

AI, Amazon Business & the Future of Distribution

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Distribution Strategy, Inc.

People
Process
Technology



Conclusions

- Artificial intelligence is driving a revolution in distribution
- Assortment, availability and delivery are being commoditized
- The rise of B2B marketplaces is inevitable

Substitute Technology

Emissions and noise regulations:
Driving adoption of electric products.

New competitors:
Makita, Milwaukee, DeWalt, etc.

Generational Change

Raising customer expectations
& requirements

Lawn and garden shops: Kids don't
want to take over the business.

Young people don't want to
be small engine technicians.

10% of customers do business by
fax and don't have email addresses.

“The OPEESA group is pretty seasoned
but the millennials are moving in.”

Channel Evolution

Manufacturers want to go direct

Dealers want to go direct.

Parts for sale at mass retail and
Amazon, Walmart.com, Google, eBay

Stihl recently franchised Northern Tool

Financial Trends

Tariffs were huge in the past year.

Dealers won't hold inventory.

Dealers used to make 30% and
distributors made 15% and we're all
doing about half of that now.

Dealers are going to consolidate.

“Once I start talking to you – shrinking margins, shrinking customer base, hard to find mechanics – it seems pretty discouraging.”

What's going on?

What's should I do about it?

New technology revolution

Artificial Intelligence



Current State of AI



1995

Web Browser
Ethernet
URL Usenet HTML
Clicks
Inform Highway
World V ndows 95
TCP/IP Dotcom m
Dial Up Network Effect
Surfing the Internet

>Industrial
Revolution

2020

Robotics

Autonomous
Vehicles

Virtual
Reality

Data
Science

Turing
Test

Re

>Internet
Revolution

Natural Language
Processing

Chatbots

N

Machine
Learning

Deep
Learning

Augmented
Reality

Big Data

Smart
Speakers

2020: Strategy without AI

=

1995: Strategy without Internet

1997



<https://www.ibm.com/blogs/think/2017/05/deep-blue/>

[James the photographer](#)

**“It is not an artificial
intelligence project
in any way.”**



**-Joe Hoane
IBM Deep Blue Programmer**

[Copyright 2007, S.M.S.I., Inc. - Owen Williams, The Kasparov Agency.](#)

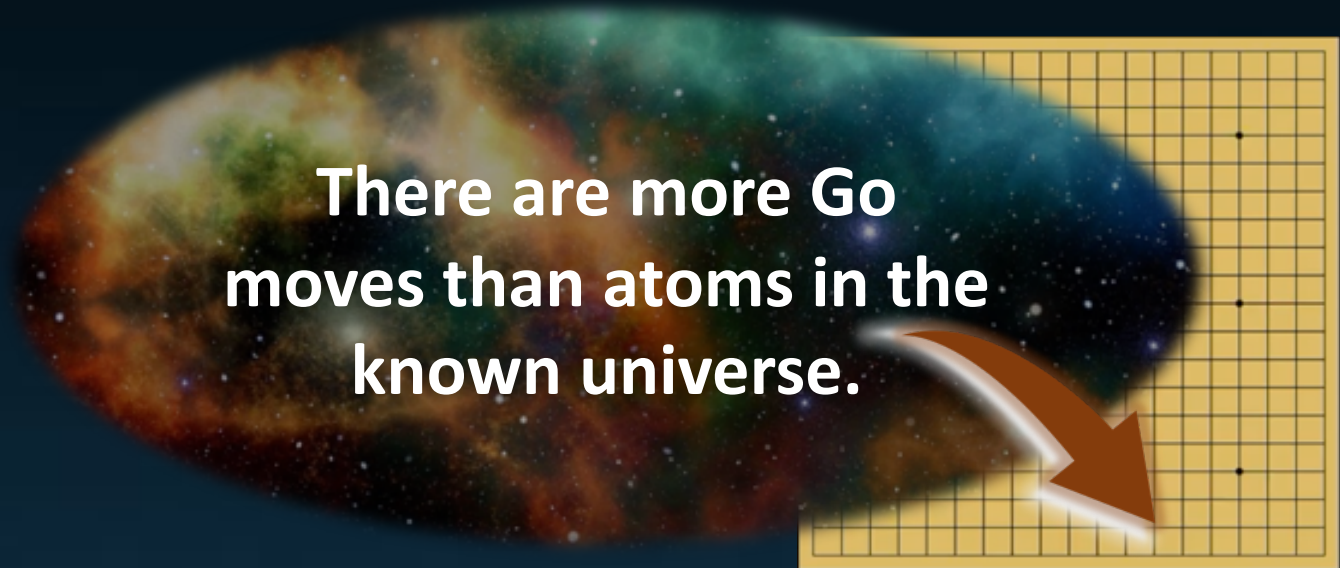
2016: AI Leaps Forward

Chess



$2E^{155}$ Moves

Go



There are more Go moves than atoms in the known universe.

$2.08E^{170}$ Moves

1,040,840,996,909,890x





“Dazzled
its opponent with
creative moves
one of which overturned
hundreds of years of Go wisdom.”

AlphaGo taught itself.

AlphaZero

- Current champion at Go
- Best Chess player in the world
 - ✓ Four hours / rules only
 - ✓ 20 million games
 - ✓ Both sides of the board



