

WHAT HAS CHANGED IN WHOLESALE DISTRIBUTION: 2015 & BEYOND

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Report Highlights

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In the face of today's customer-connected era, top performing wholesale distributors invest in process change & technology at twice the rate of their peers.

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Top performers are 3.3 times as likely to reduce costs by driving down excessive inventory, both staged and in-transit, in today's digital wholesale environment.

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Top performers are 90% more likely to deploy mobility to direct-to-store delivery programs, and are 50% more likely to move mobility beyond the warehouse to sales & support.

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Only process changes and adequate investment in all areas of the distributor's business will provide the necessary clarity to make decisions that are worthy of the investment dollar and that are transformational in nature.

Shifting customer requirements across end-to-end channels, costs, and activities are prevalent in the digital era. Online consumers are redefining the fulfillment landscape, and wholesalers need new processes and technology to unlock the value of integrated business data. Top performers are excelling at both cost and service metrics in today's more complex wholesale business network.

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In the face of today's customer-connected digital era, there is an increased pressure for wholesalers to find new ways to improve margins. Top performing wholesale distributors invest in process changes & technology at twice the rate of their peers. They are embracing change.

Customer-Connected Commerce Transformation in Wholesale: The Business Case

In recent related research ([B2B and B2C Convergence: A Call to Action](#)), we explain how companies facing B2B and B2C convergence plan to address growing eCommerce requirements; competition from Amazon; and the fact that price and service compression is prevalent. These new requirements are inspiring rapid change and transformation across the wholesale distribution segment.

Customer-connected orchestration in wholesale distribution is a critical strategy for enterprises looking to reduce costs and improve operational performance in the context of their increasingly complex and multi-tiered global supply-demand networks. The importance is only amplified for those with global supply chains and partners. In the face of today's customer-connected digital era, top performing wholesale distributors are investing in technology at twice the rate of their peers. These leaders are using automation to provide integrated workflows and collaboration to all parties in the demand-to-fulfill network, across each inventory and fulfill/deliver stream.

This report examines the growing need to change processes and invest in technology to enable end-to-end wholesale business transformation and integration. To address new customer requirements in the customer-connected era, customers expect orders to arrive complete and on-time regardless of the fulfillment flows involved, leading businesses are investing in change and technology at twice the rate of their peers and are successful in the key metrics. By becoming more automated and integrated in capability and analytical tools, these wholesale leaders are more customer-focused and operationally ready to

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provide a seamless, connected, and unified customer experience.

New Omni-Channel Demands Require Increased Visibility and a Control Tower Approach

New wholesale logistics formats have emerged to address B2B and B2C eCommerce in a global marketplace; they are more fully described in the sidebar on the right. These new formats are having an impact on physical order, inventory, and fulfillment processes. Key areas of change under new omni-channel inventory and fulfillment trends include:

- ➔ eCommerce and multi-channel or **cross-channel demand impacts 87% of companies**
- ➔ **65% bypass their own DCs** and ship direct-to-store via others (vendors, suppliers, 3PLs, break-bulk)
- ➔ **61% have direct-to-home delivery** models (this is up from only 30% as little as 2 years ago)

In order to succeed, many wholesalers are applying the Control Tower Approach (defined in sidebar). This approach is transformational and inspires companies to invest in new, streamlined, and collaborative technologies. For distributors, success in enabling and unifying their business strategies requires eCommerce solutions that support process change and that are in sync with B2B and B2C customer flows and requirements. These strategies include: real-time digital catalogues, self-service order processing, integrated and synced channels, manufacturer data maintenance, and non-stock collaborative product expansion.

New Omni-Channel Fulfillment Trends across B2B & B2C Companies

- 61% shipping direct-to-consumer
- 60% shipping to or through a traditional distribution center
- 56% shipping through vendor DC bypass, 3PL, or e-fulfillment provider
- 53% shipping through a break-bulk facility (i.e. cross dock, transload, or DC flowthru facility)
- 38% shipping direct-to-store

Source: Aberdeen Group, 137 Companies

Control Tower Approach

A set of integrated processes and technologies that support a seamless flow of product from source to end consumer, regardless of the global complexity or the sales and logistics channel preferences of customers.

