning and analysis • Supplier-driven, telematics-based diagnostic programs that engage end-customers
3. Delivering the Product	• Reduced delivery minimums – half a pallet, order of one • More overnight and same day delivery to the shop and consumer • Integrated supplier/channel partner inventory

	management systems including online, real-time visibility to suppliers inventory through simple on-line systems • Greater ability to trade inventory across customers • Much more accurate demand forecasting tools • Retailer fill rates to their customers of 95%, instead of supplier fill rates of 95%
4. Managing Order-to-Pay Process	• Direct to consumer sales via the internet without jeopardizing price points • Cloud-based EDI and integrated supply chain inventory management • New payment plans based on inventory turns or resurgence of pay on scan • Seasonal merchandise buying and inventorying
5. Managing Quality and Returns	• Product certification premiums • Customer-specific product testing specifications • More kit-based product offerings • Increased usage of third-party warranty providers/evaluators • Risk sharing return policies, root cause tracking and remediation systems

The real value of services and support is not well understood and communicated by suppliers and channel partners. Without understanding real value, it is very hard for suppliers and channel partners to prioritize services and support. It is additionally difficult for suppliers to capture the appropriate financial benefit from valuable services they deliver without this basic understanding. Sometimes suppliers call something valuable that isn't, and other times they cannot convincingly communicate the benefit of something that is valuable. As one major channel partner put it *"suppliers need to be firm and point out what value-add they provide; they need to explain what it is worth and why it is important."* Suppliers cannot expect channel partners to do it for them.

Many suppliers argue that channel partners often take services and support for granted and then ask for more, without fully realizing the cost/benefit trade-off. This is undoubtedly true. On the other side, suppliers themselves typically do not have a complete understanding of the costs of the services and support they provide. More importantly, suppliers have a very limited understanding of the value side of the equation. It is not enough to comprehend how much services cost. Suppliers need to know objectively and quantitatively how much services and support are worth across the entire chain – for suppliers themselves, their channel partners and finally end customers. **Ultimately, a service really only provides value if it translates into higher volume, higher prices and/or lower costs.** Suppliers need to be able to answer the following types of questions objectively and quantitatively:

- How many more units were sold because of what we did, and how did we prove it?
- How much higher price did the channel partner charge due to our efforts, and how did we demonstrate it?
- How much cost was taken out and do we and channel partners jointly agree on the amount?

The vast majority of the time supplier/channel partner conversations are not about value creation. The focus typically is predominantly around price, near-term sales and current problems – i.e., sales-oriented discussions. Price is a poor substitute for value. Price discussions are about "splitting the pie" and are mostly short-term. Value discussions have different intent and interactions. They are about "growing the pie" over time. In the absence of suppliers having something tangible to offer on value most channel partner dialogues, and all negotiations, quickly devolve to price and concessions. Having a differentiated service offering and/or innovative product offering that provides sizeable, quantifiable and achievable increases in value provides the basis for fundamentally changing this dynamic. More top-to-top exchanges need to take place to fix the agenda on value, and set the stage for ongoing relationships and joint programs to create value. Such efforts require resources other than sales people and purchasing people. Strong commitments from the top executives and adding other functional people to the mix who are not traditional sales and purchasing types can be key to transitioning to value-creation conservations.

For the preponderance of suppliers, the required relationships, information, skills and processes are not in place to adequately assess value and value improvement opportunities. Suppliers need do a couple of things to better assess value. First is to better understand the channel partner's operations to help measure value creation and identify improvement opportunities. Better insight into channel partners' businesses usually entails substantially greater trust and information sharing than is the norm between suppliers and channel partners in the automotive aftermarket today. Top-level commitment and the concomitant resources to build more transparent relationships is a prerequisite for such efforts. The insights require collecting data and analyzing it in new ways. Sometimes the data is readily available from channel partners; other times it takes a good deal of work just to access it. Most suppliers are not currently fully utilizing the data that is already readily available from some channel partners today. Generating new, revealing insights also involves analysis skills that are scarce and not typically part of the traditional supplier/channel partner interactions. Truly useful insights are generated at the specific account level and not possible without substantive collaboration. Real value of service to channel partners is often unclear partly due the lack of trust between parties and the lack of credible quantification of value.