Survival Reflexes

**SWERVE
LEFT!**

**HIT THE
BRAKES!**

**SWERVE
RIGHT!**



AI Drives Better Than You Do

You

- Can't see in the dark
- Data = Eyes & Ears
- Slow to decide
- Slow to act

Autonomous AI

- Saw the deer coming
- Knows: Everything
- Decides and acts instantly



**Mitigating Factor:
Venison for dinner!**



Lidar



Cameras



Ultrasonics



Radar



Long Range Radar

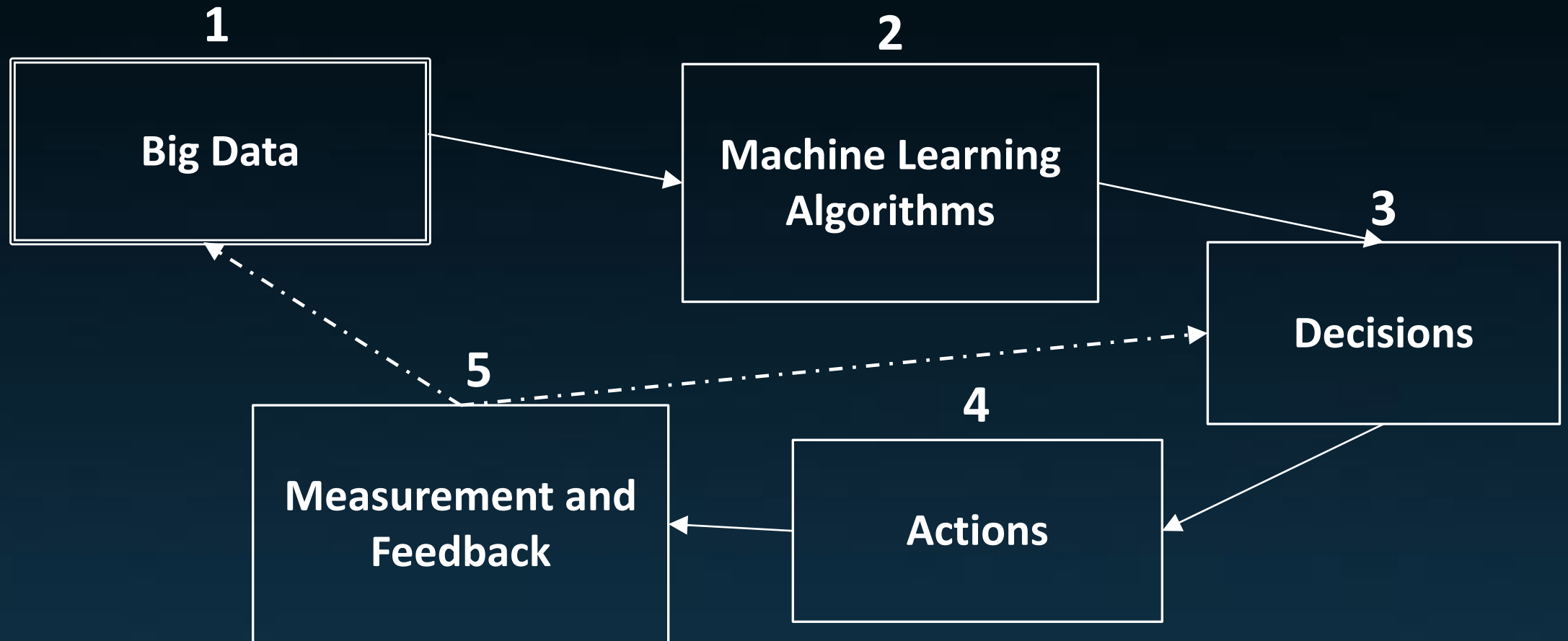




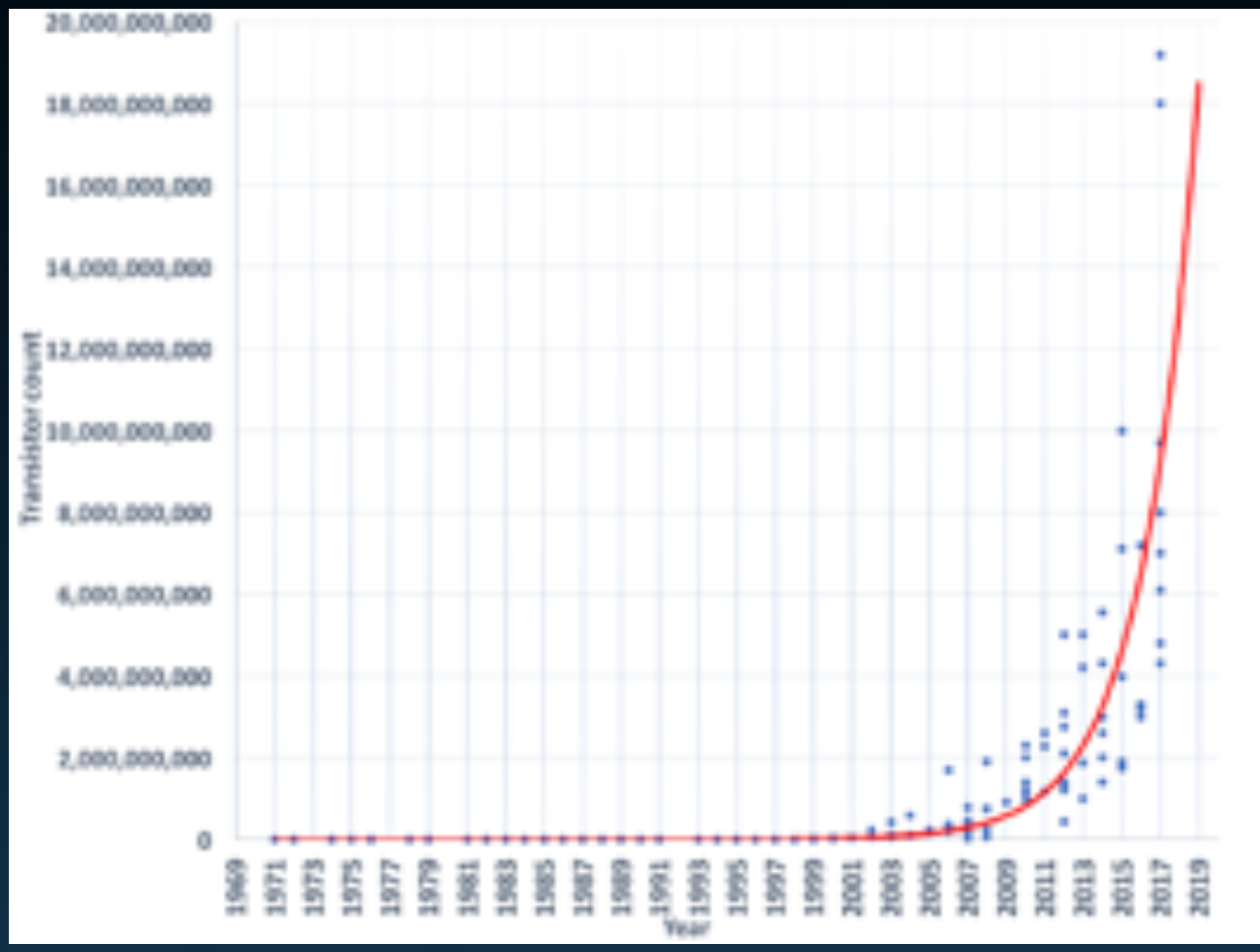
AI Will Make it Safer to Sleep Behind the Wheel than Steer It