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Leader Advantage Definition:

n = 95 wholesale companies

Leaders - Top 30%

- **95.4%** of outbound orders delivered to customers complete and on-time
- **94.6%** of orders received from suppliers complete and on-time
- **0.5% decrease** in total landed per unit costs in the past year
- **7.5% decrease** in the frequency of out-of-stock inventory in the past year

Followers - Bottom 70%

- **86.4%** of outbound orders delivered to customers complete and on-time
- **84.8%** of orders received from suppliers complete and on-time
- **8.5% increase** in total landed per unit costs in the past year
- **0.9% increase** in the frequency of out-of-stock inventory in the past year

Defining and Quantifying the Leader Advantage

Aberdeen used four performance criteria, covering key cost and service metrics, to distinguish Leader and Follower wholesale organizations (see sidebar, Leader Advantage Definition).

The gaps in performance between Leaders and Followers are significant, particularly in today's global market where 88% of companies are involved in global supply chains and address B2C and B2B channels.

Leaders are better at cost and service metrics. They are up to 3.3 times as likely to reduce costs by driving down excessive inventory, both staged and in-transit, and proactively responding to inbound and outbound customer-driven events. Multi-party collaboration with suppliers, customers, and partners has also become a catalyst for change and investment for companies in today's customer-connected wholesale environment.

Omni-Channel Customer Fulfillment Orchestration

The top 30% of wholesale companies, the Leaders, do much better on key metrics than all other companies (see next section for definitions). They have adopted advanced automation capabilities and are using this to better synchronize and address omni-channel eCommerce pressures.

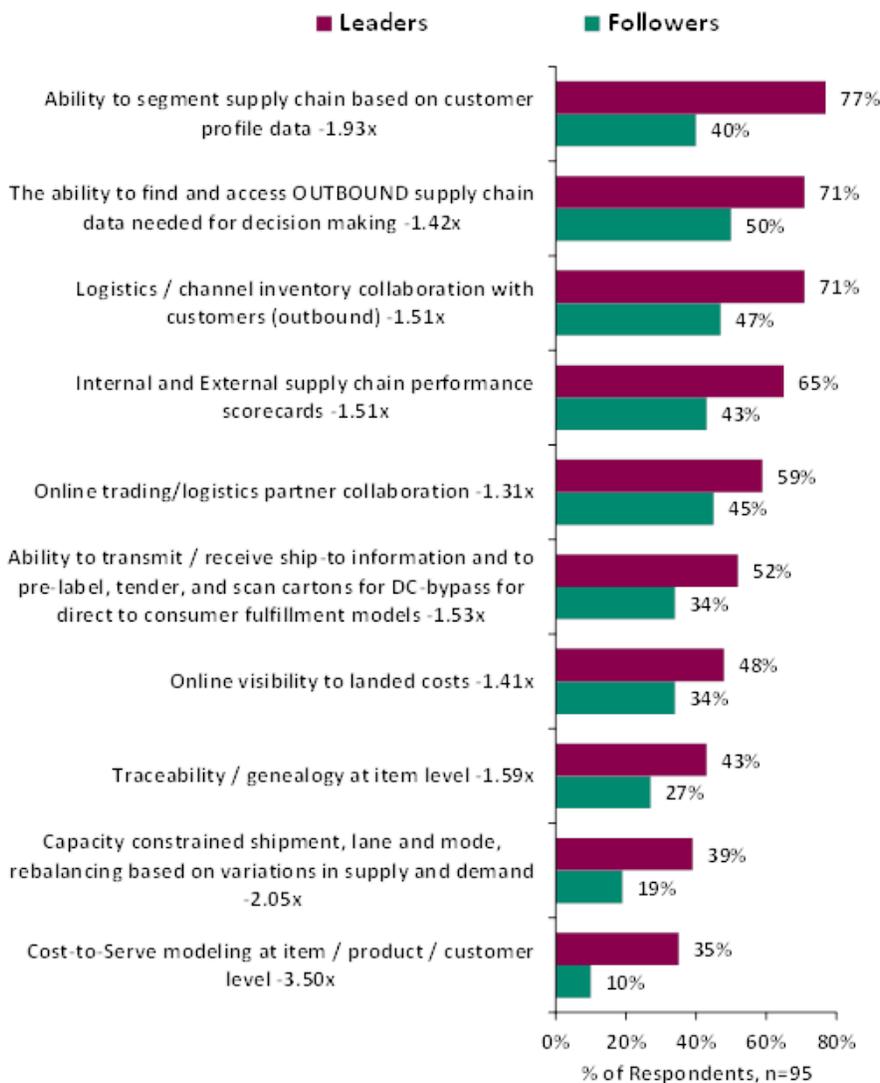
Across a variety of capabilities (Figure 1), the Leaders (the top 30%) are proving to be anywhere from 1.3 to 3.5 times as likely as the Followers (the remaining 70%) to converge B2B and B2C processes and improve synchronized omni-channel customer fulfillment.

