POWER IT UP 2022
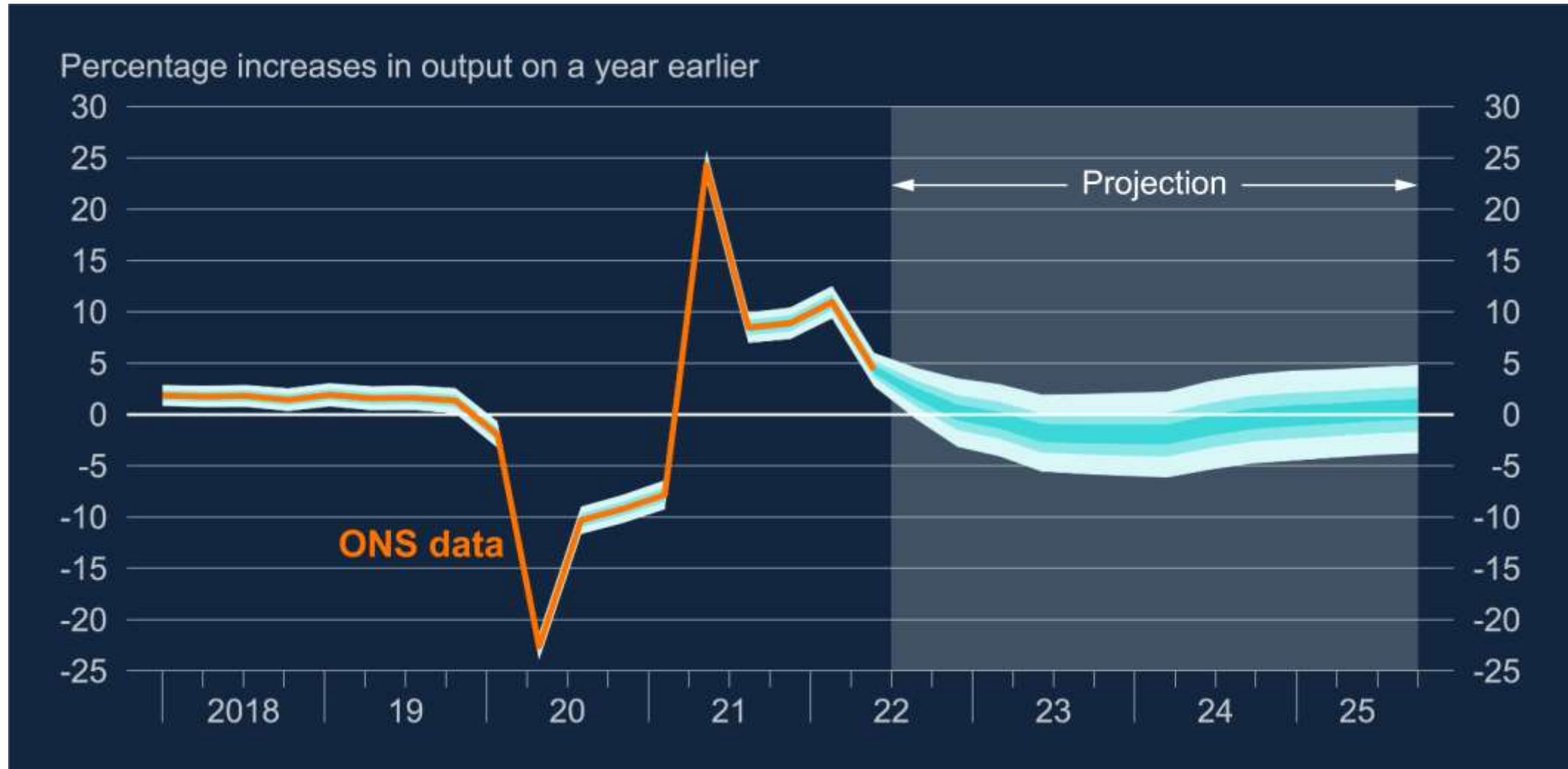## EDA's INDUSTRY INSIGHT CONFERENCE

Ian Heller
Distribution Strategy Group

Changing Supply Channel:
The shift to online: Threats and opportunities

Background Research and Agenda

LONDON — The Bank of England warned Thursday that the U.K. is facing its longest recession since records began, with the economic downturn expected to extend well into 2024. [Nov 3, 2022)

Percentage increases in output on a year earlier

ONS data

Projection

2018 19 20 21 22 23 24 25

https://www.cnbc.com/2022/11/03/bank-of-england-uk-faces-longest-ever-recession.html

