FROM WHOLESALE TO WEB-SHOP:

WHOLESALE DISTRIBUTION FOR THE DIGITAL ERA

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Wholesale distributors have until now been largely unaffected by the disruptive impact of ecommerce and digital channels on the retail industry. This situation cannot last much longer. B2B buyers increasingly expect the same high levels of convenience, range, and low costs of ecommerce at all stages of their procurement processes, including wholesale distribution.

The boom in smaller ecommerce retailers also continues to fragment the retail industry, bringing down barriers of geography and market access. In fact, nearly 40 percent of wholesalers worldwide are already planning to improve ecommerce capabilities in order to build revenues in 2016.[1] As a result, Australian wholesale distributors must look urgently to ecommerce to simplify how they take, fulfil, and optimise orders from more customers, across more locations, with more varied needs than ever before.

Finally, the disruptive influence of ecommerce on retail brings a huge—yet largely overlooked—opportunity for wholesale distributors: to sell direct to consumers via their own "web-shop" ecommerce platforms. Doing so, however, requires ecommerce and ERP technologies that can consistently sell and deliver to both retailers and consumers, each with their own particular demands on inventory, fulfilment time, and customer service. In almost all cases, this only becomes possible when distributors also transform their back-end technology systems, moving ERP and CRM from legacy on-premise infrastructure into ecommerce's home territory of the cloud.

The Australian wholesale industry is one of the most innovative in Australia,[2] but its focus must now fall upon digital disruption to customer channels and processes. Adopting ecommerce can give wholesale distributors the best of both B2B and B2C worlds—but only if their technology platforms are up to double the usual task.

[1] MDM, 2016. The outlook for wholesale distribution in 2016. Page 8.
[2] Australian Bureau of Statistics, 2015. Summary of IT Use and Innovation in Australian Business.

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Chapter **1**

THE "NEW NORMAL" OF PROCUREMENT

Wholesale distributors are ignoring the impact of ecommerce on their B2B customers at their peril. Retailers, many of whom have seen the disruptive impact of ecommerce first-hand, increasingly expect from wholesale distributors what consumers expect from them: low prices, simple buying processes, and fast delivery. In fact, almost 69 percent of Australian wholesale companies already place orders via the Internet,[3] taking advantage of cost and agility benefits from producers and manufacturers. Yet only a fraction of those receive orders directly through their website.[4]

Ecommerce capabilities are essential for wholesale distributors to stay relevant to their increasingly tech-savvy, digitally-native buyers. These buyers place especial value on anything that simplifies the buying process. Reduced paperwork, one-touch fulfilment, automated orders whenever retailer inventory falls below pre-defined levels—all these are uniquely available through ecommerce. Wholesale distributors who can deliver this enhanced customer experience will quickly gain market share. Those who refuse to will find themselves sidelined by retailers.

If ecommerce for distribution is so important to customers, why haven't wholesale distributors done more of it? For most wholesale distributors, the main issue appears to be feasibility: up to almost 50 percent of Australian wholesalers and manufacturers say that online transactions could not achieve a strong fit within their organisation.[5] Amongst the most common issues cited were those relating to compatibility, whether adapting business processes or existing technology systems to work hand-in-hand with ecommerce platforms. The marked leap in cloud computing acceptance since then—and turnkey "Software-as-a-Service" solutions for ERP, CRM, and ecommerce—have, to a large extent, mitigated many of these concerns for distributors willing to transform their operations.

A significant minority of wholesale distributors—more than 30 percent—also feared that adopting ecommerce would put other sales channels at risk of cannibalisation. Those risks have been proven to be largely unfounded. In fact, one study[6] found that order entry costs of traditional sales were between 100 percent and 500 percent higher than those of ecommerce. These can

3 Australian Bureau of Statistics, 2015. Summary of IT Use and Innovation in Australian Business.
4 Frost & Sullivan, 2014. Page 4.
5 Frost & Sullivan, 2014. Page 11.
6 MDM, 2015. The ROI case for B2B business

potentially increase when other back-end systems, like ERP, are also moved to the cloud, driving down the costs of scaling and maintenance associated with growing order volumes. Lower entry costs mean distributors can generate higher margins, reduce prices to sell in larger volumes, or a combination of both—suggesting that declines in traditional sales channel would typically prove positive for overall revenue.

