

MONETIZING DATA IN DISTRIBUTION

THREE STEPS TO UNLOCKING THE MULTI-MILLION DOLLAR
BUSINESS THAT MAY BE HIDDEN IN YOUR DATA



EXECUTIVE SUMMARY

More data has been created in the past two years than mankind has created in its entire history. In 2015, businesses alone created 2.4 zetabytes – that’s 2.4 trillion gigabytes of data, and this number is set to quadruple by 2020.

As data has exploded, so has the appetite for industry data. Players who have been well positioned to accumulate this data have started aggressively collecting and storing it in a race to unlock its potential. At the same time, technology and talent have reached a tipping point: the infrastructure and skills required to host data have become accessible and economical.

Together, these forces are bringing significant changes to the information services industry. The explosion of data sources, tremendous advances in the cost, speed, and ease of wrangling the data, and advances in analytical capabilities such as machine learning mean that greater and greater value will be derived from data in more and more use cases. Along with this increase in value comes great monetization opportunity. Distributors, we believe, have a strategic advantage in this opportunity, given their positioning on the value chain. This paper discusses three steps on how they might get started.

THE \$250 BILLION DATA INDUSTRY

In entering the information services industry, distributors will be participating in a market worth \$250 billion globally, with segments attractive to distributors growing between 5 percent and 11 percent annually, according to market research firm Outsell.

The data that distributors hold is uniquely valuable, as it provides a holistic view of the market that suppliers and customers do not have. For example, chemical distributors could tell how high the demand is for benzene, used in the production of petrochemicals, in Texas and thus be able to forecast if oil production is increasing or decreasing in the state. Alternatively, a food distributor to school cafeterias could calculate the average sugar content of foods shipped to schools, providing valuable health information by district.

At the same time, there are challenges around security, privacy, and competitive concerns that need to be addressed before data can be monetized. We believe these challenges are surmountable and can be addressed using well-established practices from the information services industry.

Overall, getting this right is a very attractive organic revenue growth opportunity for distributors in an industry where growth has typically come from acquisitions.

THREE STEPS TO UNLOCKING YOUR DATA

1. TAKE STOCK: IDENTIFY WHO WILL FIND VALUE IN YOUR DATA AND HOW

The first question you need to ask is: “Who would find value in this data, and how?” There is a standard layer of data that all distributors have from their position intermediary between customer and supplier (see Exhibit 1). This data can serve suppliers, customers, and even third parties.

Exhibit 1: The distribution standard data layer – and who can use it



Source: Oliver Wyman

SUPPLIERS

Distributor data is valuable to suppliers for product development, market planning, and new customer acquisition. Suppliers do not have visibility on the end use of their products when customers are served via distributors. What this means is that they don't have insight into which customers buy what, when, or why – all critical information that could help to both drive growth and efficiency directly within their customer base.

Additionally, suppliers are largely flying blind when it comes to benchmarking performance versus other suppliers and determining where they are best in class and where they should focus improvement efforts. Access to robust, rich comparative data enables step-changes in organizational performance.

SUPPLIER CASE STUDY: DUNNHUMBY

Dunnhumby is the data analytics and loyalty subsidiary of Tesco, the UK's largest grocery chain.

Data business:

- The majority of Dunnhumby's profits come from creating and selling insights from the Tesco transaction data to Tesco's major consumer packaged goods (CPG) suppliers, such as Procter & Gamble, Kimberly-Clark, Unilever, and Coca-Cola
- Includes a self-service portal where suppliers can access pre-prepared analytics

Revenue: > \$250 MM

CUSTOMERS

Customers of distributors can achieve significant value in having access to distributor data, which in turn creates opportunities for distributors to better serve and provide more value. We think it offers distributors three major opportunities to better serve customers. First, distributors can improve business processes for their customers by automating ordering and providing forecasting based on order history. Second, distributors can help them cut costs, either by helping customers find lower-cost alternatives that still meet their requirements, or by optimizing orders to reduce waste. Thirdly, distributors can provide valuable fuel for customer growth and innovation, as they have a broad data set to uncover and understand market trends.

CUSTOMER CASE STUDY: MONSANTO

Monsanto is an American Agricultural and Biotechnology company.

