

Reset and Win:

*How distributors can
drive profitable growth
through cycle*

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Quick Introductions



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Thank you for having us

Unprecedented set of years...(again!)



Tariffs

Up to 70% of US manufacturers have communicated intent to reshore some operations

10%+ Tariff on several countries with significant fluctuation



GenAI

19% of B2Bs are already leveraging GenAI across a vast set of use cases



Labor imbalance

4x increase in wage rate growth, **0.1pp** decrease in participation rate 2023-2025

Increasing adoption of lean warehouse management to boost labor productivity



Supply chain

~50% YoY increase in ocean shipping cost from 2023-2025

Cost to serve (de-linked from COGS) creating headwind pressure on margins



eCommerce

eCommerce is indispensable: comfort with remote spending has jumped, especially for orders over \$500K, and ecommerce is now handling over 1/3rd of revenue; meanwhile, in-person sales volume has dropped 5pp. YoY

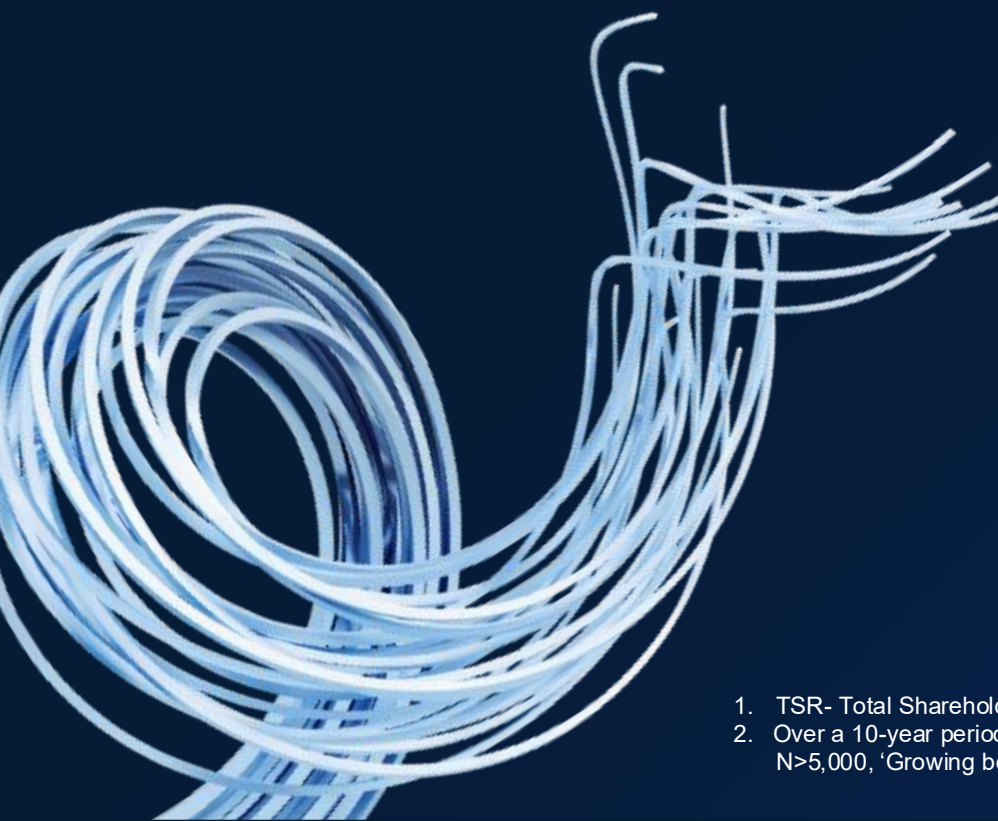


Cooling M&A activity

~2x decrease EV/EBITDA transaction and **~40%** decrease in deals since 2021

PE firms are seeking opportunities to “buy low” for undervalued targets

...and yet growth
is more critical
now than ever
before



Growth drives
performance

Profitable
growth is key

Growth is hard
to achieve

Growth is hard
to sustain

30% *higher TSR¹ for high-growth companies*

80% *Additional value above peers for companies that profitably outgrow²*

1 in 8 *Companies averaged revenue CAGR of 10%+ from 2010-2019*

1 in 10 *Companies were able to remain in the S&P 500 with above GDP growth over 30 years*

