Whitepaper

Innovation in distribution

How to remain relevant and optimize operations in an ever-lean landscape

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Table of Contents

Page 3
Introduction: Embracing disruption within the distribution industry

Page 4
Areas of opportunity: How to reimagine distribution's role

Page 6
The method: How to build a direct-to-consumer strategy

Page 7
Measure and optimize to go the distance

Introduction: Embracing disruption within the distribution industry

Coronavirus has brought the direct-to-consumer (DTC) business model into sharp focus for manufacturers. As storefronts shut down, and state and local lockdowns kept shoppers in their homes, many swapped in-store purchases for online shopping.

But how can distributors remain relevant in this ever-lean landscape?
In reaction to current market conditions, manufacturers are building fully integrated distribution channels which shrink the supply chain. This simplified DTC model is set up by using data to expose and target high-value segments and the rewards are significant. 100% of gross margin can be retained, market reach expanded, and capital expenditure reduced.

Disintermediation is challenging for distributors, but it is possible to add value and even thrive by making key operational and strategic changes, and by capitalizing on strengths such as deep product knowledge, service capabilities, and technical expertise. Manufacturers need to outlay significant capital to possess these advantages.

The hurdles are surmountable. By moving quickly, it is possible to increase market share and increase tight margins, create deeper customer relationships, and retain and seek new competitive advantages by adopting smart technology solutions.

This guide will help you to map out a bold strategy, fast. It covers:

- Areas of focus and opportunity for distributors
- Components required for a DTC strategy
- Best practice for continuous optimization

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Areas of opportunity: How to reimagine distribution's role

Wholesale distributors must audit, pivot, and enhance their technologies and processes to provide an exciting and useful proposition for customers.

Find customers: Enrich data to unlock commercial opportunities

Creativity with data is a necessary growth tactic, says the founder of PipeCandy (a DTC consulting firm) Ashwin Ramasamy. PipeCandy has worked with major distributors like UPS, Australia Post, Royal Mail, Post Canada and others.

"The whole point of DTC is the feedback loop and the speed of reaction," he says. "It's one thing to launch in the DTC channel and it's totally another to have the data and analytics backbone in place to take advantage of all the data that now comes in because the brand is in direct conversation with the customer and the prospect."

Improving the sophistication of data and analytics delivers intelligence to differentiate products and services and strengthen customer pull. Making investments here ensures visibility of sales force operations, pricing, and other areas of customer demand.

Anecdotal product knowledge and analysis of historical data can draw out valuable market insights to inform a distributor's scale-up strategy. What does and doesn't sell in specific markets? Which customers are worthy of more focused efforts to yield the best profit? Which markets have high earning potential and are ripe for a potential reconnaissance for M&A opportunities? The possibilities are expansive.

Attract customers: Improve technology to enhance buying experience

Distribution is about building and maintaining customer relationships, but now there is a need to deliver an elevated and personalized customer experience. Distributors need to think beyond meeting customer needs and instead find ways to influence customer needs through innovation.

“One way distributors can get ahead of the curve is to use modern methods that are faster and more data-driven than traditional surveys and focus groups“ Ashwin advises. “For instance, PipeCandy helped a large cosmetics company and a vegan sweets brand to formulate their products and go-to-market strategies by analyzing their customer reviews for product feedback. We filtered through to the substitutes they bought and the reasons why to inform their product marketing strategies in a targeted way.”

And thinking along the lines of emerging personalization requirements like veganism, cruelty-free, and gluten-free, investing in data science can keep distributors up-to-speed with consumer interests as they evolve.

A focus on the consumer-experience should look to cement the Internet of Things (IoT) within its strategy, allowing distributors to use connected devices, products, and tools equipped with sensors that talk to each other, collect, and store data to deliver insights.

Retain customers: Add more value to services

Although distributors might not recognize servitization as a term, it is likely that many have already incorporated simple value-added services—such as product selection, picking, packing, and shipping. However, there are advanced services that distributors could consider to increase profitability and differentiate themselves from the competition. These could include:

- Product installation and component assembly
- Product customization
- Field service, maintenance and quality inspection
- In-house repair
- Just-in-time delivery
- Consulting
- Training and education

Distributors can also consider creating their own brand of consumer-packaged goods using existing knowledge of product sales in the market. Amazon is a perfect example of this, using sales knowledge to build their own line of branded goods at competitive prices.

Though the e-commerce channel is critical for a DTC strategy, it shouldn’t be the sole focus. “Even further, distributors must become more robust in their omni-channel marketing strategies” says Nicole Reyhle, founder of RetailMinded.com.

“Historically, we have talked about omni-retail, which means the connectivity of shopping online or in-store and managing inventory in real-time across any location. Now you need to be omni-centric, because that puts that customer intel into further use and adds clarity to your online digital marketing alongside your real-time inventory management,” explains Nicole, founder of RetailMinded.com.

“With data science tech, distributors can also discover which influential blogs and review channels sway the decisions of customer communities”

Ashwin Ramasamy
Founder, Pipecandy

The method: How to build a DTC strategy

Digitising is not an option but a necessity for distributors to sustain a business. In fact, a Logistics Management survey[1] shows analytics will be the leading technology investment for supply chain management over the next two years.

This is where distributors should channel resources to reveal new growth opportunities:

Hiring and training talent

Technology-savvy employees will be required moving forward. Be sure to include staff training as part of the transformation plan. Also factor in the time and costs for hiring new team members. Even the best-laid strategies fail without equipped and empowered people resources.

Smarter customer data

Taking advantage of servitization requires more than new ideas. Look at business management solutions that can proactively manage data to provide a view of all actions that are happening or needed within the organization. This information provides insights to identify where new service opportunities exist. Digital transformation makes it possible for greater operational flexibility and insight into customer need. Distributors can be online 24/7, offering customers a self-service experience where they can place orders, update quantities, and schedule at their convenience.