Second is a better understanding of end customers. Insights about channel partners can reveal a lot about service value and can help suppliers assess ways to differentiate themselves. However, even more powerful insights stem from understanding end-customers – the deep understanding at the product or category level that allows suppliers to develop new products and ways of serving channel partners. These types of insights go well beyond what the channel partners can do on their own and guide the work of identifying and then

measuring value that channel partners realize. Again, data and analysis are at the core of these insights.

Once suppliers create value, they then have to capture some of it. It is not enough to create meaningful value. Suppliers also need the mechanisms, skills and channel partner relationships to make sure they capture a reasonable portion of the value they help build. In essence, suppliers who can develop the capabilities to consistently create value from services and support are building competitive differentiation to shift some of the power away from large channel partners back into their favor – in other words, make more money. Recognizing this upfront and planning for it is the key. Protecting differentiated knowledge and systems, making it impossible for channel partners to create new value and concepts on their own, and establishing gain-sharing arrangements are all part the answer. As long as the profit pie is getting bigger as a proven result of a supplier's action, the supplier should be able to capture a fair share of the benefits while at the same time working collaboratively with channel partners and building trust.

The current state of collaboration between most suppliers and their channel partners in the automotive aftermarket is rudimentary, making it difficult to readily exploit the benefits of differentiated services. Even the most advanced companies in this industry still have much to learn. For instance, one major automotive aftermarket supplier developed a valuable assortment management capability and proudly demonstrated its benefits to a key channel partner considering a change of vendors. The test was very successful, delivering some profitable, specific insights about how best to manage the supplier's category. Unfortunately the channel partner gladly accepted the beneficial lessons and then selected a new vendor anyway believing that they had already garnered much of the insight the old supplier had to offer. No commitments were agreed upon up front. In contrast, P&G and Walmart helped successfully pioneer common, transparent scorecards, vendor/retailer joint teams and gain-sharing relationships in consumer packaged goods (CPG) in the 1980s, and in turn the broader CPG industry is now quite advanced in this regard.

Channel partners have a clear set of must-haves. Although the needs and wants for service and support vary greatly across channel partners, the basics they require are quite consistent. In priority order they are:

- **Quality product** – first and foremost channel partners want a product that does what it is supposed to do and does not cause problems with end customers – *"Above all suppliers need to make sure they make quality products."*
- **Competitive price** – given the wealth of suppliers and good product around the world, competitive price (and cost) are a given in this industry. Premiums in excess of whatever brand premiums still remain, are just not sustainable – *"suppliers have to make parts efficiently."*
- **Reliable delivery** – 95% fill rates or higher are commonplace and not differentiating. Suppliers with long supply chains end up paying for the longer or less reliable delivery in price and terms – *"SKU proliferation has negatively impacted service levels, but suppliers still need to provide competitive fill rates."*

- **Good catalogue data** – good data is table stakes in the industry. Without it suppliers increasingly will not keep a seat at the table. The exploding influence of e-tailing is raising the ante further – *"give us the right catalogue information and in the right format."*

These four must-haves are the basic price of entry. Nonetheless, the expectations for performance are not stagnant – they continue to climb. While it is very difficult, some suppliers still can build competitive differentiation in these core areas. Just being very strong in each of areas is a given and is not distinctive.

Channel suppliers also have a somewhat consistent next set of critical services and support. Beyond the top four must-haves, channel partners' responses to questions about their wants and needs start to diverge. However, the following categories of services and support are fairly commonly mentioned by channel partners as areas where improvement is needed.