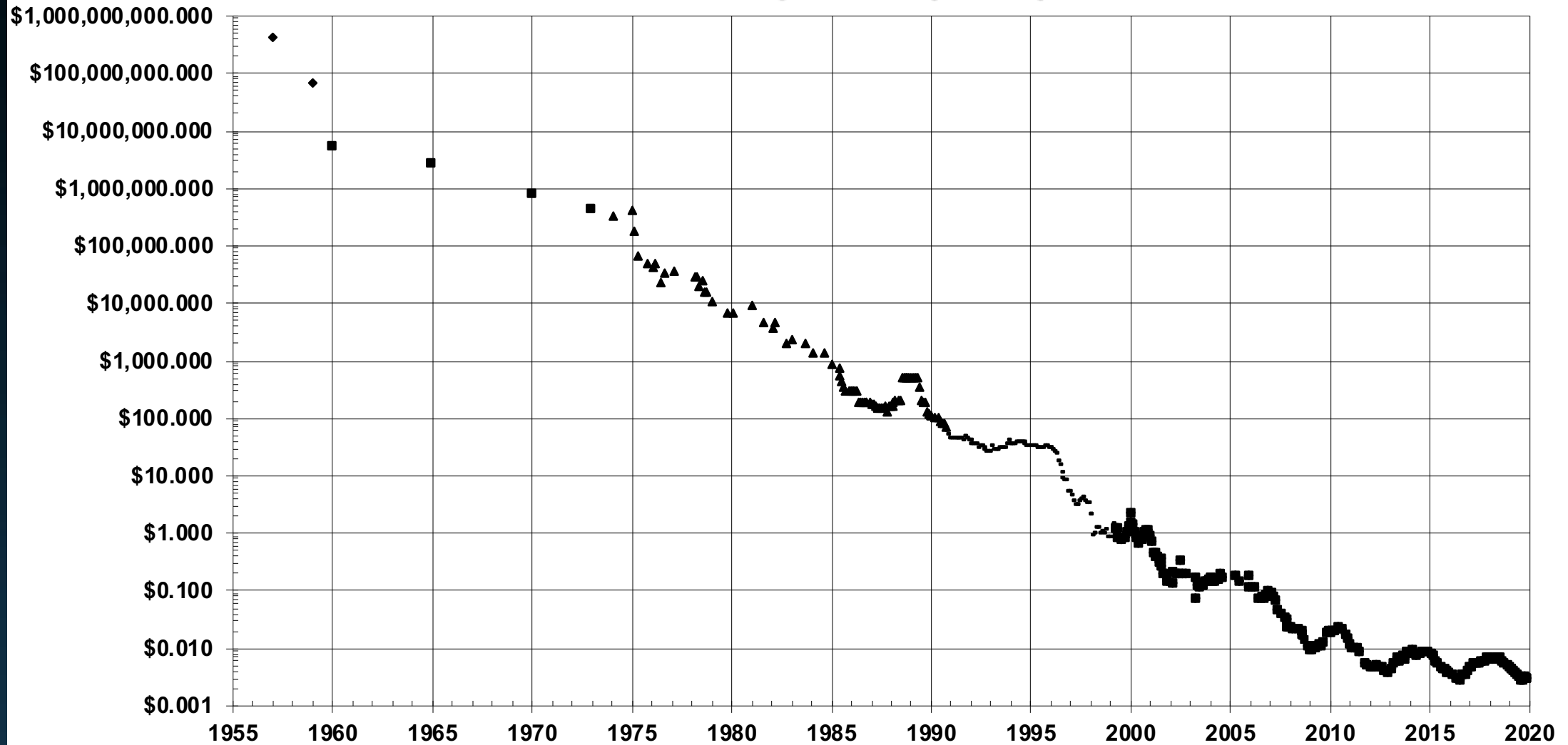
A Simplified AI System



Model Developed by Dr. Michael Wu, Chief AI Strategist at PROS

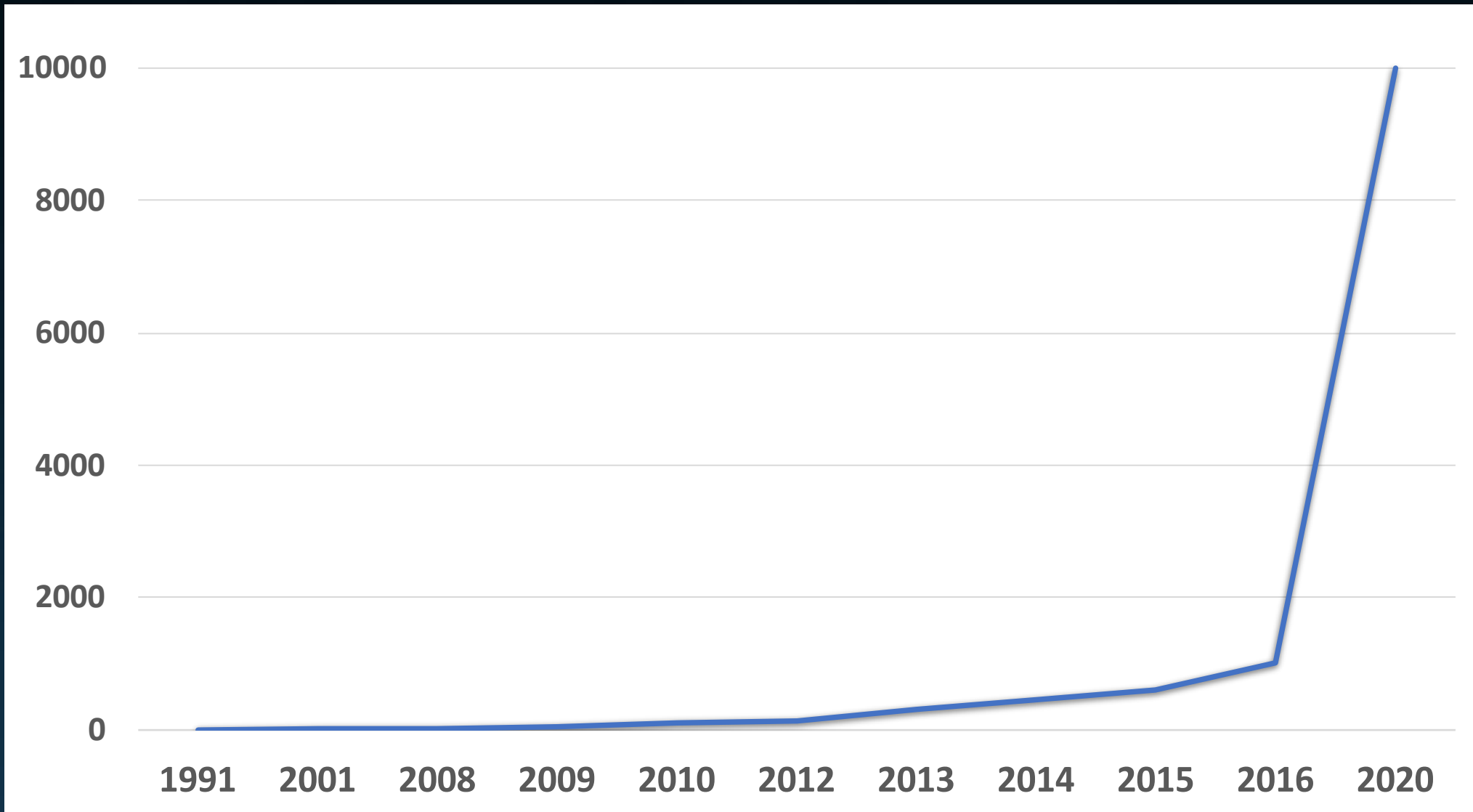


Memory Price (\$/MB)



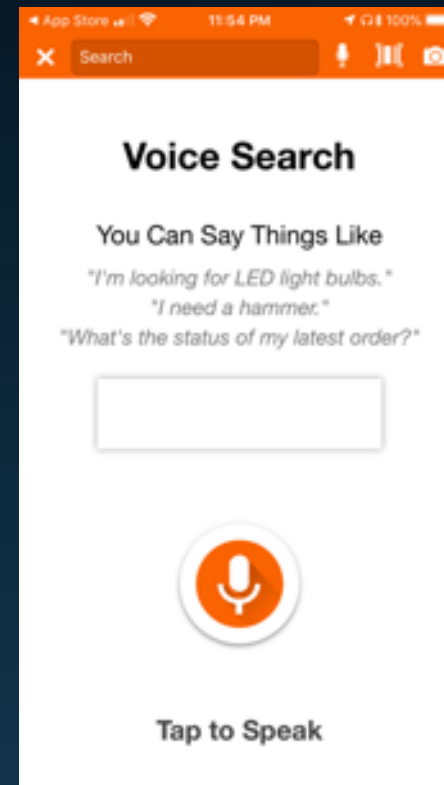
Data source : <https://icmit.net/memoryprice.htm> Copyright 2001, 2017, 2018 John C. McCallum