There is a clear correlation that links the first item in the chart, *ability to segment by customer*, and the last item, *cost-to-serve (CTS)*. Indeed, when it comes to cost-to-serve (defined in sidebar

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page 6) we see that only 35% of Leaders and 10% of Followers have this capability today. This means that the Leaders are 3.5 times more likely than Followers to have this capability. For more details of CTS segmentation see [Supply Chain Visibility and Segmentation: Control Tower Approach](#).

Figure 1: Omni-Channel Customer Fulfillment Capabilities



Source Aberdeen, November 2014

Orchestrated fulfillment ensures operating flexibility in the context of emerging multi-channel logistics formats, growing global demand and supply networks, and new online omni-channel digital engagement platforms.

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Cost-to-Serve (CTS)

Cost-to-Serve involves linking financial costs and logistics activities together, in order to enable proper allocations to products, customers, and channels.

The top performing 30%, the Leaders, invest in technology to segment by channel and customer to drive competitive differentiation.

Inbound-to-outbound segmentation and cost-to-serve (CTS) require higher degrees of big data, collaboration, and analytics than have ever been required before. Even more rigor is required to proactively perform inventory and item level rebalancing in-transit, which only 23% of Followers can do. With such low inventory and item automation rates, we see that managing costs and rates by lane, mode, customer, and product for proper omni-channel fulfillment is limited. Linking these components from inbound to outbound is severely curtailed at even top performing wholesale companies.

When it comes to investment and change, the Leaders are also focused on supply-side activities. Next, we look at the specific supply network inbound orchestration capabilities of the top performers, and the degree of advanced automation that they utilize.