- **Rich, timely and robust content** – virtually all channel partners talk about the need for more, faster (for late models) and better content to help sell products online and offline – *"suppliers need to invest in being able to easily disseminate information to customers and in rich and accurate content."*
- **Flexibility and easy to do business with** – channel partners are also stretched to meet financial expectations and serve their customers; so, they appreciate suppliers who can make doing business as seamless as possible – *"be easy to do business with, buyers already have ton on their plate."*
- **Innovation** – every channel partner seeks innovation, particularly product innovation, that can give them something fresh to offer, ahead of competitors – *"we need more innovation and differentiation in products."*
- **End-customer support** – channel partners often list field sales and other pull-through support high among things they of which they want more – *"field support and technical support help me better compete."*
- **Inventory management** – inventory management is on the mind of all channel partners and most want help from suppliers – *"suppliers need to work with us to figure out how to cut inventory."*
- **Brand support, for branded products** – channel partners rely on suppliers to support their brands even when they exist – *"we need suppliers to build brand recognition and invest in brand advertising."*

Channel partners' most critical needs are not the same as their wants. As just noted channel partners share a set of service and support must-haves, and the next set of services they would like to see improved is somewhat common. Suppliers can differentiate themselves with superior performance in the must-haves. For example, one large aftermarket supplier has captured an inordinate market share primarily by having advantaged costs in product design and manufacturing process. Suppliers can also differentiate with exceptional performance in the next set of channel partner "wants." For

instance, several suppliers are currently gaining share and building their brands rapidly across channels with extremely rich product content advantaged for e-tailing.

Another route for suppliers to discriminate channel partner needs and determine how to differentiate themselves is to understand channel player pain points. This approach gets at what channel players really need, not just what they say they want. Channel partners are much better at describing their pain points than they are at prescribing exactly what new service and support will provide the most value. They want suppliers to bring solutions to their issues and to help them drive their own differentiation and value creation relative to their competitors. Suppliers can also change how they interact with end customers leveraging technology (e.g., internet, social media and mobile apps) which then alters how they build their brands and build demand beneficial to their channel partners.

The good news is that channel partners have lots of pain points that are ripe for improvement and could generate huge tangible value if addressed well. Just a few examples where tremendous value creation is possible include:

- Improving fill rates to end-customers (not to channel partners) to 95% from the 70% range in some product categories today
- Reducing warranty and return rates from as high as 30% at the retail store categories to less than 5%
- Cutting inventory costs substantially across the entire value chain
- Helping manage exploding SKU complexity
- Optimizing costs and reducing overlap between suppliers and channel partners
- Dramatically raising take rates of end customers who search/research online by providing leading-edge digital content (360 degree images, technical specifications, installation training videos)

Imagine the value potential from dramatically raising performance in any one of these areas. The services listed in *Exhibit 1* that suppliers currently provide usually do not come close to capturing the advanced capabilities required to change the game against any one of these needs.

Yes, many suppliers recognize the opportunities, and more advanced versions of most services exist at some level. Revenue-side examples include high-quality installation training videos, detailed pricing analytics and price management, and state-of-the-art assortment management. Cost-side examples include supplier/channel partner joint inventory managements systems and joint efforts to reduce duplicate activities (e.g., selling and training).

Yet, to date, examples of companies successfully differentiating through services to address these pain points are hard to find in the automotive aftermarket industry. Even suppliers who are particularly good in some of these areas typically do not have the channel partners' perspectives in full view. Explicit, shared improvement goals are hard to find. Limited

investments in capabilities or small improvements are often lauded, when large increases in measureable value are really needed. More often than not the real value of existing services is far less than the hype. Even the most advanced suppliers have fairly nascent service capabilities compared to what is possible and what is best practice in other industries, e.g., category management as practiced by a CPG leader such as Clorox. In consumer packaged goods, suppliers have been adapting to supporting varied and large channel partners for quite a while. It will take time for the leading automotive aftermarket players to successfully demonstrate the benefit of their efforts in this industry. Not having in-industry examples to copy makes it difficult to marshal the will to try, but on the other hand successful first-movers will be handsomely rewarded.