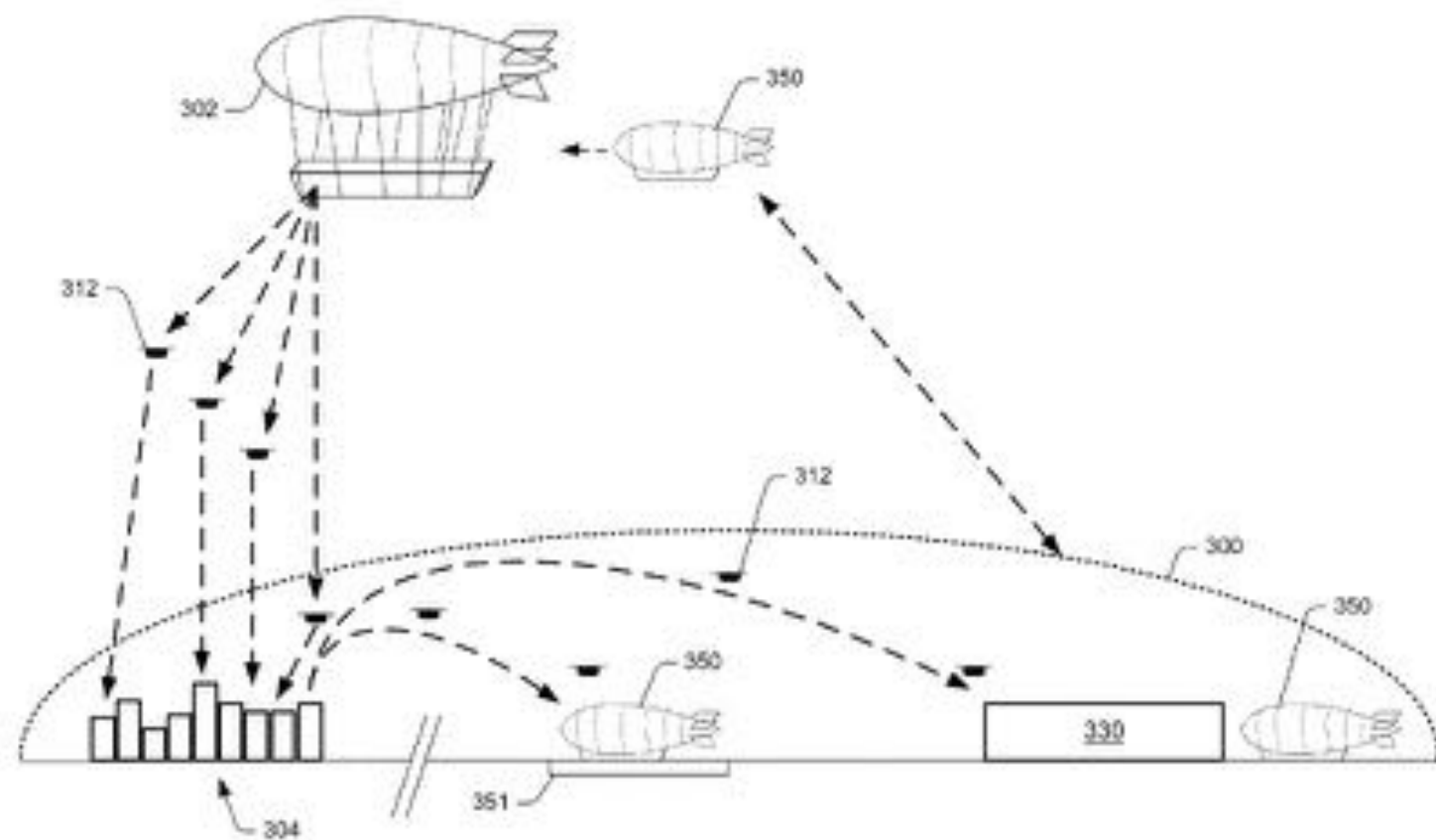
Mobile Data Downlink Speed (Mbps)

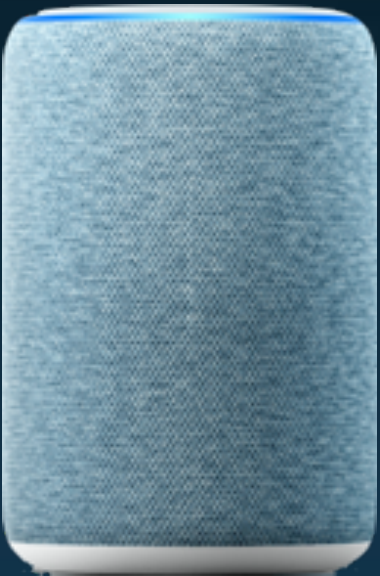




UPS Gets FAA Nod for Widespread Drone Deliveries
Federal approval marks another important gain for champions of commercial unmanned aircraft









Our vision is that Alexa will be:

- The world's most knowledgeable **product expert**
- Who knows **you**.
- **Super-human knowledge of every product ever made**
- **Always available**
- In a store that sells **everything**.

**Amazon wants to remove the keyboard
from the buying process**



130 WPM



40 WPM

20 WPM

Alexa – figure out what these cutting blades are and send a dozen, pronto.



Worldwide smart speaker shipments and annual growth
Canalys smart speaker market pulse: Q3 2019

Vendor	Q3 2019 shipments (million)	Q3 2019 market share	Q3 2018 shipments (million)	Q3 2018 market share	Annual growth
Amazon	10.4	36.6%	6.3	31.9%	65.9%
Alibaba	3.9	13.6%	2.2	11.1%	77.6%
Baidu	3.7	13.1%	1.0	4.9%	290.1%
Google	3.5	12.3%	5.9	29.8%	-40.1%
Xiaomi	3.4	12.0%	1.9	9.7%	77.7%
Others	3.6	12.5%	2.5	12.5%	44.0%
Total	28.6	100.0%	19.7	100.0%	44.9%



