

An Epicor® White Paper

Growing a Modern, Integrated Distribution Business



Executive Overview

In recent years, distributors have seen their markets drastically change with new competitors and new product categories appearing almost daily, and customers wanting to change the way they buy products and services. And when markets change, distributors must change.

One thing most needed in any time of change is a way to think about the alternatives in front of you. This paper presents a way of thinking about how these alternatives serve to grow and defend your business.

The paper presents a framework of five objectives based on the customer lifecycle that every distributor should consider when making investment decisions for their business. Without being overly prescriptive, this paper attempts to provide a starting place for imagining how your choices will affect you, your customers, and your employees.

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Distributor Aspirations

What does a modern distributor look like?

Today's modern distributor is an increasingly technology-dependent, but customer-driven, logistics services firm. The logistics "back end" of the business uses information to keep orders, products and money flowing in a coordinated, timely manner. Meanwhile, tight integration connects vendors, service suppliers and customers into an efficient order-taking and fulfillment process.

The business "front end" for a modern distributor is usually composed of customers, vendors, activities and relationships supported by sales personnel, websites, eCommerce processes and custom services. Underneath all these activities resides a business system that provides overall coordination and meaningful visibility into this continuously changing flow of goods, services and information.

Like most businesses, distributors need stable growth and profitability, or the owners will choose to exit the business. Continuing efficiency improvements are needed to compete effectively in today's market and to fund the costs of acquiring new customers and expanding services.

What challenges does a modern distributor face?

Today's modern distributor faces challenges coming from many directions simultaneously. Some of the most serious challenges found at the top of recent surveys¹ are rising customer service expectations, a pressing need to find and retain qualified employees, changing business processes, and tight vendor and customer connections.

- ▶ **Customer expectations continue to rise** as Internet use continues to increase and a fast, efficient eCommerce experience comes to be expected in the B2B sector.
- ▶ **Finding and keeping qualified personnel**—business specialization and industry consolidation have necessitated a high reliance on hard-to-find skills. Fewer and fewer people have the specific skills and relevant experience for any particular job. It has become mission-critical to train and retain your best people.
- ▶ **High competitive pressure** driven by consolidation and "invaders" from adjacent markets drive business processes to become more efficient and use fewer resources. As a result, business processes have become more automated. High levels of process automation then change the business relationships between suppliers and customers.
- ▶ **Business relationships have become more integrated** as both customers and suppliers are driven to tightly link their automated processes together. (As relationships become more integrated, the chosen distributors obtain an advantageous position—and, their competitive pressures decline.) Tight integration is also less tolerant of errors, requiring robust processes and well-trained support personnel.

With pressures from so many directions, how does a distributorship find time to grow when it takes so much effort just to stand still?

This paper presents an integrated approach to organic growth defined from the customer lifecycle viewpoint, and uses business efficiency gains to balance the front-end investments needed to continuously acquire new accounts.

¹ "The 68th Annual Survey of Distributor Operations", *Industrial Distribution*, May/June 2015

Solution Framework & Requirements

In today's competitive business environment, a modern, integrated distributor needs five identifiable groups of activities to grow and sustain the business. These activity groups fall into a sequence when viewed from a customer "lifecycle" viewpoint, but work toward the five goals simultaneously.

Some activities contribute to multiple business goals, making them the most valuable. The five goals a distributor needs to pursue are:

- ▶ Attract and sell to eCommerce shoppers
- ▶ Convert one-time shoppers into business accounts
- ▶ Become the preferred supplier in your field
- ▶ Optimize for business efficiency
- ▶ Defend your current accounts

For example, here is how these goals intertwine to create a compelling business proposal. It has been proven that eCommerce makes business more responsive and efficient by accelerating the business process and reducing support costs. What if, at the same time, products are priced so that the most important products for each customer are always very competitive? And, why would a customer leave your customer service, if you can reliably stage just-in-time deliveries to job sites and do progress-based project billing?