Supply Network Inbound Orchestration Capabilities

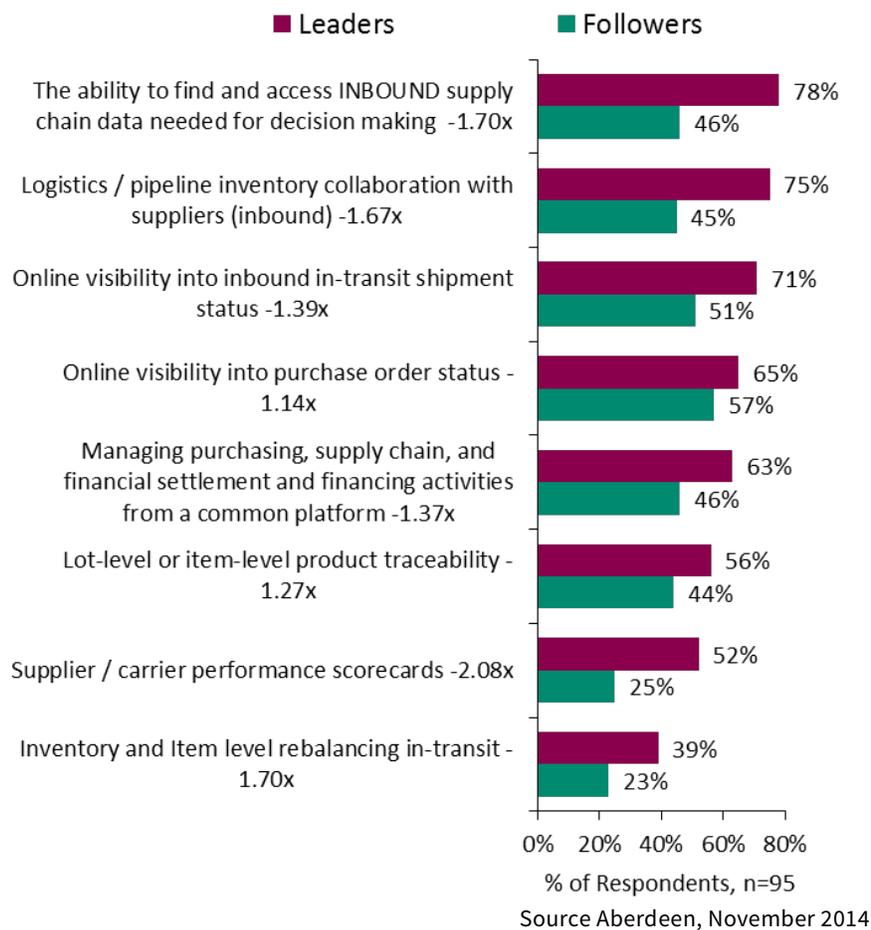
Many of the advanced capabilities from Figure 1, including customer or outbound order-to-fulfill orchestration, are linked via the inbound supply chain. These linked inbound capabilities are needed to unify wholesale distribution processes, visibility, and control, from source to customer fulfillment and delivery. A particular focus for organizations is to ensure operating flexibility and readiness across the customer-driven supply/demand distribution network, particularly given wholesalers are facilitating supplier or third party customer-direct shipments. Specific areas where the Leaders are more capable than All Others are illustrated in Figure 2.

For effective eCommerce, distributors need to support omni-channel social and mobile engagement and new business models and markets, and manage an extended ecosystem of suppliers and partners. But data integration processes, multiple

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supplier catalogs, inventory levels, contracts, customer information, content, and orders are often spread across multiple and disparate systems.

Figure 2: Support for New and Complex Supply Processes



All of these things impact the timeliness and accuracy of critical data. Inbound is often the first blind spot in CTS modeling, since costs and inventory are typically not tied to a customer or channel at that level in the supply chain. Segmentation and optimization require visibility on inbound, which is a big cost and volume category in terms of logistics, transport, and trade, as well as product and inventory related costs.

Deploy a solution that provides integrated workflows and collaboration with all parties in your demand-to-fulfill network and across each inventory and fulfill/deliver stream. A best practice is to provide internal as well as “outside-in” orchestration.

➔ [Related Research, “The Outside-in Approach to Order Fulfillment”](#)

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Top performers use a Control Tower Approach to leverage their outbound customer-connected capabilities; they also leverage the strength of their supplier and manufacturing partners and collaborative optimization technologies.

Basic operations of any kind normally include prepaid freight and third party carriers, which have their costs spread across an entire shipment composed of many products and customer-specific orders. When these inbound costs and events can be linked to outbound flows and requirements through delivery, then one can effectively close the inbound-to-outbound loop and between planning and execution.

Closing the Loop: Demand-to-Fulfill Omni-Channel Orchestration

How are the leading distribution companies addressing inbound-to-outbound activities under the pressures of emerging omni-channel logistics formats and under B2B and B2C convergence?

Referring back to the information in the *New Omni-Channel Logistics Trends across B2B & B2C Companies* sidebar (Page 4), we see how dramatically the wholesale landscape is changing.

The best practices exhibited by the Leaders widen the gap of capability to include more advanced details, like in-flight order/shipment rebalancing (Figure 3). Focusing on these capability gaps allows one to identify “visibility and cost blind spots,” and improve synchronization across the inbound and outbound supply chain.

The big data challenge is compounded when considering the requirement to link together both events and costs of orders/shipments throughout the fulfillment process. Additionally, product content can be extremely detailed, messaging and product information can lack cross-channel uniformity, and it can be difficult to address customer product and pricing requests in a timely or consistent fashion channel by channel. This requires a closed loop approach and the top performers, at 78%, are nearly twice as likely to “close the loop

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between planning and execution." Again, there is a crying need for granular bottom up aggregation of big data analytics to support these needs. This may be the most important capability of all to manage B2B and B2C convergence. We examine the specific steps for reengineering in [*B2B and B2C Convergence: A Call to Action*](#).