Note: percentages may not add up to 100% due to rounding

Source: Canalys Smart Speaker Analysis (sell-in shipments), November 2019



Technology + Merchant



Technology



Merchant



Wins voice war

- Product sales
- Search revenue



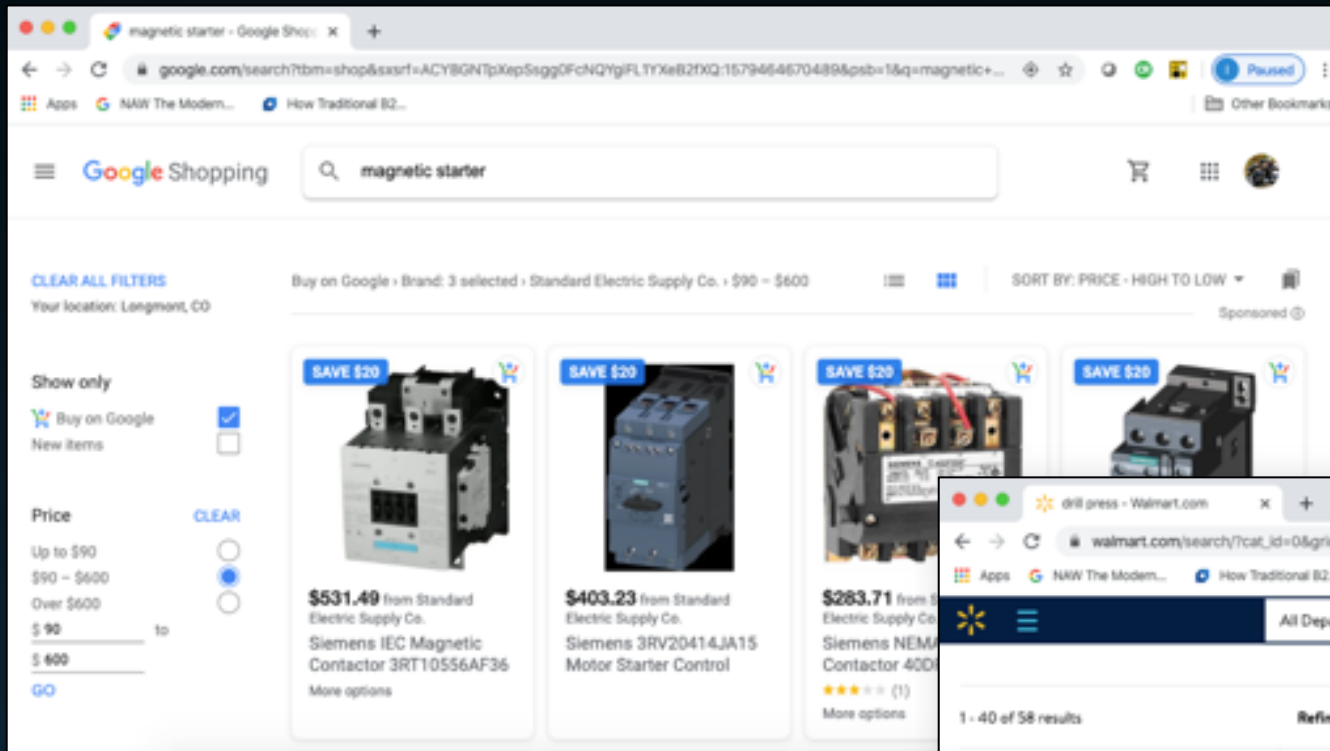
Loses voice war

Loses search revenue

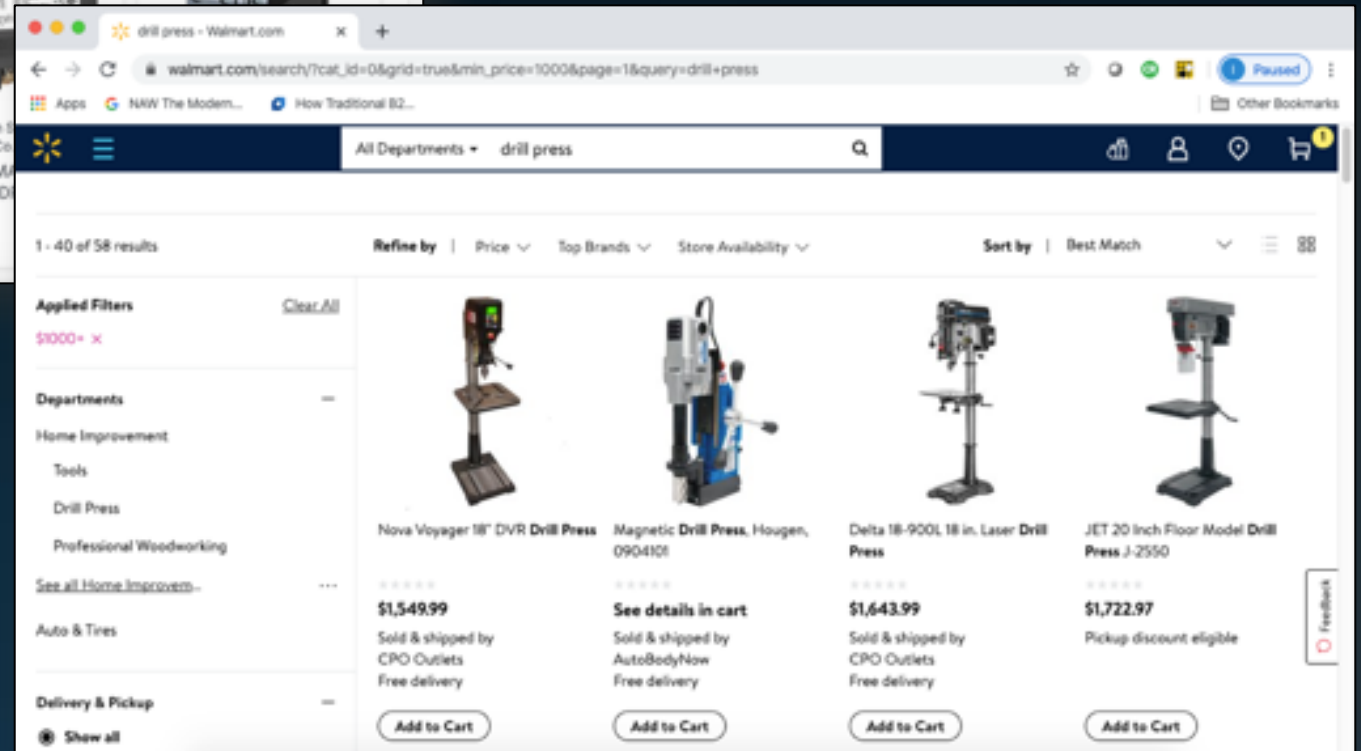


Loses

Google Shopping



Walmart.com



Amazon Business Financial Estimates

Morgan Stanley:

Third Party Sales: 20% EBITDA

BofA, Merrill Lynch:

- 2023: \$34B in Sales
- 2029: \$125B - \$245B

Marketplaces

- Carry almost everything
- Reach almost everyone
- Make ordering easier
- Muddy B2B vs retail
- Are addictive

The rise of marketplaces is inevitable

2020: Strategy without Marketplaces

=

1995: Strategy without eCommerce

Availability and delivery are
being commoditized

**Hundreds of
Manufacturers**



**Retailer or
Distributor**



**Ian's Retail /
Wholesale**

**Thousands of
Customers**



Hundreds of
Manufacturers



Mfr Reps

prime delivery

TRANSFIX

Master Distributors

BERKSHIRE eSUPPLY™

Google Shopping

Retailer or
Distributor

amazon business



Ian's Retail /
Wholesale

UBER FREIGHT

Alibaba.com

amazon

CONVOY

Walmart.com

Thousands of
Customers



Disruption

- **Core value prop is commoditized**
- **Marketplaces growing rapidly**
- **Multiple, well-capitalized new entrants**

All is not lost.