V. Implications for Suppliers

Changes in the role of suppliers and channel partners' true needs have vital implications for suppliers. In summary, the top ten implications are:

1. **Suppliers' businesses and financial returns are under severe pressure** from channel partner demands for service and support that are broad and vast. The costs and complexity of these demands are confusing and even contradictory.
2. **These demands for more and better services will only increase** in the future, as the underlying drivers (e.g., increasing channel partner power, parts proliferation, technology advancement and competitive battles among channel partners) continue unabated.
3. **The answer for suppliers is not simply to add more service and support.** The costs and investments of even supporting all of today's requirements are untenable, so adding more and more is not feasible.
4. **Instead, suppliers have to make choices**. Choices have to be made about which limited set of capabilities and resulting services and support they will develop to differentiate themselves and improve financial performance. The choices in turn imply what services and support will be de-prioritized to conserve costs and resources. The choices also involve determining which channel partners to prioritize and conversely which ones not to prioritize. Making such choices constitutes developing business strategy.
5. **Making good choices about prioritizing services and support requires strong understanding of value creation**. Most suppliers need better channel partner relationships, data, analysis skills and processes to quantitatively and convincingly assess value and value improvement opportunities for channel partners and end customers. They need to commit the resources to accomplish this and fundamentally change the conversations they have with channel partners from price and sales to value and value creation programs.
6. **It is not enough to create value; suppliers have to capture a fair share of the value created**. Suppliers should seek to leverage differentiated services and support to grow collective profits and accumulate some of the increase. Planning how to protect differentiated knowledge and systems, making themselves indispensable and establishing gain-sharing arrangements are ways suppliers can capture some of the value they create.
7. **To make informed service and support choices suppliers also have to understand themselves well.** It is not enough to have great value creation insights about channel partners and end customers. Suppliers also have to determine what capabilities they start with, what options are most appropriate for their product categories and businesses and what their ambitions should be.
8. **There is no shortage of options for suppliers to differentiate themselves**. Some can build superior performance in the must-haves – quality product, competitive price (cost), reliable delivery or good catalogue data. Another option is to differentiate in other high-importance service and support areas, including rich and robust data, being easy to do

business with, innovation, end customer support, inventory management and brand support. A third option is to find ways to radically reduce channel partner pain points such as, slow inventory turns, low end-customer fill rates or high return rates.

9. **Suppliers who do not make choices and differentiate will suffer.** "Differentiate to win" is a critical call to action. Lack of differentiation leads to commoditization. Failure to make choices leads to trying to being all things to all channel partners which is a losing proposition given the increasing demands for more and more services and support.
10. **The automotive aftermarket will be shaped by suppliers who can respond to the differentiation call to action and by how well they do it.** The future winners among suppliers will be those who successfully innovate and differentiate to earn attractive returns. They will take share from weaker competitors and drive consolidation among suppliers. Some niche players may also thrive by finding ways to serve a limited set of channel partners well in specific areas. Others suppliers may exist for some time without succumbing, but they will not be good investments or fun places to work.

VI. What's A Supplier to Do?

The answer to this question is very different by supplier. Not only do the needs and wants of channel partners vary; suppliers differ just as much if not more. They have different product portfolios, business models, channel partners, end customers and service and support starting points.

It is a good thing that the answer is not the same for everybody. If all suppliers just needed to do similar things for all channel partners, services would not hold the potential to be truly distinctive, and that distinctiveness is what drives the potential for profit. Instead as product differentiation becomes harder to create and sustain, meaningful differences in business performance are, and will increasingly be, based on differentiation in both what services are provided and how well they are provided.

The type of differentiation required is not incremental. It is transformational. If successful it results in changing a supplier's business so that it can create and capture more value than ever before.

Successful suppliers have to achieve **differentiation through innovation and creating incremental value well beyond the costs of the services provided.** The starting point is all about making choices – first, choices about which services and value propositions to win with and in turn which costs and services to reduce or eliminate, and, second, choices about which channel partners to prioritize and collaborate with to build service value. **Suppliers cannot be differentiated and market-leading across the board in everything they do.** At root, the choices are about strategy – clearly defining what part of the market to focus on, what value proposition to have and what products, services and capabilities are required. Obviously, all suppliers should not have the same strategy.

Dorman is a good example of a supplier with clear differentiation based on one of the most basic must-haves – product. Dorman's entire business model is built around continually bringing to market solutions to new parts problems before anyone else. They have built exceptional capabilities to: 1. collect information from multiple sources about emerging parts problems on new vehicles, 2. systematically analyze which identified opportunities will generate attractive ROI and 3. very rapidly develop new products for the selected opportunities. As a result Dorman has no competitor with a remotely similar value proposition and achieves enviable returns and revenue growth.