1. TSR- Total Shareholder Return

2. Over a 10-year period, more value defined as xTSR (excess Total Shareholder Return above peers), Data 2005-2019, N>5,000, 'Growing beyond your core into adjacencies'

**Before we
continue here...
let us know**

**Is “above market” growth a priority
for your business?**

A

Hell Yes! it is the #1 priority for us, we need to beat the market

B

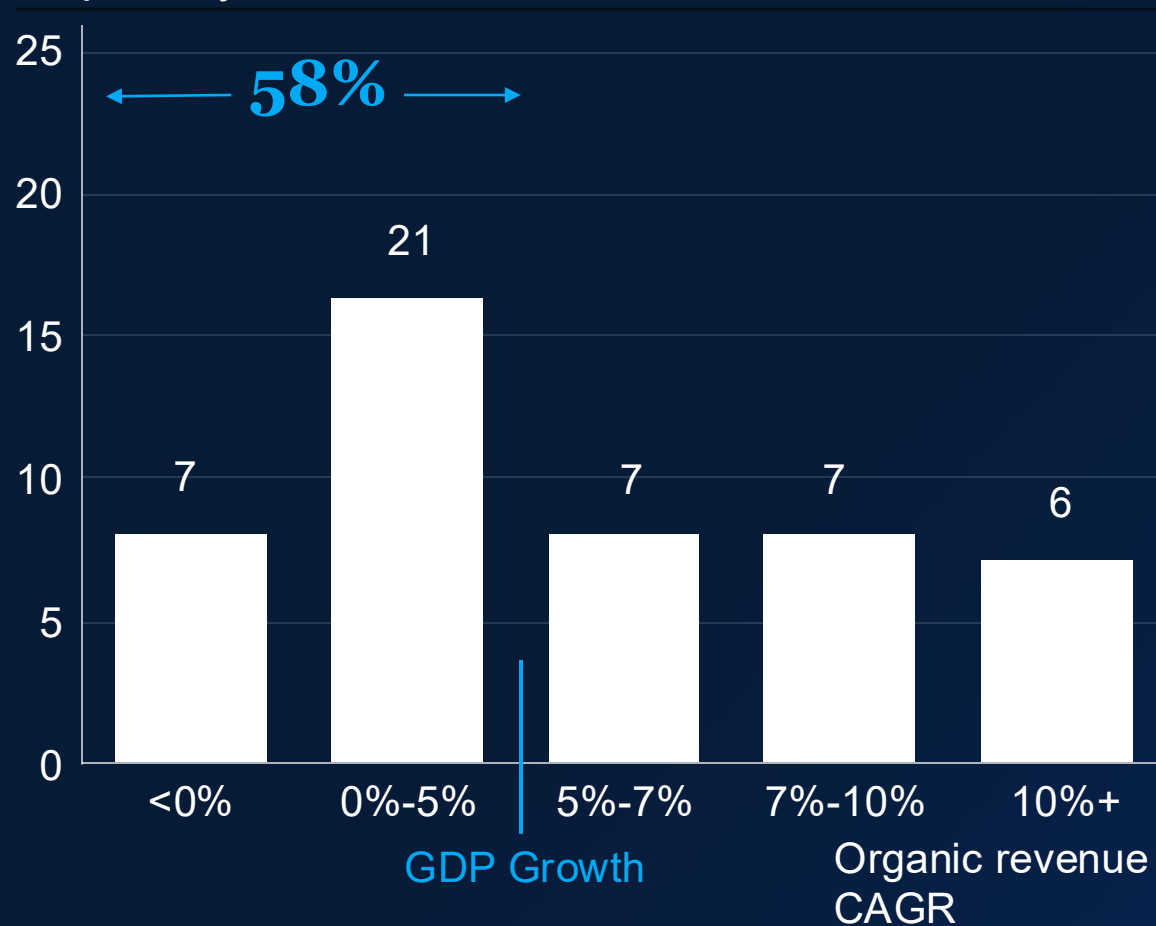
Of course, it is one of the top 3 priorities we are focused on this year

C

Well... we have so many things to deal with, as long as we grow, we are fine!

Well...it is to top of mind for CEOs...

10-year Organic growth,
48 publicly traded NA distributors¹



100%

of CEOs from publicly traded distributors have mentioned above market growth as a priority

>50%

of publicly traded distributors averaged organic revenue CAGR of less than GDP growth over the same time period.