The challenge for wholesale distributors, then, is to make an orderly transition to ecommerce as the "new normal" for procurement, reducing reliance on traditional channels like phone or mail orders without alienating customers in the process. The evidence—including the purchasing habits of distributors themselves—suggests that the risks of doing so are minimal, or at least far less than maintaining the status quo. However, simply exchanging traditional channels for an ecommerce gateway is not enough. Any ecommerce transformation must be scalable and flexible enough for wholesale distributors to manage complex, constantly-expanding global networks—of both buyers and suppliers.

Chapter **2**

AGILE DISTRIBUTION IN THE "SUPPLY WEB"

For wholesale distributors, ecommerce is not just a means to meet customer expectations: it is essential to keeping operations lean and agile enough to survive. Wholesalers, who occupy a central position in the modern supply chain, face increasing complexity and fragmentation amongst both producers and retailers. Those who lead the way in ecommerce and omnichannel adoption are more than 3 times as likely to reduce costs and meet shipment accuracy targets than their competitors.[7] But without fast, efficient, and scalable ways of processing orders, wholesale distributors will find themselves unable to keep up with demand—or worse, cut out from the supply chain entirely.

Ecommerce has caused much of the supply chain complexity that distributors now face. Large retailers find themselves increasingly competing with growing numbers of "web shops" that, although unable to compete in volume with traditional retailers, can attract consumers with lower costs thanks to minimal operating expenditure. Smaller producers—particularly those catering to high-margin niche markets—use ecommerce to fulfil orders as quickly and cheaply as their much larger competitors. All this means far more players making far faster decisions on both sides of wholesale distribution, forming not so much a chain as a "web" of ever-changing connections between supply and demand.

The only way for wholesalers to keep up with the pace and complexity of the "supply web" is through greater automation. Ecommerce front-ends are an important first step to automating the supply chain, as they digitise orders which would otherwise have to be manually received, logged and forwarded for fulfilment. Each of those steps can be automated for ecommerce orders, allowing wholesale distributors to manage far greater volumes with far greater insight than ever before.

However, ecommerce alone is not the answer. Only when integrated with ERP and inventory management systems will wholesalers be agile enough to survive in the "supply web". The ideal ecommerce system not only automates order taking, but also communicates with the distributor's ERP system to automatically adjust production, replenish warehouse stock, and even invoice retailers based on the orders coming in. It also provides distributors with visibility into inventory levels, how these correlate with

[7] Aberdeen Group, 2015. What has Changed in Wholesale Distribution: 2015 and Beyond. Page 4.

real-time ecommerce orders, and potential risks of the two becoming imbalanced—such as reduced working capital or higher depreciation costs in the case of oversupply.

Yet only a minority of Australian wholesale distributors have managed to integrate automation between ecommerce shopfronts and internal business systems.[8] One way to overcome this is by adopting cloud solutions with in-built interoperability, vastly reducing the amount of manual systems integration and the downtime associated with connecting platforms to one another.

In fact, adding an ecommerce front-end without sufficient ERP integration can prove a death-knell for overconfident distributors. For both retailers and distributors, ecommerce success relies on two key factors: stock availability and prompt delivery.[9] An ecommerce front-end which generates huge order volumes, yet still relies on manual processing once each order reaches back-end logistics, will not be able to deliver on either. Automation cannot be simply treated as a means to cut costs—something which 53 percent of distributors worldwide already recognise[10]—but as the linchpin of any sustainable growth strategy to wholesale distribution.