Gates is an example of a company that shines in one of the next set of services after the must-haves – field sales. They have an unparalleled sales force calling on end-customers, creating pull for their brand and helping reduce returns. Consequently, they perform exceptionally well compared to their competitors and the industry.

In the consumer packaged goods industry, Frito-Lay illustrates how a company successfully built differentiated and powerful service capabilities. They have their own fleet of trucks with skilled and motivated drivers and are known for their ability to develop relations with store owners to commandeer shelf space. This direct-store delivery (DSD) system allows them to easily and quickly test new products by introducing them in a handful of stores.

Then they can selectively supercharge demand for initially successful products with aggressive marketing focused on products with the biggest upside. In addition, they leverage the fast store-level information loop to drive rapid, continuous product innovation, which is the lifeblood of their industry. Frito-Lay has a distinct advantage in getting the right product to the right place at the right time which translates into unmatched share and financial performance in their categories.[1]

W. Chan Kim and Renée Mauborgne are two business professors who introduced the concept called "value innovation" which is the idea of carefully choosing "which factors the industry takes for granted and should be eliminated, which factors should be reduced well below the industry's standard, which factors should be raised well-above the industry's standard and which factors should be created that the industry has never offered."[2] This concept embodies what automotive aftermarket suppliers have to do win in this very difficult industry. To illustrate the concept they profiled Accor's Formule 1 brand of European budget hotels, which achieved great success and share, by providing an offering with a very different balance of services than any competitor. Formule 1 targeted customers who value a good night's sleep at a low price; such customers, it turns out, constitute much of the market. To excel at key services meeting these needs (i.e., bed quality, quietness and cleanliness) while maintaining a low price, they eliminated or significantly reduced services other competitors felt compelled to provide (e.g., in-hotel eating facilities, lounges, large rooms). As a result Formule 1 costs were more than 30% lower than competitors, and subsequently they captured the majority share of the French budget hotel market. These are the types of choices and changes that automotive aftermarket suppliers need to make in managing their service offerings and achieving differentiation.

What might it be like for a supplier to pick a specific service position and build it into a competitively advantaged automotive aftermarket capability? Since actual good, mature case examples don't exist in the industry today, we need a bit of imaginative license combined with a realistic view of what exists in other industries and what is achievable based on existing skills and technology. Two illustrative case examples of what aftermarket suppliers could do to create more value and be more profitable are as follows. In these two cases the capabilities are not new to the industry or to the imaginary companies; it is just that the level of capability is far ahead of what is available in this industry today.

Case Example A: Advanced Category Management

Advanced category management would go well beyond the rudimentary assortment management prevalent today in the aftermarket. In this advanced category management case, the supplier combines extensive data from channel partners, third-parties, end-

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[1] Booz & Company Capability-Driven Strategy case study, Cesare Mainardi and Paul Leinwand

[2] W. Chan Kim and Renée Mauborgne, *Value Innovation: The Strategic Logic of High Growth*, Harvard Business Review, July 2004

customers and themselves to optimize assortment across brands, SKUs and price points, and quickly adapt to varying market conditions. The insights are used for new store sets, planogram design, frequent stocking changes, promotion planning and pricing management with a high degree of sophistication, analytics, and customization. Proprietary data and analysis of end-customer shopping behaviors and demand patterns are detected at an individual store location. These insights distinguish between different types of customers – including retail versus commercial and further proprietary sub-segmentations – and thereby provide valuable information about how to grow. The data and modeling reside on an integrated supplier IT system that automatically receives regular, detailed data feeds from participating channel partners and third parties. The embedded analytics support thorough evaluation of the value of category management decisions by comparing managed locations to a set of control locations not using the system. The system also allows the supplier and channel partners real-time access to analyze past performance and conduct what-if analysis of potential future changes to product stocking strategies, planograms, promotions and pricing.

