



Bob Dutkowsky

CEO, Tech Data Corporation

Editor's Note: In this month's issue of *Executive Perspective*, **martinwolf** interviews Bob Dutkowsky, Chief Executive Officer of Tech Data Corporation, one of the world's largest wholesale distributors of technology products, services, and solutions. Dutkowsky joined Tech Data in 2006 as CEO and as a member of the company's Board of Directors. He has more than 30 years of experience in the Information Technology industry, including senior executive positions in sales, marketing, and channel distribution with leading manufacturers and software publishers IBM, EMC, and J.D. Edwards.

Why don't we first talk about the role of distributors in the economy? It has been a changing space, and distributors have been on the front lines of those changes.

The role of the IT distributor has changed dramatically in the last decade, and the rate of change continues to accelerate as new, emerging technologies move to the forefront. Historically, a distributor would buy a product, put it on the shelf of a logistics center, and would then be measured on its ability to pick, pack, and ship the product quickly and accurately. The customer would pay a premium for the distributor's efficiency in picking, packing, and shipping. Today, that's the ante to the game—every IT distributor does it well and there is little differentiation.

Where real value comes from now is in the technical skills and capabilities that add value to products that will be picked, packed, and shipped, as well as complete IT solutions. Whether it's sales and marketing capabilities or integration services, those skills are the ones that really make a difference today to the customer. It's partly why there are only a handful of big distributors left in the United States and around the world. There is a small community of distributors because the barriers to entry are so steep in terms of the knowledge, skills, and supply chain capabilities needed, which make it a difficult industry to work your way into.

On top of that, one of the most important things for a successful IT distributor is scale. Today, you need a broad array of products to sell to a diverse set of customers across multiple geographies. Scale really makes the business work. For some context, an IT distributor that is really well-run and really well-managed will make somewhere between one to two pennies of profit on every dollar of sales. Unless you have a large presence, when you add up those one or two pennies, they don't add up to much. In our last fiscal year, Tech Data

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generated more than \$26 billion in sales, and a penny or two on \$26 billion provides you with the resources to invest in the technologies, skills, people, and infrastructure that it takes to be a successful distributor. Tech Data is 43 years old now and we have not only been able to adjust to the changes in technology, we’ve been able to flourish throughout those changes in a way that I think is unique to our company.

How is Tech Data adapting, changing, and becoming a revitalized company in response to these ongoing trends and economic developments?

While distributors have to be really effective at the physical distribution of products, it is now becoming far more of a virtual world. Devices are attached to networks, which are attached to computers. Often, you’ll have no idea where or what these are, but you just want to get access to the content that they store. The best example of the cloud that I could offer is Netflix. There’s an immense amount of entertainment, movies, TV, and music stored on a computer somewhere that you want streamed to your phone while you’re sitting in the waiting room of the doctor’s office. And so that content, that virtual knowledge and virtual value, needs to be moved through the supply chain just like a physical product used to. And it requires a whole different set of offerings that actually deliver the value.

Back in the day, there were no laptops or cell phones and your house didn’t have computing or intelligence like it does today. You didn’t have a network in your house that you could attach to a TV. And so at Tech Data, not only have we broadened our business to distribute those products—phones, laptops, tablets, TVs, and things that are attached to these networks and clouds—but we also now sell the clouded offerings. Our customers [IT resellers] will come to us and they will want to sell backup and recovery to their customers [end users], which are done in the cloud. We have the backup and recovery products on our virtual shelf and we sell that offering to that customer on behalf of the company that actually runs or manages the cloud.

Not only do we sell physical products like we have had historically, but we also have whole new categories of physical products and virtual offerings. So these changes in IT and in business models have created immense opportunities for Tech Data. New, different business models with different economics attached to them, and different skillsets that Tech Data has to have to be able to bring those offerings to the market, have created a whole new ecosystem. We’ve been on

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the leading edge of being able to support this ecosystem in the IT distribution channel.

To put it in perspective, you would think that the cloud, for as much as you likely hear and read about it, is where all the IT spending is. Tech Data is one of the leaders in the cloud in the IT channel, yet cloud represented a very small percentage of our total sales in the year we just completed. The vast majority of our business is still those physical products that businesses, consumers, government agencies, enterprises, small businesses, and others need to make them more competitive and able to serve their markets more efficiently. While the cloud and these emerging technologies are important, there is still a lot of technology that needs to be sold and delivered to the market. I think Tech Data is perfectly positioned because we're really good at physical *and* virtual. We do both, which allows us to be agile and move as the markets move.

There are two types of clouds that are prominent in the world. One is a public cloud—think of that as Netflix, where anyone who pays \$9 a month can get access to the content. And then there is the concept of a private cloud—that’s where a company sets up its own infrastructure, but the only people that get access to the information, data, and knowledge in the cloud are inside in the enterprise. Interestingly, the technology that runs the public cloud and the technology that runs the private cloud—the servers, storage, networking, security, and software—are all exactly the same. In many cases, businesses are investing in internal, private clouds that make computing more available for more people less expensively.

