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Managing the Extended Enterprise for Midmarket Wholesale Distribution

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This Aberdeen Executive White Paper, sponsored by NetSuite, a provider of hosted integrated enterprise business applications, focuses on the challenges facing the small and midmarket wholesale distributor, as well as the role of technology in addressing those challenges. Aberdeen field research conducted for this paper covered a range of midmarket distributors, differing in size and their uses of technology in the conduct of their business.

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Managing the Extended Enterprise for Midmarket Wholesale Distribution

An Executive White Paper

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Preface

Wholesale distribution constitutes a vital link in the economic value chain. This global industry includes businesses that purchase merchandise directly from manufacturers in large quantities, generally store it, and then sell that merchandise to retailers, manufacturers, other wholesalers, or other customers. As a general definition, wholesalers are companies that resell products to another intermediary; distributors resell products to the final customer. Business-to-business wholesale distribution in the U.S., which exceeds $680 billion a year in total[1], accounts for 7% of the gross domestic product and one in every 20 U.S. jobs, according to Pembroke Consulting[2]. Moreover, 75% of all product sales occur through distributors.[3]

In the wholesale distribution sector, most workplaces are small, employing fewer than 10 workers[4]. Both these small and the midsize enterprises ducked the enterprise resource planning (ERP) wave of the mid-1990s and did not succumb to the cost structures or the risks that their larger brethren undertook. Today, many of these companies are in need of different delivery methods, more current or robust technology, such as the Internet, and often more sophisticated and flexible business solutions.

This Aberdeen *Executive White Paper*, sponsored by NetSuite, a provider of hosted integrated enterprise business applications, focuses on the challenges facing the small and midmarket wholesale distributor, as well as the role of technology in addressing those challenges. Aberdeen field research conducted for this paper covered a range of midmarket distributors, differing in size and their uses of technology in the conduct of their business.

The Wholesale Distribution Market

Small and middle-market companies have many of the same business requirements as large corporations as they face the complexities, shrinking margins, and cost of assets that occur within the distribution industry. Enterprise vendors that in the past tried to downsize large product suites to fit the small and midmarket whole-

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[1] U.S. Department of Congress, Bureau of Economic Analysis, 2003. Gross Domestic Product by Industry. 2001 (latest) figures.

[2], Adam J. Fein *State of the Wholesale Distribution Industry* (Philadelphia: Pembroke Consulting, www.pembrokeconsulting.com, December 2003)

[3] Adam J. Fein *State of the Wholesale Distribution Industry* (Philadelphia: Pembroke Consulting. www.pembrokeconsulting.com, December 2003)

[4] Bulletin 2541, U.S. Department of Labor, Bureau of Labor Statistics

sale distributor often found their work was in vain — the smaller businesses needed the same core functionality as the large businesses. What they did not need, however, was the complexity that traditionally accompanied these enterprise solutions and their deployment. As middle-market environments, these companies are often squeezed from both the manufacturers that supply them and the customers that they supply.

Facing the same requirements as large companies for almost all aspects of business, these enterprises face the challenges of smaller budgets, fewer IT resources, and zero tolerance for risk. Aberdeen has identified three sets of challenges that pertain to the wholesale distributors today, which when left unattended, can adversely affect productivity gains and growth plans. These challenges include:

1. Business application issues — Integration across the applications used to conduct business, complete product solutions to accommodate the breadth of the company's business processes, and flexible applications to conduct their businesses as they desire

2. Efficient management of the business processes and communication between both their manufacturers and their retailers

3. Better leveraging of technologies and deployment options for competitive advantage

To remain competitive, some wholesale distributors are turning to Web-based communication between themselves and the manufacturers for forecasting, portal technology to better service the retailers that they supply, and the use of hosted solutions to outsource the cost of IT and software maintenance. This trend is seen with not only smaller distributors but also large companies across a variety of industries.