1. From 2013-2024 – Implied Nominal organic Growth –taking out major acquisitions; Nominal GDP over the same period is 4.94% CAGR

...and it is highly rewarded by Investors

Industrials distributors TRS¹ performance vs S&P 500 since 2013, Indexed

— High-growth distributors (+7% organic revenue CAGR) — Low-growth distributors (<7% organic revenue CAGR) — S&P 500

Total Return to Shareholders (TRS), USD Indexed 100 = Jan 2013



1. TRS = total returns to stakeholders; calculated as the average year-over-year TRS; index=100 in 2003; sample includes data for 48 distributors operating in North America from 2023; excludes subsidiaries

Yet, many struggle to achieve consistent growth...

Challenges we commonly hear from distributors:

Decentralized sales organization acting like 100s of small companies competing locally **vs. taking advantage of scale**

Hundreds of local customers / decision makers and a fragmented competitive set of large, medium and local distributors- making it hard to make sense of what works

Disparate IT systems and challenging customer data with inconsistent and incomplete data, limited visibility below gross margins, to develop actionable insights or drive performance conversations

Limited insight-driven sales such as cross-selling, share of wallet, white space – *“selling the same products to the same customers, rarely selling the full offering”*

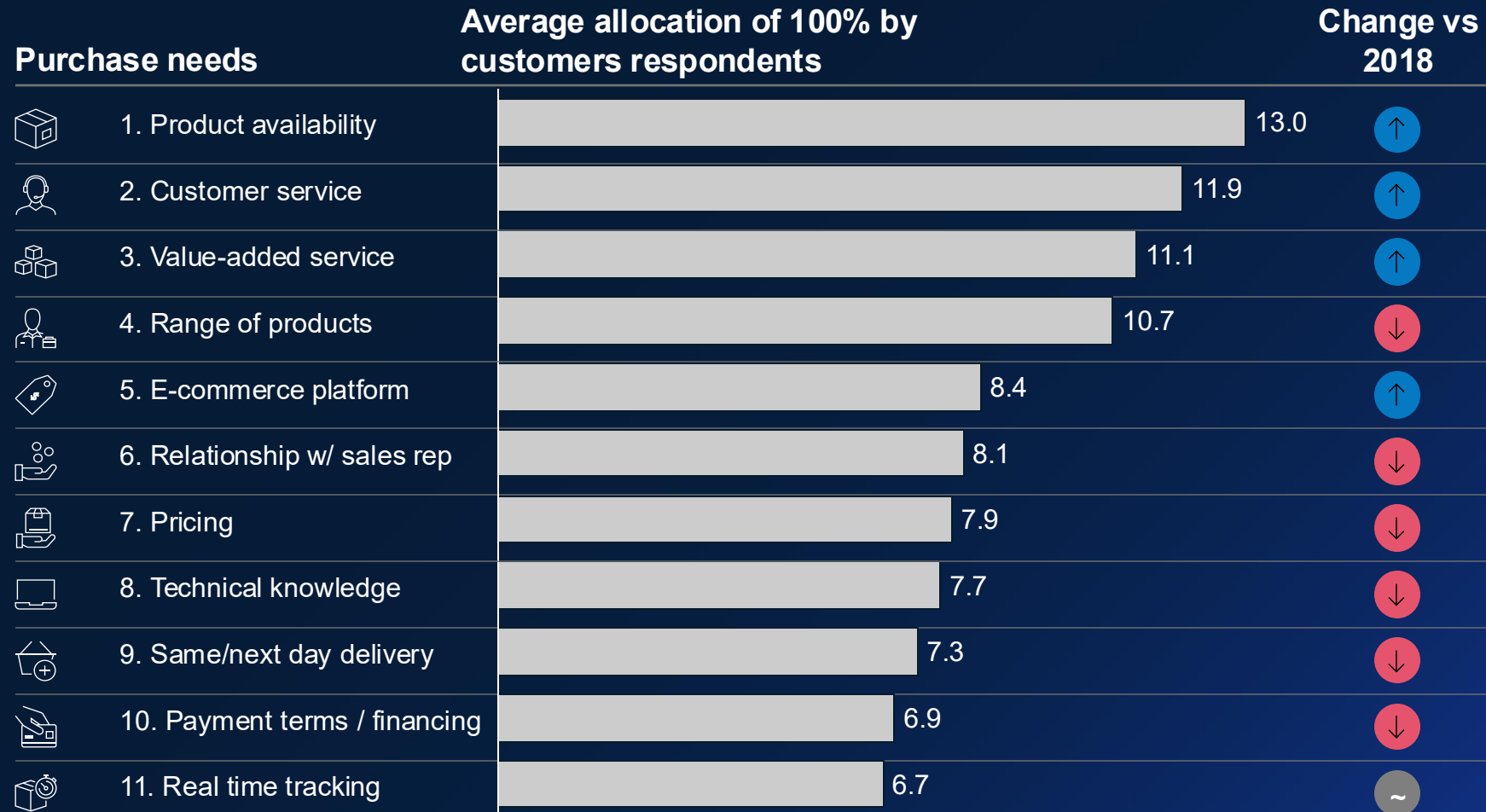
Limited commercial sophistication and investments in capabilities and selling acumen due to focus on rapid inorganic growth and acquisitions AND years of “easy growth”