Data business:

- Monsanto acquired The Climate Corporation in 2012 for \$930 million, a data analytics platform designed to help farmers improve their productivity with pricing ranging from \$749 to \$3,999 per year
- While this service generates revenue, there is additional value for Monsanto in expanding its relationship with farmers and increasing the importance of Monsanto to their operations

Revenue: > \$50 MM

THIRD PARTIES

There exists a market for distributor data outside of the direct industry participants themselves. Distributor data contains insights into the flow of goods impacting many markets and is of high value for understanding markets, trends, and dynamics. Distributor data typically spans a rich variety of products, industries, and geographies, and can be studied longitudinally over time. For example, chemical distributors hold data on demand and supply for oil, manufacturing, and pharmaceuticals amongst others. Accessing this data, particularly in granular form and as real-time as possible, can provide value to financial traders, researchers, forecasters, and more.

THIRD-PARTIES CASE STUDY: **AGERO**

Agero is a roadside assistance provider to more than 75 million drivers each year.

Data business:

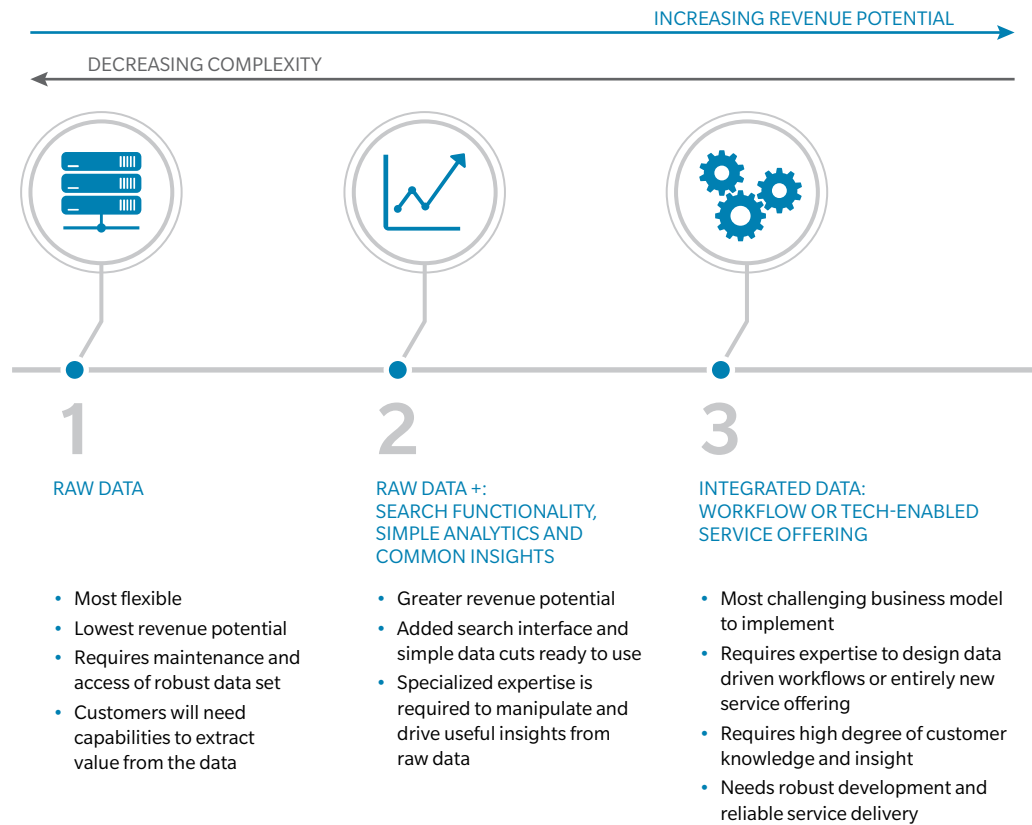
- Agero is a technology-driven business, which collects data on all roadside assistance calls
- Agero hosts a portal that allows both suppliers and third parties to access their claims data
 - Due to the vast network of Agero service providers, the company provides drive-by asset-verification to financing companies
 - Car manufacturers use the data and service to understand their vehicle performance

2. PLAN YOUR MONETIZATION APPROACH

Once you have identified data that is valuable, the next step is to come up with a viable monetization approach, including offering type and go-to-market approach. There are typically three basic product or offering models for information, ranging from simple to complex along with their go-to-market needs (see Exhibit 2).