The Challenge of Distribution and the Role of Cross-Enterprise Applications
The business of wholesale distribution of either durable or nondurable goods represents an often far-flung series of complex relationships and communication requirements (Figure 1). The distributor often needs to see into the manufacturer's supplier network to ascertain the viability of a delivery date, and at the same time provide its constituents with 24×7 access to product delivery information. For example, a distributor of bicycles to 1,800 bike stores across the U.S. has to forecast its view of demand to a manufacturer in Taiwan. This manufacturer then communicates with its raw materials and parts suppliers and builds the bikes. The bicycles are then boxed in containers for their 12-day voyage to ports in the U.S., shipped to one of three warehouses, and from there delivered to the stores in response to purchase orders. By using electronic means of communication in the distributor-to-manufacturer-to-supplier demand chain, a 90- to 120-day lead time from order placement to delivery to the dealer has been decreased to 45

Figure 1: The Wholesale Distribution Value Chain
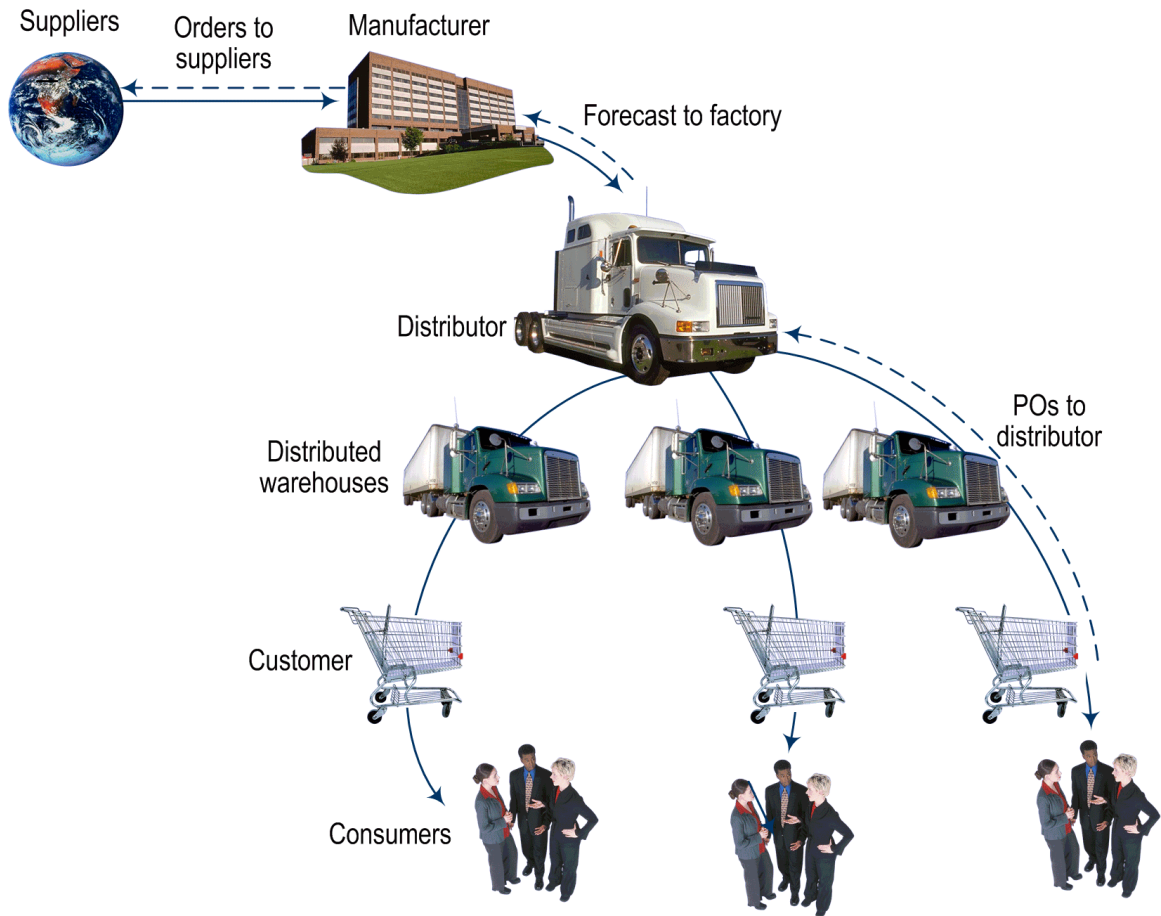
days. Yet today that distributor has solely two IT professionals and estimates that only about 35% of its retailers are Web connected so far, creating reliance on phone or fax order placement from the retailers themselves[5].