Five Goals for Secure Growth



ABC Parts was always known as a great local store where almost any spare part for most German autos could be found. As a natural progression of their local presence, they decided to create a webstore that mimicked their local business principles. A key value that ABC Parts provided was that when a customer called, the sales rep always found the part quickly. They translated this key experience to their webstore as an easy-to-use search engine that quickly returned the correct results.

After the main webstore was live, they added e-newsletters to their resellers/customers that included “clickable” links to the webstore to complete the transaction. ABC Parts successfully translated their core business values from a “bricks-and-mortar” local business to the World Wide Web while reducing transaction costs and providing an even better customer experience.

1. Attract and sell to eCommerce shoppers

The Internet can seem a crowded place, and even the most compelling message is easily lost in the noise. An eCommerce storefront allows distributors to get found on the Web, so that two important goals can be accomplished: find more opportunities, and evolve one-time buyers into loyal accounts. Modern eCommerce websites provide multiple tools that attract shoppers’ attention, make the website easy to find, and promote that initial purchase.

- ▶ 74% of all B2B purchases are preceded by Internet research¹
- ▶ U.S. B2B eCommerce in 2015 is expected to top \$780 Billion, 7.7% CAGR²

The website is also a digital calling card, introducing products and services to current accounts and the unknown Web shoppers of tomorrow. Potential customers are attracted by information they find on the website during their Internet research stage. These shoppers are drawn to the website, where they discover more information on products and services, and incentives to purchase.

Some of the most critical features and functions in a modern eCommerce storefront are: search engine optimization tools, social marketing, webpage templates, product cataloging, search tools, promotion management tools, newsletters, shopper registration, multiple payment methods, multiple shipping options, and other first-time shopping tools.

The initial goal is to attract shoppers to make that first-time purchase. Once that is done, information from the initial purchase can be used for the next goal of developing accounts.

¹ <https://www.internetretailer.com/2015/04/02/new-report-predicts-1-trillion-market-usb2b-e-commerce>
² <https://www.forrester.com/US+B2B+eCommerce+Forecast+2015+To+2020/fulltext/-/E-RES115957>

ABC Parts was known for their “specials” on the Web. ABC had always used promotions to boost sales during lean times. Their specials were always featured on consolidation sites like techbargains.com or slickdeals.net, where customers would click on the “specials” link to complete the purchase through the guest checkout process.

Then ABC Parts added a new feature where, with a single click, a guest shopper could use the information they had just entered to become a full account. The value proposition to the customer was very simple: “You have already entered all this information; now, with just one click, you can create an account and get 10% off your next purchase.” As a result, most guest shoppers created new accounts to take advantage of the promotion. ABC Parts had found an innovative way to move one-time customers into becoming business accounts!

2. Convert one-time shoppers into business accounts

In this stage, the one-time buyer becomes an account that makes routine additional purchases. Information from previous visits is used to create further interest in re-buying with “one-click” purchasing, “wish lists,” and related product information.

Related website content can enrich the shopping experience, create an awareness of available products, and obtain add-ons for orders. Related information may include product lists such as what other shoppers purchased, similar products, most-purchased items, and special daily deals.

In addition to developing accounts, shoppers must be sustained and refreshed to keep them active into the future. Much of this account retention activity occurs in eCommerce when the shoppers visit the website to enter orders, and can also be used to defend online accounts.

A B2B eCommerce solution offers capabilities that personalize the B2B experience with newsletters, visibility into account history and settings, multiple “wish lists,” easy re-orders, mobile Web access, order status updates, special promotions, related product lists, abandoned cart discounts, B2B integration capabilities, easy add-ons, and support for future eCommerce needs.

In this second goal, investments are made to convert one-time buyers into business accounts that routinely re-buy. While the first and second goals mostly involve the front-end business processes, the last three goals are mostly accomplished by the back-end business system.



Consumers demand a broad spectrum of services in the modern world of commerce, where expectations are set by the likes of Amazon and Grainger. Your business system should help you compete in this modern world. It is not enough to simply deliver on-time—now, you need to let the customer know the truck has left the dock.