Lack of growth orientation or mindset – driven by structural challenges such as org structure, compensation, administrative work that detract from growth

Lack of market relevant pricing recommendation based on micro-segmentation of customer’s buying behavior, lifetime value of projects and ability to win

...and most are not addressing shifting customer needs

Where distributors provide most value compared to alternatives?¹, Latest distribution customer survey



1. Based on the question: "Across your purchase needs, where do you think distributors currently provide most value as compared to manufacturers and online only players?"

Source: McKinsey Distribution Practice Customer Survey, 2018,2022,2025 with n=250; 2022, n=117;, and Expert interviews

So... what are outperformers doing - “The RESET”



Set an aspirational mindset and culture



Activate pathways

Expand the core

Innovate into adjacencies

Ignite breakout businesses



Execute with excellence

Invest in talent and tech

(Growth operating model, dynamic resource re-allocation, and practical tech investments)

Programmatically execute on inorganic opportunities

(Ecosystems, M&A, Alliances/JVs)

Develop functional capabilities

(e.g. marketing, CX, sales & channel, digital, innovation, digital)



They choose Growth

Growth leaders¹ share:

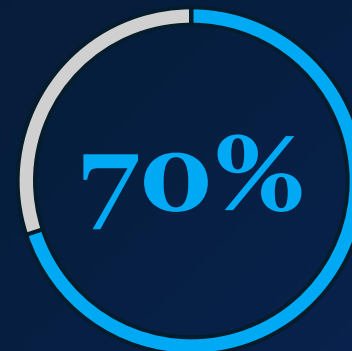
Growth leaders choose growth. They are more likely to orient to growth, make it a top priority and have a clear social purpose.

Profitable Growth outperformers generate the highest median excess TSR; and ...



...have a growth story I tell all the time.

Growth leaders 80% more likely to communicate growth successes often, internally and externally.



... have growth as a top priority.

Growth leaders are 70% more likely to have growth as their top priority than their peers.



...focus on long-term growth.

60% of Growth leaders have a clear multiyear mandate to pursue growth initiatives and the autonomy to do so without having to show short-term results.

1. Growth leaders are defined as those who indicated higher than their industry average growth and profit (self-reported). N=150 executives.

Source: McKinsey article: Are you a growth leader? The seven beliefs and behaviors that growth leaders share,, N=145; 41 defined as 'outperformers', mindsets defined as 'strongly agree' with respective mindset in their organization



They pursue **multiple pathways**



Expand the core

Achieve excellence in today's business, adapting to meet shifting customer needs

80%

of growth
comes from core industries and segments¹



Innovate & expand into adjacencies

Expand into adjacent industries, segments, & geographies (e.g., US Foods expanding into retail with ChefStores)

20%

more likely
to outperform peers when businesses grow into adjacencies



Ignite growth through breakout businesses

Make bets and build new businesses beyond the core to ignite growth (e.g., digital platforms like Choco creating supplier marketplaces)

50%

of revenues
expected to come from new products/services through 2030²

97%

Companies growing in all directions are 97% more likely to outperform

1. Varies by industry, growth measured from 2005-2019

2. Based on Survey of Innovators from McKinsey '2021 global report: The state of new-business building'; N=1,178

Source: McKinsey 'The Growth Code'; McKinsey 'Introduction to the Eight Essentials of Innovation' 2019; McKinsey 'Growing beyond your core and into adjacencies'

**Let's get your
input on
something else**



Does your company do the following?