- **Raw data:** The simplest model is to monetize relatively raw data sets. At its core, this requires the cultivation, maintenance, and access of a robust data set; then, make these available online securely and take a straightforward go-to-market approach, typically through content licensing agreements.
- **Raw data +:** Value is added to the customer with search functionality, simple analytics, and a derived set of commonly applicable insights sitting atop the raw data. Developing this requires greater technical sophistication, as well as a degree of marketing and sales capability (or more complex partnerships with existing information services providers) to bring the offering to market. The benefit is a higher revenue opportunity and a stronger platform for future information services expansion.
- **Integrated data:** The greatest revenue potential lies in integrating the data into workflow software or a technology-enabled service offering, thus addressing a customer's data and analytics needs to the fullest extent possible. This requires a great deal of customer knowledge, insight, robust development, delivery, go-to-market, and service capabilities, and commensurate investment of time and resources.

Exhibit 2: Monetization models



Source: Oliver Wyman

A critical go-to-market decision for distributors is whether to “go it alone” or to build a data business in partnership with other distributors as a consortium. There are several key benefits to joining forces: You will have higher negotiating leverage, lower costs for each distributor and the data product itself will be more valuable as it will show a larger proportion of the market activity than any one distributor’s data can provide.

While a solo approach has benefits – full control, lower coordination costs and the potential opportunity for greater differentiation with existing customers – we believe that a consortium approach may be the winning model for distributors as it provides greater value for smaller investment.

3. PILOT AND FAIL FAST

Once the initial opportunity has been identified, it is important to acknowledge that there is much to be learned before you have a successful and viable business. So it is necessary to pilot, test, fail fast, and refine to get to something that is viable. At this point, it is important to ensure the targets and definition of success are clear and aligned with your capabilities, ambitions, and investment appetite.

To pilot your opportunity, the data needs to be standardized, cleaned automatically, and regularly updated. Additionally, you will need to host the data in a secure way and develop the technology to make it available. Depending on the opportunity, this may mean acquiring capabilities and skills that do not exist in your organization today.

Bring this first offering to market, then learn and iterate on an ongoing basis. Piloting this new business opportunity will result in both successes and failures to learn from. Choosing technologies that allow you to adapt and develop the service in an agile way will allow you to “fail fast” and rapidly adjust course towards what is working.

CONCLUSION

The conditions are ripe for distributors to activate their data as an incremental revenue stream, either independently or as a consortium. Data monetization is a highly attractive additional business model and is complementary to offering deeper, technology-enabled services to the core product offering of distribution. Furthermore, once established, information-services businesses offer a multitude of expansion possibilities, additional data sets, more analytical capabilities, and further geographic coverage.

The ultimate goal is a high margin, high recurring revenue business with strong sustainable growth. It is both an attractive financial addition to the core business and an enhancement through deeper customer relationships. Those who move quickly, leading the innovation and development in this sphere and working closely with their customers, are likely to lead the way for years to come.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

Oliver Wyman's global Value Sourcing & Supply Chain Practice is one of our key capabilities in Operational Efficiency. In addition to our dedicated team, we have created a Procurement Expertise Center. Leveraging a wide internal and external network of experts, this Center of Expertise supports our teams on all key Sourcing topics, from category expertise to organizational focus.

In the Distribution and Wholesale practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we've built our business by helping distributors and wholesalers build theirs.

Oliver Wyman is a strategic advisor to the NAW and sponsors a number of NAW roundtable events for companies with revenues \$1 BN+.

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ABOUT NAW

The National Association of Wholesaler-Distributors (NAW) is the national voice of the Wholesale Distribution industry in Washington, DC. NAW is uniquely positioned to provide wide access to and exchange of leading-edge information and high-quality services among noncompeting peers within its membership. Its highly endorsed Billion Dollar Company program focuses on networking CEOs and their Direct Reports across industry segments in a noncompetitive environment where wholesale distribution executives can exchange ideas with peers in other lines of trade. In addition, NAW provides real value to its members by advocating the interests of distribution companies before the government; providing groundbreaking, distribution-specific research and strategic management best practices via publications and webcasts; and giving access to leading-edge products and services highly valued by industry peers.

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