Integration of Business Processes Is Key to Distribution Market
Through enterprise application suites, order entry, financial management, operations, inventory updates, and customer relationship and service can all be integrated as business processes. Lack of integration adversely affects intelligent decision making because data is not automatically propagated to the appropriate applications. For example, an order placed through a Web store or via EDI should automatically be entered into the accounting application followed by updated in-

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[5] The company uses Microsoft Business Solutions' Axapta for its enterprise business management.

ventory. A user of the customer relationship management application should be provided a single view of all issues affecting a retail customer — not only new sales opportunity information but also the customer's receivables status that might preclude a successful follow-on sale.

A Texas distributor of fresh-cut fruit and vegetables reported growth from $4.9 million in 1999 to $25 million in 2003. The company provides items such as fresh-cut melons, citrus fruit, apples, berries, carrot and celery sticks, as well as combinations of these items in retail and food service pack sizes to grocery customers such as Albertson's and Wal-Mart. It has no IT staff and faces issues stemming from the lack of product integration. Orders arrive through iTrade and must be manually rekeyed into both the accounting system (Intuit's QuickBooks) and the production system, allowing for the possible introduction of human error.

Done manually or in stand-alone applications, repeated data entry results in lost productivity time and increases the risk of inconsistencies, as every touch point is either an opportunity for lost paper or a data entry error (Figure 2). Additionally, lack of a common repository of information makes it difficult for the distributor to recognize and target additional revenue and savings opportunities, recognize top-tier customers easily, and collect metrics and analytics for improved decision support.

Figure 2. Manual-Driven Processes
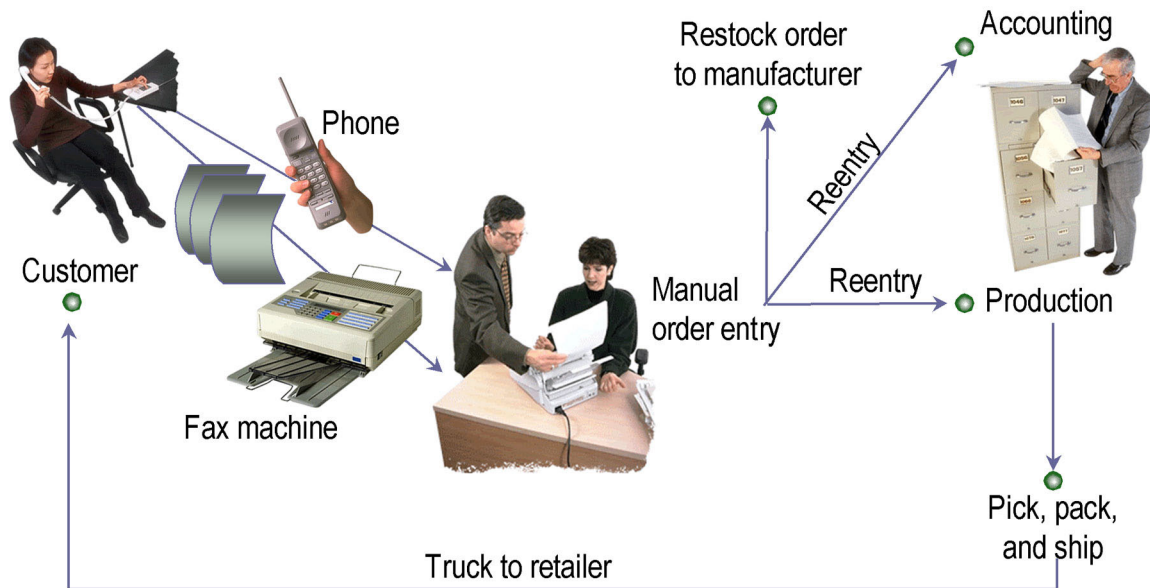
Source: Aberdeen Group, January 2004