Check all that apply

- ☐ Track performance vs. market growth, plus share of wallet in every single customer, vertical, segment, etc. (almost always using AI)
- ☐ Manage a concrete portfolio of 4-5 “100bps growth bets” - recognizing not all will work
- ☐ Drive 10%+ annual growth from new customers (with a pipeline that's 2x+ that goal)
- ☐ Drive ~25bps annual margin expansion from price/cost
- ☐ Have sales compensation model that's 50%+ variable, and rewards disproportionately for prospecting & strong pricing
- ☐ Invest on the leading edge with sales technology – AI, GenAI, CRM



What we see outperformer do to grow the core



1. They reach the right opportunities

- Clear customer segmentation
- Consistent opportunity identification
- Strategic approach of markets to address



2. With the right people & GTM model

- Overarching strategy
- Appropriate sales coverage
- Digital engine



3. With the right offer and perfect pitch

- Differentiated value prop
- Proactive demand generation
- Tailored offerings



4. At the right price

- List price and discount guidance and strategy
- Pricing performance mgmt. and discipline

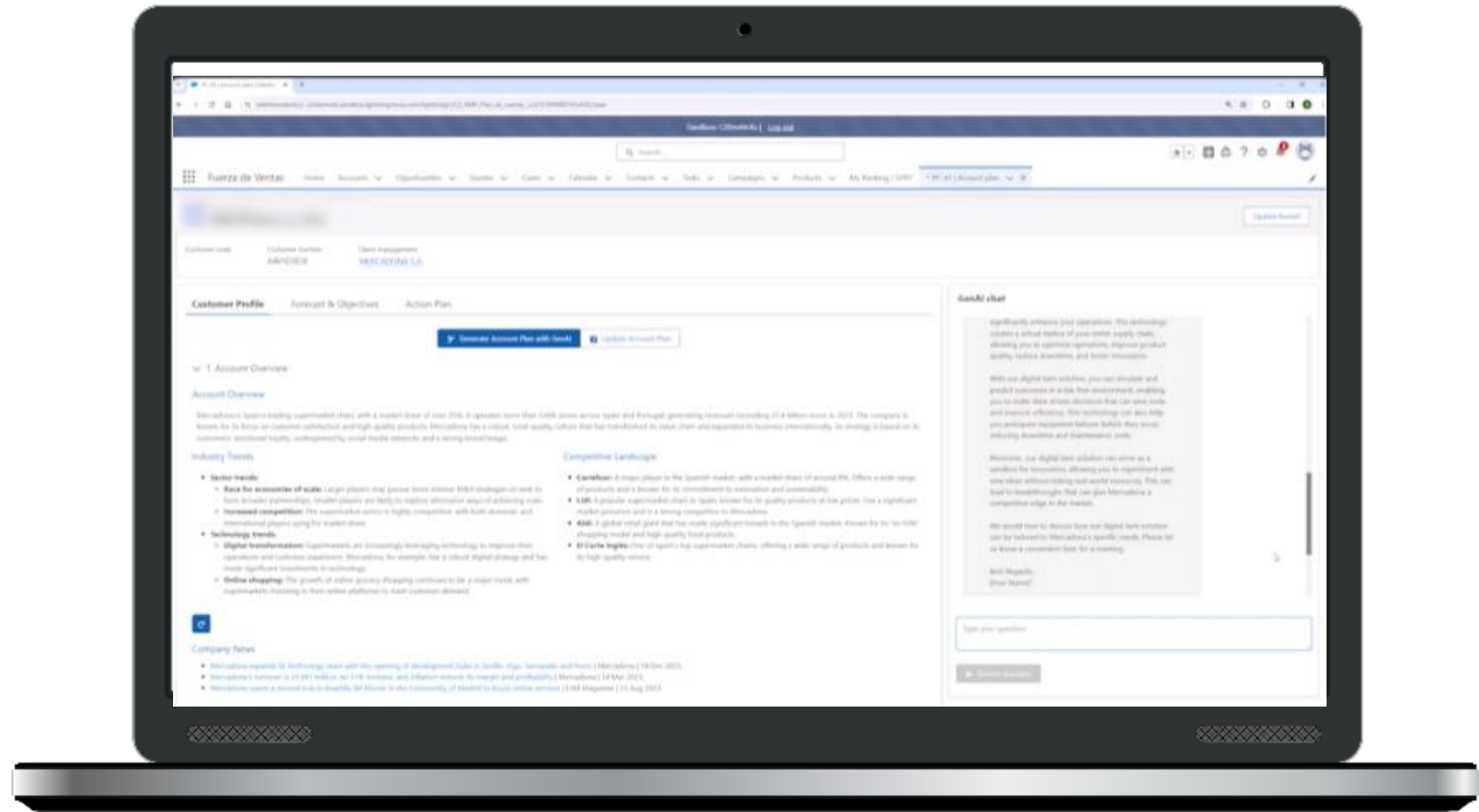
Every single time

- Technology
- Talent and capability building
- Change management and communication