Your Next Moves

- 1. Become a technology “fast follower”**
- 2. Surround customers with services**
- 3. Develop a marketplace strategy**

Asset Protection

**Warehouse
Operations**

**Product
Data**

Accts Rec

Profitability

**Customer
Data
Inventory**

CRM

Product Data

Marketing



Technology Fast Follower

Strategies

Get the right talent

Get your technology ready

Get educated

Right Now

Strategic planning

Tech stack eval

IT vendor meetings

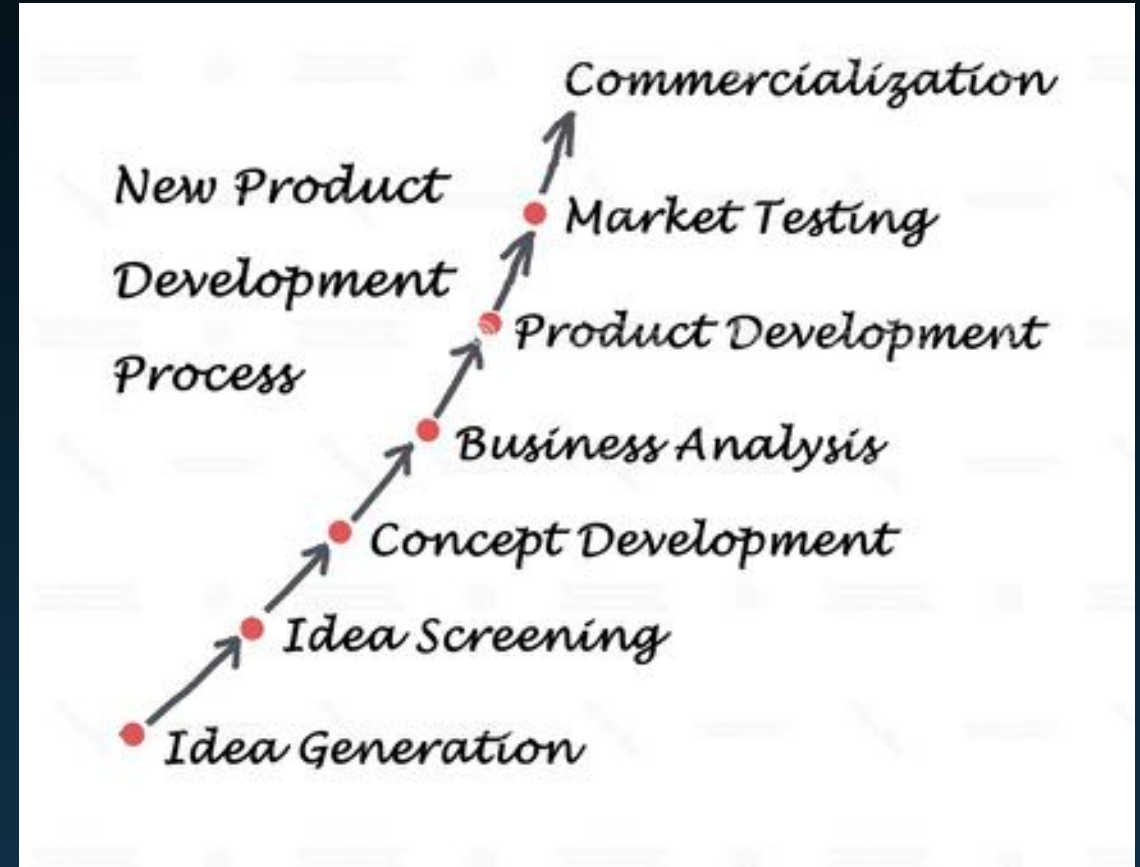
AI expert position

Conferences

Surround customers
with services

Service Development

- GM led profit center
- Stop bundling
- Same rigor as product mgt
- Home page “Services” tab



24 hour pickup lockers	Drop shipping	Linear shaft/rail cutting & assy	Project financing
24x7 service	E-Procurement	Lock Out / Tag Out	Project review/mgmt
24x7 tech support	EDI	Logistics management	Property sales & leasing
Application Engineering	Electric motors sealed to IP56	Maintenance agreements	Pump and gearbox repair
Arc Flash Evaluations	Electrical distribution assemblies	Maintenance/monitoring services	Pushbutton stations
Asset Tracking	Electrical Engineering	Major accounts program	Recommend contractors
Automatic bin replenishment	Electrical harnesses	Mfg/Alter bearings	Regulatory notifcations
Award trips	Electrical usage analysis	Marketing automation	Removal service
Back-ups at distributor	Electronic invoices	Marketing collateral	Repair hotline
Barcode reorder labels	Embroidery	Material usage tracking	Repair parts
Bearing testing/reconditioning	Emerg generator tank testing	Mechanical seals overhaul	Replacement Parts
Bearing vibe/temp monitoring	Emergency service	Merchandising support	RFP development
Bespoke flanges	Enclosure Builds	Mobile apps	Safety Risk Assessments
Bid review	Energy efficiency consulting	Module assembly	Same day shipping
Bid/tender automation	Energy eff. incentive program	Motor rewinding	Sample evaluation
Bulk Recycling	Energy savings calculator	Motor-control-center buckets	Scholarship program
Bus Bar Assemblies	Energy savings tax doc	New mover program	Seal production service
Business forms	Environmental testing	Oil disposal & recycling	Software installation
Business mgmt software/services	Env/reg compliance assistance	Oil filling	Software/firmware control
Cable cutting and assembly	eProcurement	On-site repair	Sourcing for special products
Cable testing & troubleshooting	Equipment financing	Online bar code label generator	Special / bulk packaging
Calibration service	Equipment rental	Online calculators	Special Billing & Payment
Car registration geo data	Export services	Online account management	State tax forms
Catalog quick online order	Express deliveries	Online marketplace connections	Steam trap measurements
Catalog software integration	Extended credit terms	Online order tracking	Stockroom/trailer mgmt
Chain cutting and assembly	Extended warranties	Online ordering	Stockroom design & set up
Customer needs analysis	Extruded belts	Online repair database	Supplier audits

Develop a marketplace
strategy.

Marketplace Strategy

- Track exposure to marketplaces
- Meet with marketplace leaders
- Learn from experts
- Develop a strategy
- Watch out for THE TRAP...