Tech Data has a big business inside that \$26 billion in sales that is selling the components of those private clouds. While the public cloud gets most of the press because it allows people to get access to anything they want at any time they want it, there is a large opportunity in the private cloud. Ultimately, the challenge is to have businesses that are able to connect private clouds with public clouds, which we refer to as hybrid clouds. Tech Data helps lead our customers through the process of private cloud implementation, public cloud usage, and ultimately, hybrid cloud deployment, which is what the world is going to look like in the future. Although the cloud is a relatively small percentage of IT spending today, there is a ton of opportunity ahead—and we’re in the very early innings of deployment. We see lots of upside for Tech Data in the long run.

Let's use this as a transition to talk about the Avnet Technology Solutions acquisition. We talked about the value-added distribution model, or the offering of services to traditional

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product offerings. What is your view on the VAD? Do you think distributors are going to move more toward service offerings or is there going to be a core focus on being able to simply distribute products? Where do you see it going?

For some context, it’s important to understand a little history about our industry. Historically, there have been two types of distributors in the IT distribution space. One was called a “broadliner,” which primarily distributed around the PC ecosystem—computers, printers, software, cables, keyboards, mouse pads, etc. Over time, many broadliners added in consumer products, things that were in your house that had technology attached to it. That was one category of distributors: the broadliner that had a broad line card of products from a lot of vendors. The logistics and supply chain, alongside the pick/pack/ship part of broadline, was very important. The second category of distributors focused on selling more complex products into the data center, including servers, storage, networking, software, and security products. They were called value-added distributors, or VADs, and they had a different focus.

Tech Data was one of the broadliners. About 10 years ago, we decided to move into the value-added business in addition to broadline and began to sell those data center products. Prior to the acquisition of Avnet’s Technology Solutions (TS) business, Tech Data’s data center business was about \$8 billion a year in sales. We had become a value distributor under the covers of a broadliner. What we determined is that the distributor that will be viable in the long haul is what we call “end-to-end”—from the data center to the living room, from complex value products all the way down to consumer products and all points in between. PCs, mobile phones, printers, mainframes, software, storage, networks, and everything you could think of around technology, from the home all the way to the largest business and into the cloud.

By adding Avnet TS to Tech Data, we’ve now created that end-to-end distributor with even deeper capabilities in the high-end value side. Our opinion is that the idea of being a broadliner or a VAD is yesterday’s news. You now have to be end-to-end.

To better paint the picture, think about your smartphone. You use it for your corporate and personal email, you watch entertainment (movies, TV, YouTube), look at pictures of your family, text your kids, make phone calls to your mother and make phone calls to guys like me to talk about business. Is that a business device, a consumer device, an entertainment device, a network device, or a cloud device? It’s all of those things. Previously, you would only be able to get that

"We are now the only true global end-to-end IT distributor."

smartphone from a broadline distributor, when in reality, that phone does lots of other things. You can make the same case for data center products that actually deliver value across the broad spectrum of IT.

We think it's important that the distributor of the future is this end-to-end player, so to establish ourselves squarely as an end-to-end distributor, we had to get bigger in the data center. That's why we did the Avnet TS acquisition—to combine those things together. We now have that full end-to-end reach with end-to-end capabilities of skills, partnerships with longstanding and emerging vendors in the marketplace, and the geographic footprint to support it. We are now the *only* true global end-to-end IT distributor.

That's a great segue into talking about the acquisition itself. It's a huge deal. What was the process like? How did you successfully navigate the intricacies of the transaction?

The transaction goes back a couple years and starts inside of Tech Data's boardroom. With our board of directors, we had done a lot of work on strategy in coming to the conclusions that I've just described—this end-to-end conclusion. When we took an assessment of our capabilities and where we were, there were a couple of ways we could have enhanced Tech Data's end-to-end presence. One would be what we called a "string of pearls" approach, which would have been a series of smaller acquisitions that we would piece together to build out that end-to-end reach. But we ideally wanted to find one big transaction that would give us the end-to-end capability. At the same time, Tech Data wanted to expand into Asia Pacific.

We looked out in the landscape and the one business that answered all of those was TS. There was one problem: TS wasn't for sale. Even though we wanted to buy TS, it takes a willing buyer and a willing seller. We approached them, described our strategy and basically said, "This is what we want to build and we'd like to buy TS," and they said, "No thanks." Then the process started. We were able to convince them to look at it, convince them to think about it and take it to their board, and ultimately, they came to the conclusion that it was in fact a good idea and that TS could create more value as part of Tech Data than as part of Avnet. That's when we came to the agreement to acquire back in September.

It's always interesting when you try to buy something that's not for sale. Say if somebody knocked on your door and said they wanted to buy your house, you would probably tell them, "Please leave." We said, "Just because you said no doesn't mean we're going to go away." We persisted and convinced them.

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Let's talk about how this acquisition affects your vendor relationships, especially since a key part in every distributor's strategy is how they leverage their vendor relationships.

Keep in mind that at Tech Data we have no intellectual property. We don't invent products—we are dependent on the research and development of our vendor partners. And consequently, they make much higher margins than we do because they have to take those risks and make investments in R&D that we don't. Our vendor relationships are critical to our success, and as we were going through diligence, was one of the big factors in deciding whether to make the acquisition or not. We had to understand our vendors' perspectives without asking them. As a publicly traded company, you can't go to a vendor and say "We're thinking of buying TS." So you have to talk to them about consolidation in the industry and what their views are on that.