- ▶ Consigned and distributor-managed inventory can reduce the customer's overhead, cultivate a stronger relationship and help grow related business.
- ▶ Kitting and light manufacturing capabilities allow customers to single-source more material, increasing your wallet share.
- ▶ Project management capabilities help customers get their job done more efficiently; material will be where it is needed when it is needed, with supporting change orders and cost tracking.
- ▶ Field service and rental capabilities enable you to capitalize on your "share of wallet" with customers already doing business with you.

3. Become the preferred supplier in your field

A local small to mid-sized distributor may feel outmatched by large-scale distributors that enter from other markets or have acquired greater size. Here, the most effective response is to differentiate the business with specialized, customer-focused capabilities that are specific to your set of customers. Large-scale businesses often struggle to handle widely varying service needs, and seek volume sales instead.

These services can be easily determined from the customer being served. Large commercial jobs go through an extensive bidding process beforehand, with multiple forms and parts lists. Manufacturers often want on-premises stock that the distributor manages. Contractors often need lists of materials shipped at different times as the job progresses to different receiving locations. Customers in other markets may want services such as pre-assembly, light custom manufacturing, service and maintenance contracts, job management, or tool rental.

Most distributors know their business well enough to identify the specialized service opportunities among their customers.

- Modern business systems often include integrated capabilities such as:
 - Long-term contract pricing
 - Project-based progress billing
 - Domestic and international package shipment
 - Supplier-managed inventory
- Inventory vending
- Staged material deliveries
- LTL and TL freight
- Real-time visibility into order status and shipments
- Custom payment channels

All of these customer variations are opportunities to meet unique customer needs that large competitors lack the flexibility to serve. Specialized, customer-focused services provide additional revenue, differentiate distributors, and create for them a preferred position with a set of customers.



Specialized services are unique to the combination of customer types and the product being sold, with some regional variations. The most effective services often require only modifications to the business process and do not impact current investments, facilities and assets. Special services, customized to specific customer types, can provide the competitive edge for a sustainable business and differentiation from large competitors. Summary

Customer analytic tools help to understand and manage existing customers for improved growth at both the top and bottom line.

- ▶ Pricing optimization can assure each customer is consistently charged the right price for each item—improving margins, reducing inconsistent pricing, and minimizing price overrides.
- ▶ Customer analytic tools can quickly identify when accounts deviate from their normal buying pattern—enabling corrective action to reinforce the relationship and avoid possible customer loss.
- ▶ Profitability analysis reveals your top-performing customers and those who are a profit drain—allowing actions to adjust account strategies and service offerings for the best fit.

Modern business systems can be tailored without custom code and without falling off the upgrade path. A tailored customer onboarding process can assure consistent follow-up service. Employees are guided smoothly through the process, and your customers will experience higher quality service.

4. Optimize for business efficiency

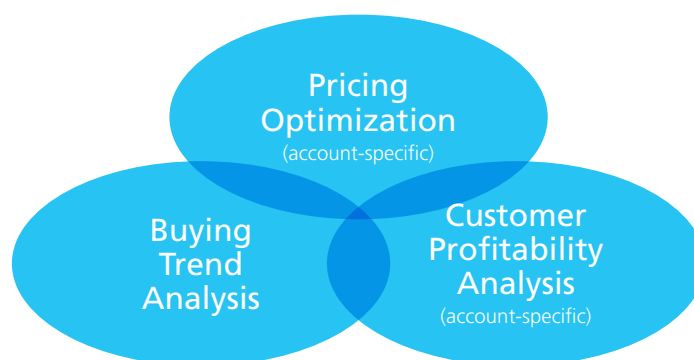
The goal of optimizing the business encompasses activities that increase business efficiency—effectively managing customer accounts, maximizing the value of each account, improving business processes, and strengthening the bottom line. Growth mixed with inefficient, poorly coordinated processes is a recipe for future disasters.

Modern integrated business systems move more business through the process by enabling more productive employees and better coordinated activities. This power is further amplified by eCommerce techniques that improve process efficiencies. So, eCommerce investments deliver both more customers and improved operational efficiency.