Amazon Can Manage Its Valuation via Growth or Margin

- **3rd Party Sellers, '19:** **\$160B**
- **Net Income 3Q19 v PY:** **+\$1.3B**
- **Take +5% 3rd Party Direct (est):** **+\$2.3B**

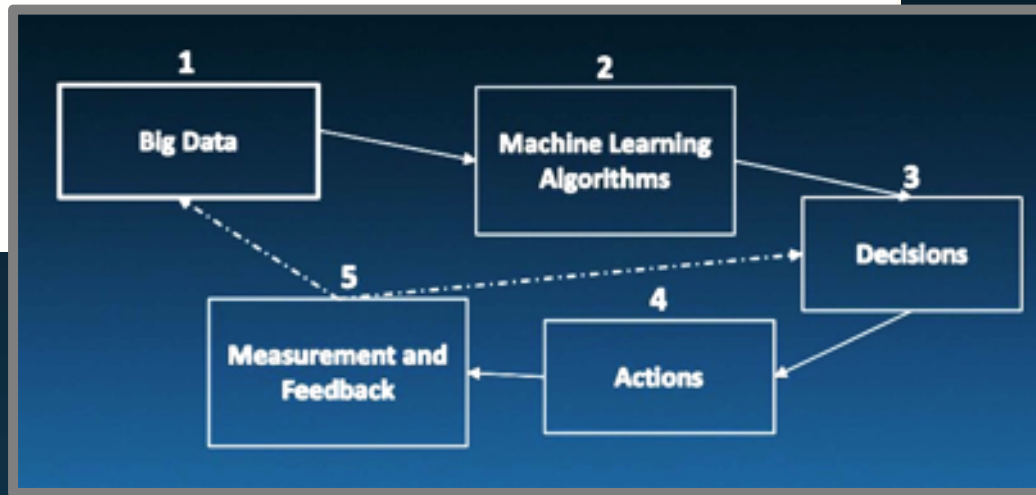
*“Third-party sellers are
Your margin is my
kicking out first party
opportunity.
butt. Badly.”*



What if it's not really
about Amazon?

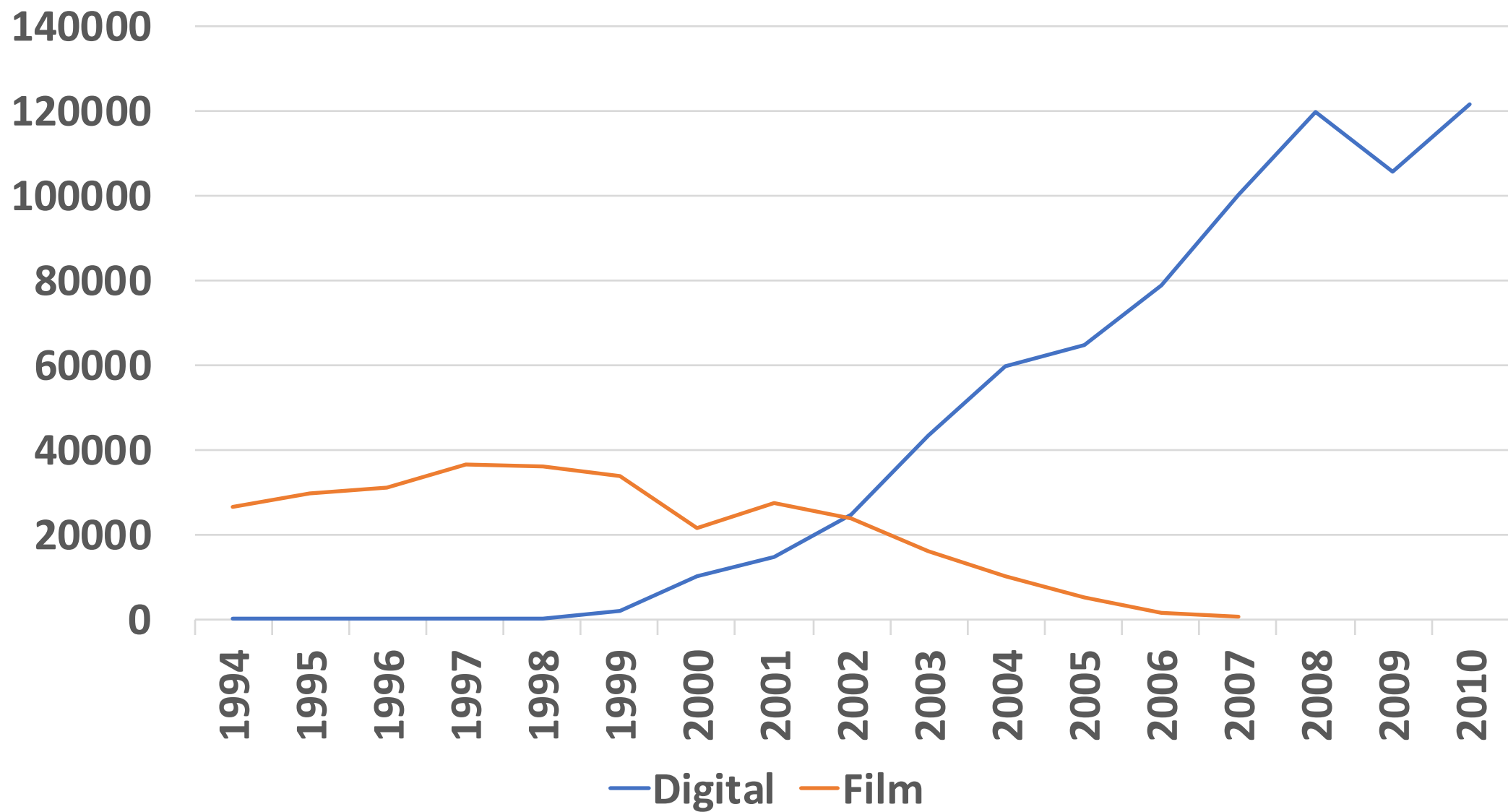
Business model substitution?