Removing silos

Wholesale distributors must update legacy siloed systems that prevent information and insight from being used across the business. There must be transparency throughout the company to identify opportunities and risks to make the best use of data. Employing a business management solution that integrates all business functions and facilitates collaboration is imperative to keep execution moving smoothly.

A business management solution with cloud connectivity gives access from any device with an internet connection. This type of "always-on" access can be the difference in business continuity, as the coronavirus pandemic has taught us. Business leaders can make informed decisions on-demand as conditions change. Furthermore, the automation technology that is built-into business management software ensures critical office tasks can still happen without staff present to manage them.

As Nicole explains, "Connectivity remains the number one concern that wholesalers need to unravel because without it you lose the opportunity for sales. Connectivity demands clarity across all touchpoints."

Automation

Real-time analytics are crucial for a wholesale distributor with a lot of moving parts; it is an essential tool to handle logistics in an all-hours agile manner. Automated alerts inform actions based on changes in demand or other factors. With easy-to-use data, in conjunction with analytical capabilities, distributors can better plan and forecast demand (improving customer service and reducing costs) as well as inform changes in workflows, such as combining shipments.

Pricing strategy

A flexible, well-informed pricing strategy is critical in an evolving industry. Distributors are particularly challenged with optimizing tight margins, balancing retailer relationships, and creating an effective strategy that keeps sales flowing through the pipeline.

There is technology to help distributors in this space also. Configure, price, quote (CPQ), dynamic pricing, and pricing optimization software uses AI and automation to:

- Monitor specific scenarios and build a list of scenarios and factors that raise red flags for an organization. A pricing plan can then be built for each scenario
- Build flexibility to keep up with market and industry demands. It creates flexible pricing processes to adjust to the sometimes-daily changes in business circumstances

Measure and optimise to go the distance

The distribution industry must redefine success and strike out as its own self-contained proposition for customers.

Siloed departments must align if they are to achieve the digital transformation such customer-centric personalization and optimization depends upon.

Objectives and key metrics such as customer satisfaction and value delivery, must be aligned. Every part of the business needs to be measured to see its role reflected in the 'big picture' value chain and to identify the opportunities for business. The goal is to continuously monitor, implement targeted testing, and build a new funnel.

Activate continuous monitoring for optimization
Deepen customer relationships and better returns will be achieved. Make optimum use of data you collect to create an ever-sharper picture of customers. The insights gained from this data analysis can help to fine-tune and differentiate your direct-channel product offers, promotions, and features.

Enhancing ability and accuracy in delivering the products customers want, when and how they want them, improves conversion, growth, and customer loyalty.

Successful digital transformation requires distributors to achieve improvement in customer experience across all departments. Technology isn't one size fits all—each business needs to find their own way to make sure their digital transformation results in positive customer outcomes—the key metric that points to a successful model.

Execute targeted testing
Customer segments that were poorly served historically, or ignored by traditional distributors, are ripe for re-targeting. For example, the telecommunications giant Verizon launched a startup called 'Visible' to offer no-contract mobile phone service subscriptions for a flat fee—only available to those who purchased a specialized app. This model competes mainly with smaller-brand, low-end providers that are not seen as a direct threat to Verizon's globalized distribution network.

Starting in 2011, luxury vehicle brand Mercedes-Benz chose to develop direct distribution capabilities for electric bicycle sales under its Smart brand. This is an effective example of an automobile company preserving its traditional distribution network for major lines, while pushing new capabilities and infrastructure that enables sales directly to consumers rather than through traditional dealerships.

Build a new funnel
Re-imagine the buyer journey by starting with a database of customer behaviors and desires. Then, built towards a seamless e-commerce channel alongside your B2B efforts. It will require the capacity to process orders at volume and with accuracy that surpasses human capacity alone.

Consider these best practices when building a new funnel:

Managing volume
Electronic Data Interchange (EDI) can help to do more with less. EDI is a method of communication that, when integrated into an ERP solution, allows users to share and exchange necessary order information (i.e., addresses, items, quantity) with customers. EDI is the standard of business communication today. Automating volume management eliminates the potential for human error from manual order entry. An ERP with integrated address verification can confirm that each address is valid, and staff can more easily manage the small number of invalid addresses without losing money and eroding margins.

Streamlining warehouse processes Future-proofing warehouses starts with exploring ways to pull bulk products. With an integrated warehouse automation system, orders can be pulled on an automated schedule, based on a summary of how they are categorized and ordered. Bulk pulling capabilities will automate the entire process and pull orders as they stream in throughout the day, versus waiting on an operator to determine when to pull them. An ERP solution can generate pick instructions for the warehouse system as new DTC orders come in every 30 minutes, as an example.

Managing retailer requirements
A robust business management solution can eliminate hassle with parcel tracking and packing lists. If integrated with a parcel solution or other third-party, everything can be driven by a single source. Packing slips can also be customized as needed for individual orders and created directly from the central system.

Thriving alongside disruption
It's a new ball game for distributors, but many of the same rules and equipment still apply. In fact, a good place to start when considering where to invest in technology is to research service providers that easily integrate with your existing platforms. Onboarding is simple, which means a quick start to building your return on investment.

Technology is the only answer to thrive alongside an ever-changing industry. Business leaders must get strategic in the types of technology they choose to ensure the business is adequately equipped to sustain.

Sage offers the foundational building blocks distributors need for a strong DTC strategy:

- Increased visibility to enhance decision-making
- Strong control of workflows
- Increased efficiency for smoother operations
- Forecast demand to drive out efficiencies

Sage trusted implementation partner

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