Even smaller companies that sell software and services seek business process integration: ID8, a $5 million reseller of Autodesk software in California, found the lack of integration between BusinessWorks and Goldmine, its previous business applications, counterproductive; therefore, the company switched to NetSuite for its integration of business processes. In the past, the company could not match quotes generated in one system with quotes closed in the other, making loss analysis impossible. Other features drove product selection at ID8 — the sales commission management module was key to the seven sales representatives who worked on a quota. In moving to the hosted model, the value-added reseller (VAR) was able to shed its technical outsourcer and use the employee who spent 50% of his time managing the network in different ways.
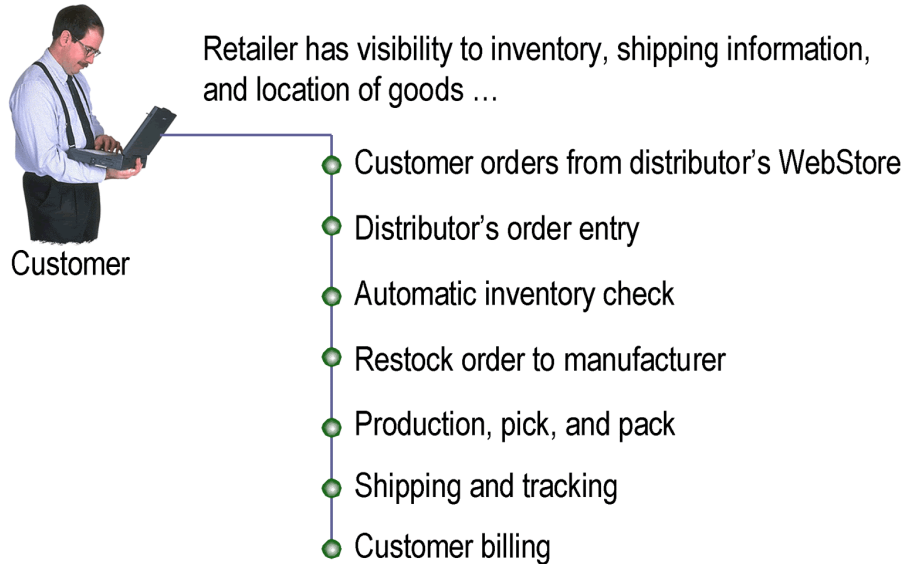
Distributors seek a comprehensive solution; the business applications have to address the breadth of their business and be flexible enough to accommodate those areas where their practices may diverge from the norm. Hence, the capability to customize their applications, whether the solutions are self-managed or hosted online, and automatically carry forward the customizations with future releases of the application is critical.

Communicating across the Value Chain
Cross-supply chain communication for distributors is compounded by the many diverse links in the chain, the global nature of today's manufacturing and distribution, the variable data requirements of the different parties, and the methods that best serve each in accessing and disseminating information.

The replacement of faxed communication with Web methodology and easy-to-use portals provides visibility into product availability and delivery data, increasing the response time and the accuracy in commitments from the suppliers to the manufacturer, the manufacturer to the distributor, and the distributor to the retail establishments (Figure 3).

Web-based "storefronts" through which retailers can order products generally simplify the selling process for distributors. The ability to catalog items and change and update that Web catalog easily increases the accuracy in the order entry process, although the benefit is primarily derived if the order can be automatically linked to order entry and inventory management software. Only when all aspects of the customer — previous buying history, current account status, outstanding issues or complaints, and status of existing orders — are consolidated and viewable from one central solution is the distributor guaranteed one view of the customer, a benefit to customer control and ongoing satisfaction.

Figure 3. The Automated Distribution Value Chain

Retailer has visibility to inventory, shipping information, and location of goods …

Customer

- Customer orders from distributor's WebStore
- Distributor's order entry
- Automatic inventory check
- Restock order to manufacturer
- Production, pick, and pack
- Shipping and tracking
- Customer billing

Source: Aberdeen Group, January 2004

Deployment and Implementation Choices

Wholesale distributors have no tolerance for risk in the deployment of new applications or technologies. The solution must be able to be deployed rapidly, without implementation cost overruns. It has to work as expected — and to provide business value quickly. Among the distributors interviewed for this research, many chose a hosted solution — an application that solely runs on the Internet, leasing, as it were, access to the application and putting all application support, upgrade management, and systems administration in the hands of the hosting provider. This approach represents a significant advantage to smaller distributors because their IT staff are often small or nonexistent, and those staff members who are technical can better be applied to sales-specific activities, such as keeping the Web storefront up-to-date, rather than tending to hardware, bug fixes, upgrades, and the like. The choice of a hosted business solution provides the advantage of predictable spend and predictable services levels to the distributor.