Once we announced the transaction, we were able to speak with the vendors directly and say, "Here's our vision and what we're going to create," and ask their opinion. Universally, the vendor community was very excited about Tech Data and TS coming together, and that end-to-end capability that Tech Data will bring to the market. I didn't speak to a single vendor who didn't buy into that strategy and think it was a unique and valuable one that would make partnering with Tech Data even more important to them.

You mentioned how you were looking into the Asia Pacific region, which would further you as a global company. As a large global player, what are you keeping an eye on and believe will be some of the major global trends that will affect you going forward?

Our perspective is through the eyes of IT spending. Tech Data announced its fiscal year 2017 results in March and, in constant currency, we grew at 1%. Our view is that overall IT spending is going to remain relatively flat. Keep in mind that within that flat spending are pockets of double-digit growth, as well as pockets that are declining by double digits. What Tech Data tries to do is focus on those areas that are growing rapidly and invest our resources and skills to be focused on those areas. We try as best as we can to deselect slow-growing areas. It doesn't mean we don't still carry those products on our line card and have people that are focused on them. We just don't invest as heavily there.

As an example, typical storage systems are spinning disks—hardware-oriented systems that store data. And they're being slowly

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replaced by what's called solid-state storage, or flash storage, which has no moving parts and is more reliable and easier to program. While there are lots of reasons why solid-state storage is better, the world is largely built on spinning disk storage. That spinning disk storage is declining as flash storage is growing rapidly. Accordingly, Tech Data focuses on the solid-state storage more than we do on the spinning disks. That's an example of where we might grow a little faster on the market because we can hone in on those hot areas and not spend as much energy on the slower areas.

What differentiates Tech Data from other distributors? Especially with the TS acquisition, you are well positioned to re-exert your presence. How are you doing that?

Coming back to the end-to-end story, we have real prominence, from the data center to the living room. The skills, capabilities, and relationships with the right vendors who are setting the agenda in all of those areas, is really the core strength of the new Tech Data—along with our highly-skilled team of people that understands those various areas.

To give you a couple of extreme examples, it's very difficult to take a person who today sells printers and ask them to go sell flash storage. They're completely different products with different capabilities and technical nuances. You have to have people that understand printers and different people that understand flash storage. We also sell large-screen televisions to retailers, and the people we have inside Tech Data that understand that market are completely different from the people who sell servers for a data center or high-end networking products or cybersecurity products. These require completely different skills, and across the breadth that represents Tech Data, with 150,000 different products, we have people who understand all of them, which is a big differentiator in the marketplace. Think about if you wanted to start up a company that had those capabilities—it would be a daunting task.

Do you see yourselves increasing your direct-to-consumer business in the business model?

We do virtually no direct-to-customer today. We are a partner-led company. We sell to the channel and the channel sells to the end user. That's the way our company was designed and built, and we believe strongly in that model.

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What were your thoughts on the Ingram Micro acquisition? Was it a surprise or does it make sense?

We don't like to offer commentary on our competitors' strategies. I will say that we've been competing with Ingram Micro for decades—we competed with them when they were a family-owned company and we competed with them when they were a public company—and now we'll compete with them when they're owned by the Chinese.

Let's zoom out a bit. Do you expect more consolidation among distributors?

Barriers to entry of a new company coming into our industry are pretty high, and the requirements necessary for an IT distributor to grow and flourish are becoming more and more difficult. If you're not end-to-end, then your customer has to go to multiple places to buy a product or complete solution. At Tech Data, they can come to us and buy that entire continuum of IT solutions. I think that any distributor that isn't end-to-end or doesn't have a plan in place to become end-to-end will become isolated. If a distributor serves a specific niche, it becomes much harder for their customers to do business with them. At Tech Data, with one mouse click, you can get everything from products in the home to the most complex solutions in the data center. And that's what the distributor of the future needs to be.

Regarding future M&A plans, are you looking for anything in particular or are you looking to execute on the TS acquisition?

It's safe to say that the work we have in front of us to bring Tech Data and Technology Solutions together successfully is a big task, and we have tremendous amounts of energy and people focused on that, which will keep us busy for a while. But the reality is we are always looking for things that will create shareholder value. We run this company to serve our customers, help our vendors grow, provide opportunities for our employees, and create shareholder value. If there are M&A opportunities that make strategic sense for us, we would never say never. But for now, our top priority is to pay down the debt that we borrowed to buy Technology Solutions, which we believe we can pay down to a comfortable level within two years.

Do you have a piece of advice you'd like to share with our readers that has guided your philosophies?

The world starts with customers. If you are focused on your customer and their needs—and satisfy those needs no matter what your role

is—then you will be valuable. The value that you bring as a company or as an individual will continue to flourish.

The concept of satisfying the customer applies whether you're an internally-focused or externally-focused member of the business. Human Resources and Accounting have customers—they're just internal. That's why I believe it all starts and ends with the customer.