Wholesaler customers, as we explored previously, will have higher expectations of fulfilment speed and accuracy when it comes to ecommerce than for more traditional channels. They will also, in most cases, be relying on those expectations being met in order to keep their consumers satisfied. In other words, wholesale distributors must get ecommerce right the first time—or risk irreparably damaging not only their, but their customers' and suppliers' reputations for on-time and accurate delivery.

Wholesale distributors who do invest in end-to-end ecommerce integration, selecting cloud solutions that minimise incompatibility and speed up deployment, will find their retailer and supplier relationships much stronger and more profitable for all parties. But a flexible, scalable ecommerce platform does more than ensure the longevity of future sales—it lays the foundations for wholesale distributors to sell direct to consumers themselves.

[8] Frost & Sullivan, 2014.
[9] Vermeulen, 2014. From the cloud to your customer's doorstep. Page 10.
[10] MDM 2016. Page 9.

Chapter **3**

WHEN WHOLESALERS GO TO MARKET

Once wholesale distributors start selling online to their B2B buyers, why not sell directly to consumers as well? Cutting out retailers is a tempting proposition, since ecommerce allows distributors to access the higher margins of direct B2C sales without heavy investment in stores or other physical sales channels. Revenue growth is a top priority for more than 63 percent of distributors worldwide this year[11]—and ecommerce offers a way to do so on not one, but two fronts.

However, this should not come at the expense of distributors' existing B2B sales. Wholesale distributors can maintain their retailer relationships by using ecommerce to target consumers whom, because of price point or location, retailers may find it unprofitable to reach. If handled strategically, wholesaler "web-shops" can work together with retailer outlets to provide a truly omnichannel experience for consumers —boosting sales for all parties by making products available through the full range of offline and online channels.

There is one fundamental catch to this omnichannel dream: B2B and B2C ecommerce are by no means the same. Wholesale distributors already face challenges with integrating online procurement with their back-end systems: what happens when they also have to introduce customer service, returns, and digital marketing into the mix? Consumers order in far different quantities and frequencies to B2B buyers, meaning any back-end ERP must be able to simultaneously tackle large numbers of small orders and small numbers of large orders. And while B2B buyers prioritise reliability and speed when it comes to front-end user experience, consumers expect all that in a visually attractive and interactive package—something few wholesale distributors have much experience in.

If they are to "double down" on ecommerce for both B2B buyers and direct-to-consumer sales, wholesale distributors must focus on three main things: flexibility, compatibility, and visibility.

Ecommerce front-ends and ERP systems must be flexible enough to scale up and down not just in terms of raw volume, but also size and frequency of orders. Automation is key to doing this: a distributor's ERP must be independent enough to adjust inventory levels, replenish stock, and facilitate high-accuracy deliveries with minimal human

[11] MDM, 2016. Page 7.

intervention between it and the ecommerce front-end. The only ERP systems capable of doing these are those in the cloud, where capacity and processing power can be brought online as soon as they are needed.

Distributors must only adopt ecommerce and ERP platforms which are highly compatible, not just with one another but with systems used by B2B buyers and suppliers. This ensures as efficient a flow of both products and supply chain information from suppliers to distributors to retailers and consumers. It also supports future growth as distributors add buyers, suppliers and channels (such as new website or even mobile apps) to their operational networks.

Finally, distributors need data from these platforms that is completely visible through every step of the process. Without visibility into end-to-end operational data, distributors will struggle to make sense of how efficient or profitable their supplier and buyer networks are, with no means to further optimise or automate these processes. Data visibility is also crucial to tracking order performance. This is particularly important for distributors going direct-to-consumer, who need to provide far higher-touch customer service and support than for B2B buyers.

Most wholesale distributors will not transform into B2C “web shops”, nor should they seek to. Distributors’ core competencies remain in their role as connectors: ensuring swift delivery of products, cost-effectively and at scale, from those who produce them to those who seek to purchase them. Everyday consumers can, and should, make up a portion of the latter category as ecommerce lowers barriers to sale and delivery. But distributors should focus on the technology fundamentals—namely, using the cloud to integrate ecommerce platforms with agile ERP solutions—before they expand from wholesale to web-shop.

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