For example Account Planning Gen AI MVP integrated in Salesforce

*Let's watch the
video*



[Play video](#)

Example: Grainger transformed its go-to-market approach



Set an ambitious target

Targeted 50% sales through digital channels, and invested significantly in people and technology



Adapted sales model

E.g., built out digital commerce back-end support, reconfigured pricing, revamped sales & operations operating model



Tackled omnichannel puzzle systematically

Switched from fully field led model to differentiated model across 5+ channels (e.g., website/mobile app, Zoro, KeepStock solution)



Revenue grew by
80% since launch of
Zoro.com in 2011

1/6 that growth
coming just from
Zoro.com

Example: Amazon Business curated its core platform with B2B features to enter new segments



amazon business



Set a clear vision

Started with the end state vision, then identified key features needed to meet customers needs



Built in parallel

Defined its product strategy (e.g., access to wide range of product offerings, private label offering) and pricing strategy while reinventing Amazon Prime



Support supplier needs

Providing spend visibility to suppliers



Estimated to have reached
~\$25B in sales by
2021

~25X growth in
revenue since first year
of sales back in 2016

Example: Fastenal innovated go to market strategy by bringing vending on premise at customer sites



Kept track and revisited ideas

Vending devices were part of the original vision of the organization ~40 years prior to execution



Focused on ongoing innovation

Evolved the value proposition of the vending devices by iterating on the design/features based on customer feedback



Reimagined the operating model

In 2018 deployed Local Inventory Fulfilment Terminals (LIFT) to increase fulfilment rates of vending devices



100k+ FastBin and FastVend machines installed and accounted for...

~25% of sales in 2022 enabling...

~3.5x revenue growth since launch in 2008

**Let's get your
input on
something else**



What can we learn from others?

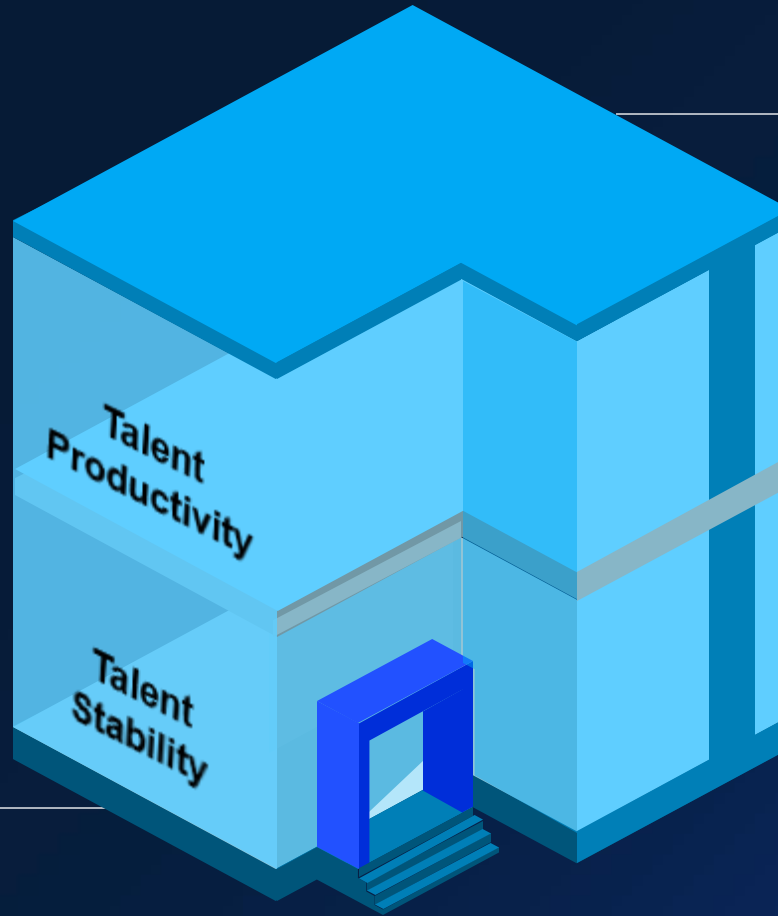
- ☐ Which distribution company do you think is doing great on growth above market?
- ☐ What is it that they are doing that you think is working?
- ☐ What is holding you back from doing the same? Or implementing the playbook we just talked about?