There is also a very high degree of cooperation and integration between the supplier and its channel partners. The supplier and participating channel partners hold regular meetings on category management to review results and identify future refinements and enhancements. They have pre-agreed methods for sharing the demonstrated benefits in throughput and pricing. The supplier has three times more dedicated category management analysts than any other supplier in the industry. Teams are often co-located, and in the best examples, have a common business plan and target metrics. The supplier also uses the knowledge gained from the category management capability to optimize their product development, pricing, brand management and marketing efforts across all channel partners. The proven benefits generate strong channel partner loyalty, leading share and financial performance much better than any competitor.

In the past this supplier took out substantial costs in other SG&A categories, product cost and co-op spending to help fund the investments in category management. Now that the initial category management investments are paying off, the supplier is plowing some of the resulting proceeds back into further improvements in the category management system and analytics.

While the capability of this supplier are industry-leading they will have to be developed and expanded substantially to match best practice among CPG companies where, on average, cumulative systems investments are tens of millions of dollars, analysis staff are five times larger and all sales staff are trained to leverage and help sell category management to customers.

Case Example B: Industry-Leading End-Customer Support

For this hypothetical supplier, leading end-customer support encompasses sales, education and training. These services are provided by hard-copy materials, a moderate-size field sales force, technical phone support and web-based content that are all considered second to none in the industry. The quantity and quality of online product descriptions; feature and benefit

information; product comparisons, reviews and ratings; product selection tools; and installation and training videos go well beyond anything other suppliers offer. It is on a different level from what a commodity supplier can offer, making the supplier a more appealing – and profitable – partner for distributors and retailers. The outside sales force is noted for being better qualified than that of any competitor, and although not huge the productivity of the sales team is 2X that of the nearest competitor due to superior hiring, training, information systems and in-house support. The technical knowledge of the sales force and inside technical support team are unsurpassed. Their impact can be quantitatively tracked in terms of superior installer productivity, lower warranty returns and more satisfied car owners. Telephone support is provided in multiple languages, 24/7. An advanced IT system helps capture and institutionalize knowledge from accumulating and analyzing decades of end-customer interactions. The supplier also has a best-in-class loyalty program that end-customers rave about. As a consequence of all these services the supplier garners markedly better customer preference, brand premiums and return rates compared to direct competitors. **These benefits provide considerable, clear and countable value based on better volume, price and cost compared to the competition.** Other side benefits for the supplier include superior product design insight and new product development ideas. The total competitive advantage achieved more than covers the cost of relatively high support, allowing the supplier to achieve #1 share in addition to top-level financial returns and growth rates. While focusing on end-customer support the supplier has refrained from any meaningful investments in areas such as category management, digital product content or vendor-managed inventory. On the other hand they excel in the must-haves of quality product, competitive cost (although clearly not the lowest price), reliable delivery and good basic catalogue data.

As these artificial, but feasible, case examples show, successful suppliers have to make choices about where and how they will differentiate themselves with services before they focus on a particular path. Compelling as they are, these are not solutions for everyone. The best strategy for an individual supplier is highly dependent on its particular circumstances. **Suppliers have to develop strong value chain understanding – both of channel partners and end customers – to not only select their service offering model (or business strategy) but determine how to make it work.** Suppliers need to deeply understand end-customer needs and the potential economics of changing the current value equation of services provided through the channel.

Most of the time this involves working closely with one or more "pilot" channel partners and some end-customers to access information and conduct insightful analysis. It goes well beyond the cursory understanding that most suppliers already have.

Other times it starts with discussions completely internal to the supplier. **Suppliers need to objectively look at themselves and determine what they can actually achieve on their current path versus what they aspire to accomplish**. Suppliers then need to make choices about which services and capabilities to invest in and determine how much value will be created and also how much they can expect to capture.

One automotive aftermarket supplier started this type of process by first asking the senior executive team two questions:

1. Do you really believe the lofty financial performance goals laid out in the strategy plans?
2. If not, is the current performance path sufficient to satisfy you and our investors?

The team quickly concluded the simple answer to both questions was *no*. Consequently, they were able to continue the process to agree on a very limited set of services to build up, organization changes, resources allocations, channel partner relationship efforts and action plans to move forward.