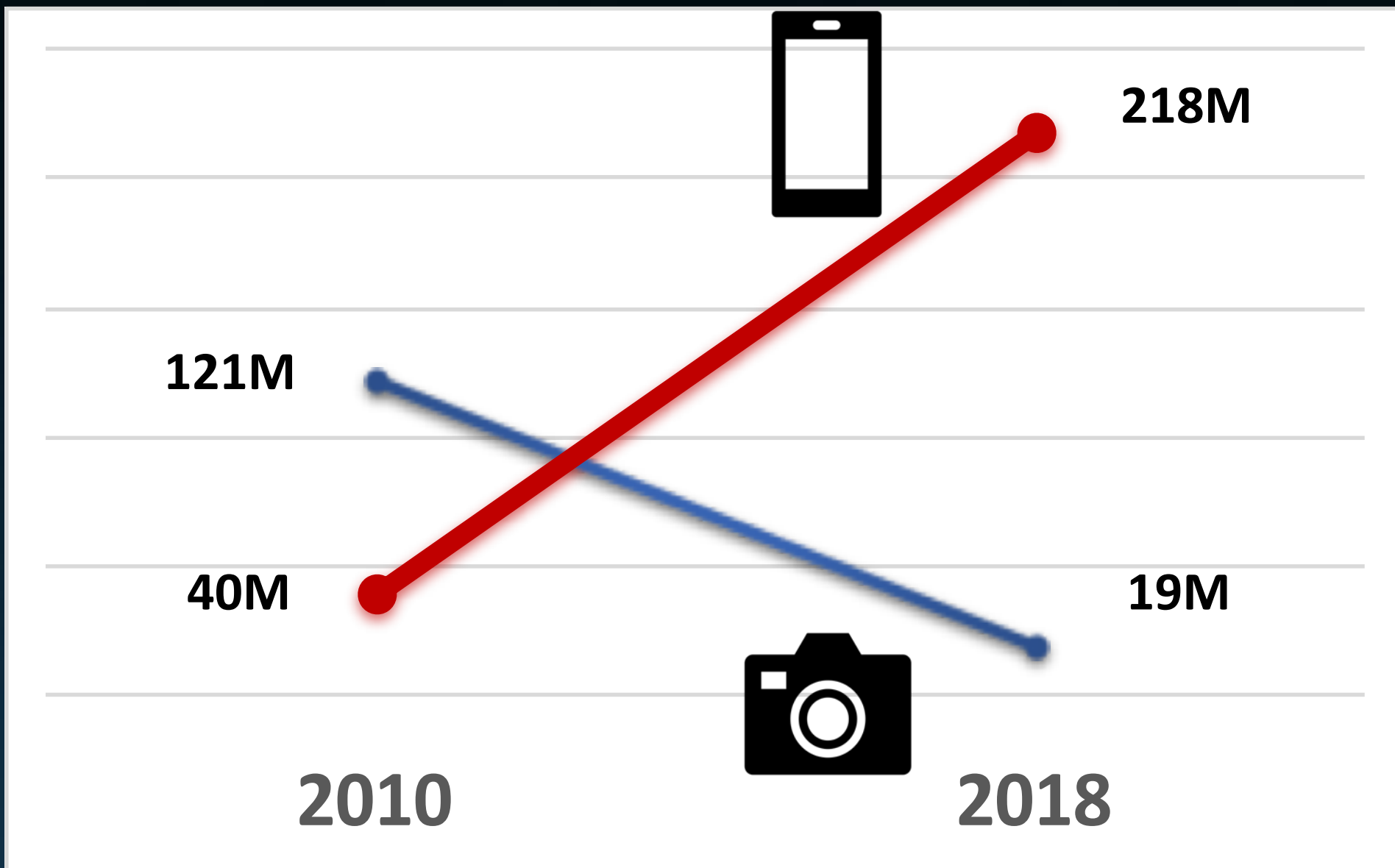
B2B Marketplace



New

- Capabilities
- Expectations
- Business models
- Paradigms





Digital photography adoption

iPhone era



**What if it's about
marketplaces?**

~~One Company eCommerce Site~~

A Call to Arms

“No distributor can beat Amazon”

But maybe we all can.

Distributor-Owned Marketplace

	3 rd Party Marketplace	Distributor Marketplace
Product Sales	Yes	Yes
Deliver Services	No	Yes
Buy through any channel	No	Yes
Outside sales	No	Yes
Maintain relationships	No	Yes
Local stocks	No	Yes
Cost advantage	No	Yes

New Challenges

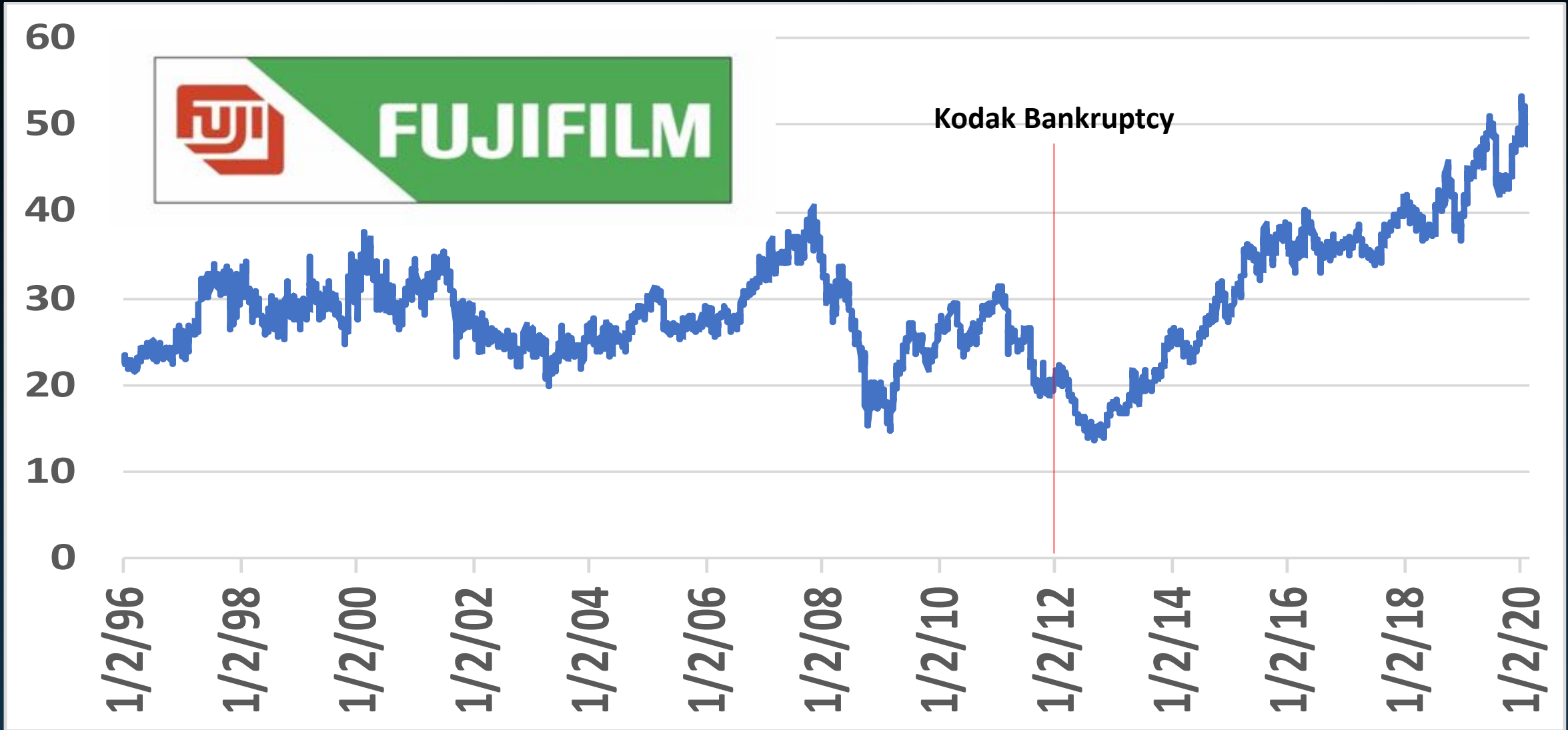
- Electric vs. Gas
- New competitors
- Hard to recruit

New Ideas

- Services
- Technology
- Marketplaces

**Developing a Winning Strategy is the
Opportunity and the Challenge for Great Leaders**

**Will you rise to the
challenge?**



Thank you.

Ian Heller

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