Key Takeaways and Conclusions

There are several process and technological practices that are identified to support omni-channel integration/synchronization and overarching operational agility, during both planning and execution.

This report elaborates on the concept of combining an overarching control tower approach and integrated set of platforms and technologies, into a unifying solution that addresses the multi-channel and B2B/B2C convergence challenge, across a growing supply-demand network. This integrated visibility and synchronization solution results in a single version of the truth. It provides a more seamless, connected, and unified customer experience that can address the shifting customer requirements across end-to-end channels, costs, and activities. In the list that follows, we take a look at some key factors that wholesalers should consider to obtain Leader status:

- ➔ **System integration is key.** The Leaders address manual processes by investing in automation technologies at twice the rate of Followers. For example, they streamline product and promotional content management. This has traditionally been labor-intensive and error-prone, with uncoordinated workflows for creation and approval processes and long launch cycles. To gain Leader status, look at new online systems and develop a hierarchically

Leader Capability Advantages

The Leaders are...

- **1.9 times as likely** to segment by customer
- **1.3 to 1.6 times as likely** to segment by supplier, partner, and product
- **3.5 times as likely to** conduct cost-to-serve modeling at the item, product, and customer level

compared to Followers.

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structured catalog; without this structure, it's difficult to display products and manage product information online.

- **Brand and product messaging should be consistent.** Lacking a unified view of data and processes for products, customers, suppliers, and orders means that the brand message gets confused. Customer service and satisfaction suffer, and marketing and sales opportunities for more profitable relationships are lost.
- **Advanced technologies are needed to unify wholesale distribution processes, visibility, and control.** There is a marriage of analytics and optimization tools with end-to-end collaborative technologies that is required to develop supply chain and organizational intelligence. Specific process and activity areas where the Leaders are more capable include those illustrated in the *Leader Capability Advantages* sidebar (page 9).
- **At 2 times the investment advantage, mobility solutions are key.** It is clear that the Leaders are more engaged and have invested (and/or plan to invest) more fully in real-time, mobile interactive technologies (see sidebar). Top performers are 90% more likely to deploy mobility to direct-to-store delivery programs, and are 50% more likely to move mobility beyond the warehouse to sales and support. Up to 87% of the Leaders have a mobile solution now, versus 45% of Followers, and an additional 37% of all companies plan investments within the next 12 months.

In conclusion, we illustrate how an integrated end-to-end solution, automation, and mobility enhance business revenue

Mobility Investment Areas:

- Real-time, event-driven warehouse processes
- Inbound processes like yard management and value-added services
- Outbound processes, including order picking and replenishment
- Dynamic inventory tracking for full visibility into pallet or container contents
- Improved monitoring, radio frequency support, and the automation of material flow
- Cross-sell and up-sell, for informed discounting decisions and improved sales coverage
- Faster problem resolution; order placement and tracking
- Better use of sales executive's time; rapid requests and approvals

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and allow for incremental sales performance. We also illustrate how backend systems and logistic flows can be enhanced to bolster operational readiness across both cost and service metrics in a growing and more complex supply-demand network.

Only full insight, process change, and adequate investment in all areas of the distributor's business will provide the necessary clarity to make decisions that are worthy of the investment dollar and that are transformational in nature. It is important that the wholesale distribution industry address these issues and embrace new strategies to become Leaders and confront the transformation changes for 2015 and beyond.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[Omni-Channel eCommerce: Order-to-Fulfill Solutions for Wholesale Distribution](#); November 2014

[Supply Chain Visibility and Segmentation: Control Tower Approach](#); August 2014

[E-commerce Supply Chain: Follow the Leader to Success](#); September 2013

[CSCO Priorities under Globalization: Cross-Border Transportation Strategies](#); August 2013

[The Outside-in Approach to Order Fulfillment: Providing a Seamless Customer Experience](#); April 2013

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