Overall, suppliers need to do five things:

1. **Make a commitment** – top level support is needed to galvanize an organization to change in a fundamental way. Senior leadership has to establish both the intent and approach to working jointly between the supplier and channel partners, if that is one of the first steps. In any event, day-to-day demands and pressures will almost certainly squeeze out long-term strategic change efforts, without dedicated resources, clear accountabilities, approved timelines and ongoing review.
2. **Develop strong understanding of service value** – suppliers need to analyze the cost and value of different current services; investigate how channel partners and end customers' economics could be affected by service improvements or changes; evaluate the value and cost of everything they do, be it products or services, by channel partner and end customer type; objectively assess their own objectives, service strengths and capabilities, ambitions and what they can build on.
3. **Make choices about which services and channel partners to prioritize** – suppliers must evaluate which services hold the most upside for differential value creation and capture; decide which channel partner or partners to start work with to share data, build trust and grow capabilities; agree on services and costs to reduce in order to help fund the priority services.
4. **Manage the effort rigorously** – suppliers should ensure sufficient leadership support up front; allocate necessary management and financial resources; analyze the financial benefits of opportunities and the approve investments with clear understanding of the payback and timing; identify other areas for offsetting cost reduction; generate broad, cross-functional support; systematically set deliverables, track progress and make course corrections; pilot test changes, make adjustments and then expand coverage.
5. **Keep going** – suppliers have to maintain focus and commitment over time; continually find ways to reinforce and upgrade services; sustain investments in people and technology; reset goals to higher levels; carefully manage costs to support ongoing investment. Cumulative years of hard, focused effort are required to construct any capabilities that are really differentiating, sustainable and profitable.

VII. How Should A Supplier Do It?

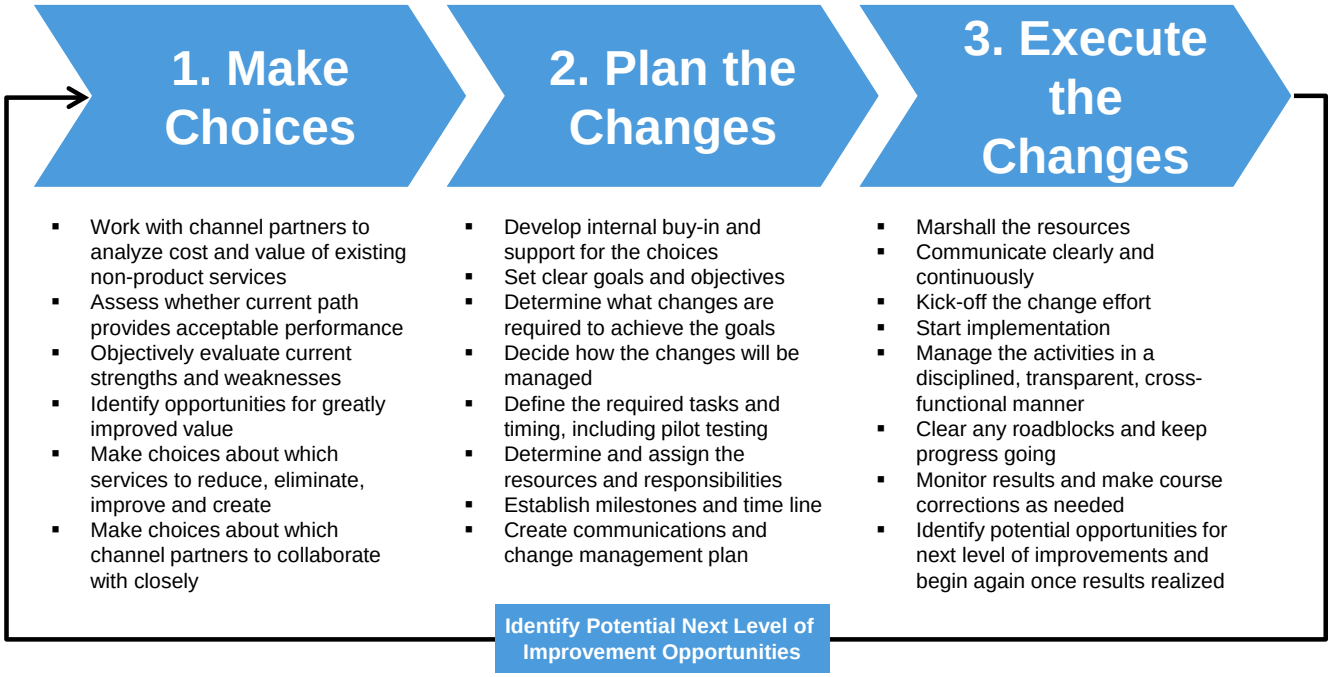
Appreciating what to do is not enough. Suppliers often ask, "How do I get started? " Although the starting point and the path will not, and should not, be same for everyone, there are a few basic steps that can help suppliers think about "how to do it". The overall process is depicted below *(Exhibit 5)*.