Going further by tightly integrating eCommerce with the business system, information from the eCommerce storefront appears quickly in the business system and vice versa. So, the entire process from Web to shipping dock becomes smoother and more efficient, visibility is increased, and everyone works from the same real-time information.

There are other valuable optimization tools that work well with an eCommerce business system to tune the business to customer behavior. Call it “data mining for distributors.” These tools extract additional value from information already in the business system. Some of these tools use purchase history to optimize pricing for each account and increase margins, identify and manage account profitability, and provide ad hoc reports, dashboards, and metrics for better business visibility and control.

Tools to Understand Your Customers



Some of the key business software features that focus on optimizing distribution businesses are:

- Integrated eCommerce business processes
- Mobile sales management
- Contact management
- Purchase tracking
- Quote and opportunity management
- Activity queues
- Lead call lists
- Call center management
- Consistent new customer onboarding
- Customer profitability analysis
- Buying trend analysis
- Pricing optimization
- Wireless warehousing

Powerful CRM tools offer the capability to reach out and engage specific customers with the messages they will value. Accounts can be selected by factors such as time since last order, so that messages fit the accounts. Relationships can be strengthened with invitations to special events such as an open house, new vendor information or offerings, or training opportunities. When integrated with traditional ERP functions, CRM also improves the quality of customer contact with easy-to-use mobile sales access to customer contact information, proposals, orders, activities, and new opportunities.

5. Defend your current accounts

Defending current accounts could also be stated as “minimizing customer losses.” It is said to cost 10–15 times more to sell to a new account than to a current account.¹ Most of this cost is attributed to acquisition costs for the replacement business, and it is uncertain if the new business will turn out to be as good as the lost customer, until much later.

With this in mind, it is easy to see the value of loyalty programs that reward additional buying with discounts to be claimed in the future. These loyalty programs may take different forms such as volume rebates or award programs.

Preventing account losses through great service quality is still one of the best tools for defending accounts, especially when coupled with the ability to detect when an account is becoming stressed. Another powerful method is to sustain regular contact with the account using CRM tools. The more often an account is touched, the easier it is to detect when the customer is becoming dissatisfied, and adjustments can be made before the dissatisfaction becomes entrenched.

Modern business systems often include CRM marketing tools to help sustain and reinforce the current account base. CRM includes tools to send e-mail newsletters and special offers, build lead generation call lists, manage calling activity and the sales pipeline, up-sell customers, and track customers’ buying habits to anticipate their needs.

Other key capabilities important to defend current accounts are special pricing arrangements, volume discounts, custom pricing, customer satisfaction metrics, loyalty/retention programs, newsletter subscriptions, special deal announcements, etc.

While this last goal may at first seem purely defensive, there are aggressive programs that also allow new accounts to be truly accretive new business instead of merely expensive replacements.

¹ “The Cost of Customer Acquisition versus Customer Retention,” Chartered Institute of Marketing

Summary

Growth in a distribution business results from a balanced effort toward the five goals above. The resulting growth then has a sustainable foundation on which to continue.

Business growth starts with discovering where the business stands today in each of the above five areas. This can be an exciting process of learning from customers and employees, finding where your competitors can be beaten, and adapting your business to excel.

Growing the business should be driven by a vision of a future integrated business process that performs smoothly from one end of the business to the other. This is an important prerequisite for successfully growing your customer base and supporting the increased volume that will follow.

Epicor supports integrated distributorships with processes that are specialized for distributors, developed through 40 years in the industry, along with a tightly integrated eCommerce storefront, optimization tools and add-ons to help you grow into the future.

About Epicor

Epicor Software Corporation drives business growth. We provide flexible, industry-specific software that is designed around the needs of our manufacturing, distribution, retail, and service industry customers. More than 40 years of experience with our customers' unique business processes and operational requirements is built into every solution—in the cloud, hosted, or on premises. With a deep understanding of your industry, Epicor solutions spur growth while managing complexity. The result is powerful solutions that free your resources so you can grow your business. For more information, [connect with Epicor](#) or visit www.epicor.com.



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