They also invest in talent to execute flawlessly...

Talent Stability Challenge

- **42%** of frontline workers stated that they are at least 'somewhat likely' to leave their current job within the next 3-6 months
- **55%** of frontline employees say they are disengaged and report that they are not excited about the work they do on the shop floor
- **30-100%+** attrition across operations organizations persist, with many of these employees leaving in their first 100 days
- **Necessary** (not sufficient) to capture labor productivity



Talent Productivity Challenge

- **~2%** real labor productivity growth (2007-2022); vs. ~3.4% CPI and ~2.4% HICP
- **25%** Throughput advantage seen in sites with ~4x the average frontline worker tenure compared with control sites
- **16x** engagement level of frontline workers who report having a positive employee experience compared with those who don't
- **Required** to achieve earnings growth in volume-challenged categories with limited pricing upside

The Frontline Workforce is a top issue for most CEOs



... and solve critical talent areas



1

Understand talent current state

Examine current talent performance and operating model

Determine root causes for talent stability and productivity challenges by market

Clearly define talent investment needs by site



2

Set aspirational talent investment strategy

Define talent aspiration for stability and productivity

Articulate target culture and the competitive employee value proposition

Allocate investment budget for talent



3

Deployed proven talent innovations

Implement portfolio of relevant, proven talent innovations and technology e.g., flex scheduling, supervisor co-pilot, VR training, gamified performance system

Invest in talent surveys and analytics to gather frontline input and track progress



4

Built holistic workforce operating model

Institutionalize cross-functional governance (Ops+HR+Finance) to oversee talent investing

Activate new process to identify, prioritize, fund, and monitor talent initiatives (similar to capex initiatives)



Example: Improving frontline efficiency – AI can help



Forecast

AI-powered forecasting across demand and supply variables for monthly, daily, and interval time horizons



Schedule

AI-enabled optimization engine that conducts scenario analysis to enable ideal matching of supply to demand at any time interval level



Train

Training optimization that maximizes throughput given the available resources and simulates potential training disruption



Manage

Early warning systems and daily recovery solvers to be able to adjust to changing conditions and match resources to need



Coach

Recommendation engine that integrates actionable nudges into digital interfaces for both employees and supervisors





Example: Improving frontline efficiency – AI can help, if you make it real



Forecast



Schedule



Train



Manage



Coach

Understood the current state and the root causes of it

Categorized paid working hours into utilization shrink, productivity idle time and inefficient tasking

Used AI backed model to uncover root cause drivers as daily decision making around tasks, resource allocation and continuous improvement mindset

Deployed talent innovations and embedded in operating model

Created individual dashboards for frontline, supervisors and managers tracking against root cause issues to provide daily visibility into performance

Linked dashboards to improvement suggestions and coaching and training prompts and tracked completion

Improved task efficiency

Reduced idle time

Increased SOP adoption



Example: Beyond the front line, leaders are also getting and developing middle and senior management talent



Clear employee value proposition

Don't promise highest pay, but do promise growth and development and opportunity and then delivers on it



Makes the proposition real from Day 1

Clear career path opportunities laid out from day 1 with regular training to support the journey and early tenure rotational programs



Reimagined high potential talent development

Skip level development where senior leaders coach high potential talent one level below their own direct reports AND can move that talent into new teams without requiring the direct manager approval



Low unwanted attrition with well below industry average new hire churn

Best place to work recognition across indices

Top quintile performance

So...As a leader, ask yourself



Am I setting the right aspiration, mindset, and culture to encourage growth?



Are my ambitions high enough, and how can I ensure my organization has the full potential to achieve it?



Am I actively choosing growth opportunities across my core and adjacencies?



Am I establishing the right enablers to execute against my growth aspirations and strategies



Do I have the right operating model and resource allocation to achieve my growth ambitions?



And am I investing in the right talents and capabilities?