The **first step** encompasses all the work of developing good, objective insights about the value of different service offerings, assessing the supplier's starting point in both product and service features and benefits, defining viable options for radical improvement and making choices about first-priority focus areas and channel partners. The first step is a big one and takes concerted time and effort to do it well.

The **second step** is then to fully define and plan in detail how to innovate and build out the service offering and needed capabilities, including any pilot projects. It includes the critical steps of galvanizing internal and external support for the changes as well as lining up specific resources and assigning responsibilities for actions and deadlines. Additionally, the process for how the overall program will be managed should be delineated. Specific metrics and methodology for tracking progress against goals and timing have to be established.

The **third step** is then implementing the change, whether it is radical transformation or something less. Once the changes are underway and the results begin to accrue, the process should be refreshed to continue to stay ahead of the competition.

Exhibit 5
Supplier Differentiation Strategy Development Process



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Many suppliers complain that channel players do not adequately value products and services and are not willing to pay for them. However, the reality of these differing perspectives is more complex. Some of the issue is channel partners' lack of understanding of value. Some of it is suppliers not quantifying and communicating the real value. Some of it is suppliers not knowing which services to focus on for their business and for specific channel partners. And finally, some of it is suppliers not delivering outstanding, differentiating product and service value.

Choosing a focused set of capabilities with which to create competitive advantage is the right strategic approach for suppliers. Suppliers have to be able to convincingly and consistently answer three questions to have a valid strategy:

1. Who are our target channel partners and end customers?
2. What is the value proposition that we will deliver to them that creates demonstrable, substantial value above what our competitors can offer?
3. What are the essential capabilities, including services and support for channel partners, we need to deliver that value proposition?

Some suppliers have recognized and embraced this idea. They have been proactive in rethinking and refining their product and services portfolios and have started to collaborate with their channel partners. They know the harder it is, the more lucrative it will be for those who "crack the code" sooner than their competitors. **Foresighted, adept suppliers who get far ahead of competitors in innovating and pioneering high-value product features, services and capabilities will reap considerable rewards.**

Sustained results have been realized by only a few who have started the process. Most others need to begin by understanding channel and end-customer needs and realistically assessing their own situations better, in order to make critical choices about priorities. The process starts with either an internal commitment for major change or a joint supplier/channel partner resolution to work together on long-term, large improvement opportunities. It is very difficult to skip one of these first steps without falling into a fire-ready-aim situation which seldom works, since it is based on insufficient insight and planning. Without substantial upfront commitment and resources transformative change is near impossible.

Suppliers who have started need to have a rigorous process for tracking progress and then reinvesting once initial initiatives prove out so that in several years they are demonstrably ahead of the competitors. Suppliers who have not yet started need to heed the call to action and make the difficult choices. To catch up they need aggressive plans and commitments to be out in front of the industry in their chosen capabilities in a few years.

Contrary to what some suppliers believe, channel partners do need help from suppliers. They all have several pain points where supplier capabilities can create remarkable incremental value. Selecting the right set of services and building capabilities to excel in them can generate substantial, tangible profits – profits that can be used by suppliers to grow and gain share, help defend against price pressure, reduce costs, improve profits and make

channel partners more successful. If done correctively suppliers can proactively change conversations with channel partners from price to value and shift some power back toward a better balance.