Case in Point

Auto Accessories, a Cincinnati-based distributor faced with a $150,000 customization bid to upgrade an aging FourSite application, moved from the in-house client/server application to NetSuite, a hosted enterprise application that covered the areas the company was going to customize: United Parcel Service integration to manage and provide customers with tracking information; integrated credit card processing; bar-code scanning; and automatic generation of purchase orders for

drop-shipping. The hosted environment provides visibility between the two warehouses in Cincinnati and Fresno, CA, adding an additional savings of the previous T-1 line. The company reports a planned savings of at least $25,000 in its initial three-year contract for NetSuite services.

Orders are predominately telephoned in to entry takers, and as only about 25% of Auto Accessories customers are Web attached, telephone orders may remain the predominate order entry method, though the company expects increased use of its NetSuite Web store in the future. Use of this solution will alleviate one previous issue: with the prior application, orders came in via the Web store, the telephone, and fax. Only a phone call to live people generated instant order entry into the system and inventory visibility. Although manual entry will still occur, the Web purchases will automatically be processed, product availability will be assessed, and updated inventory adjustments will be made.

MiniCo, Inc. a Phoenix-based wholesaler of products and insurance for self-storage facilities, has 400 products in inventory that provide security for users who use self-storage for their personal goods. The company moved to NetSuite from a failed in-house Oracle 11i implementation that was an attempt to replace the mainframe-based legacy system. In addition, MiniCo reported that the unanticipated costs of the attempted in-house solution would have added more than $100,000 in payroll costs to the cost of the implementation. Today, the insurance part of the business runs on Unix systems, and the product distribution portion is managed through NetSuite. Although the company sought both the data control and the ability to customize an in-house solution, it reports that the cost savings outweighed that concern — and NetSuite has since increased the ability for customers to have the customization they seek while maintaining the support benefits of the hosted model.

Aberdeen Conclusions

Distributors — the "men in the middle" — are successful when they can turn products around very, very quickly for their constituents — for fresh foods and auto parts, the same day or overnight. The automation of each touch point — from order entry to inventory replenishment streamlines the many diverse processes within the distributor's domain. With the NetSuite solution, distributors can present their products for order to retailers over the Web; accept and process those orders; and with integrated UPS support, manage and track the shipping of the products. Inventory is updated, and all financial transactions are automated for the entire order to cash cycle. Integration, so often lacking in small and midsize businesses, is central to this cross-business process transparency. Only through such

capabilities is one consistent, accurate view of the customer attained and always available.

Inventory cost containment requires streamlining from order to fulfillment for a quick turnaround to customers. As distributors strive for just-in-time turns, they are aided by automating features, such as serialized inventory, units of measure, and bar coding. NetSuite's contribution to the wholesale distribution industry is its integration of these key business requirements; provision of integrated customer, supplier, and partner relationship management with the accounting and analytics functions; and provision of the ERP suite as a hosted solution. Its customers cite the hosted environment as key in lowering ongoing IT costs.

With the advent of increased Web presence and Web commerce, manufacturers can get closer to their customers more directly, yet retailers often prefer the service and support they receive from their distributors. Following recession-based down-turns, Pembroke now forecasts that revenue for distributors will rise 5.6%, with distributors selling into industrial and construction markets growing about 5% in 2004[6]. A concomitant growth in judicious use of technology by wholesale distribu-tors will allow them to increase their competitive advantage and maintain and en-hance their partnerships with their extended supplier and customer networks.

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[6] Adam J. Fein, *What's Ahead in 2004* (Philadelphia: Pembroke Consulting, www.pembrokeconsulting.com, December 2003)

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Based on a comprehensive analytical framework, Aberdeen provides fresh insights into the future of computing and networking and the implications for users and the industry.

Aberdeen Group performs projects for a select group of domestic and international clients requiring strategic and tactical advice and hard answers on how to manage computer and communications technology. This docu-ment is the result of research performed by Aberdeen Group that was underwritten by NetSuite. Aberdeen Group believes its findings are objective and represent the best analysis available at the time of publication.