Demand Slowing / Supply Chains Recovering

"Global supply chains are easing at breakneck speed…container delivery times are now back to pre-pandemic levels, freight costs are rapidly declining and logjams at key global ports have cleared

https://www.fitchratings.com/research/sovereigns/rapid-unwind-of-supply-chain-disruption-cuts-goods-inflation-21-10-2022

"Small businesses may suffer the most as the slowdown in global trade intensifies and hits Europe especially hard with weaker demand and surging energy costs."

https://www.bloomberg.com/news/newsletters/2022-10-19/supply-chain-latest-the-global-trade-slowdown-is-intensifying

EDA Survey October 2022:
Top 3 Operational Challenges

Wholesalers

1. Attracting and retaining staff
2. Product price and availability issues
3. Downturn in demand due to consumers not spending on domestic maintenance

Manufacturers

1. Devaluation of the sterling against foreign currency
2. Raw material prices increases
3. Attracting and retaining staff

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Possible Topics

Product Data Standards	**Building Safety**	**2023 Recession**	**Spec. Contractor Insolvencies**
Supply Chain	**Reshoring**	**Digitalization**	**CPD**
Inflation	**Energy Crisis**	**Labor Shortages**	**Circular Economy**
Changing Regulations	**Builder Merchants**	**Outdated Systems**	**Digital Disruptors**

Focus Topics

Product Data Standards	**Building Safety**	**2023 Recession**	**Spec. Contractor Insolvencies**
Supply Chain	**Reshoring**	**Digitalization**	**CPD**
Inflation	**Energy Crisis**	**Labor Shortages**	**Circular Economy**
Changing Regulations	**Builder Merchants**	**Outdated Systems**	**Digital Disruptors**

Related Topics

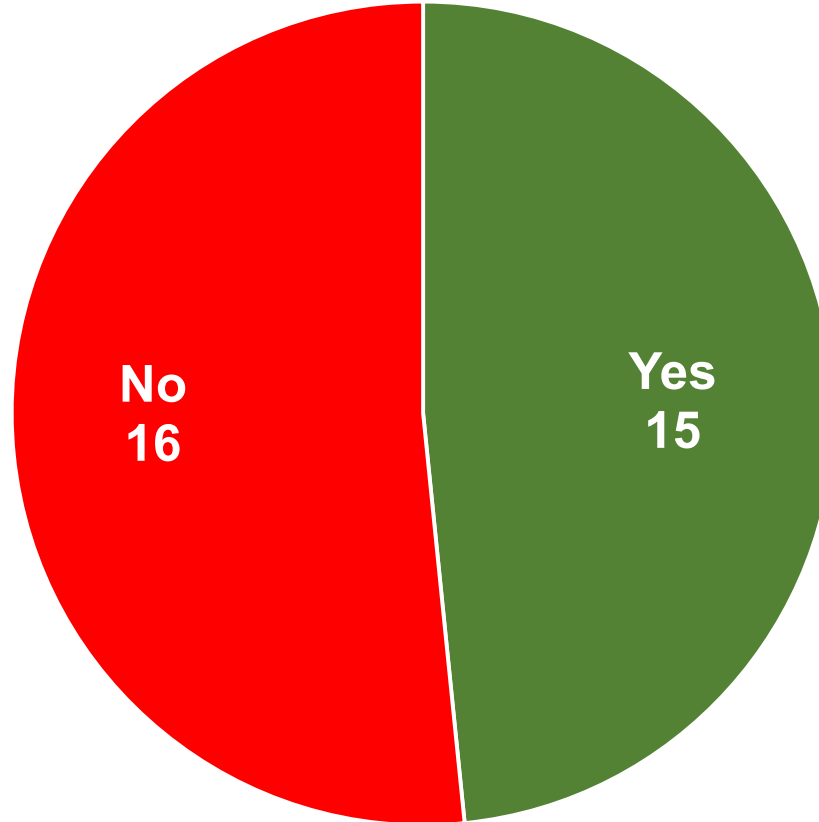|			
Product Data Standards	Building Safety	2023 Recession	Spec. Contractor Insolvencies
Supply Chain	Reshoring	Digitalization	CPD
Inflation	Energy Crisis	Labor Shortages	Circular Economy
Changing Regulations	Builder Merchants	Outdated Systems	Digital Disruptors

Today's Topics

- **Wholesaler Digitalization: Current and Future State**

- **Growing in a Recession: Customer Lifecycle Management**

- **Managing Supply Chain Risks**

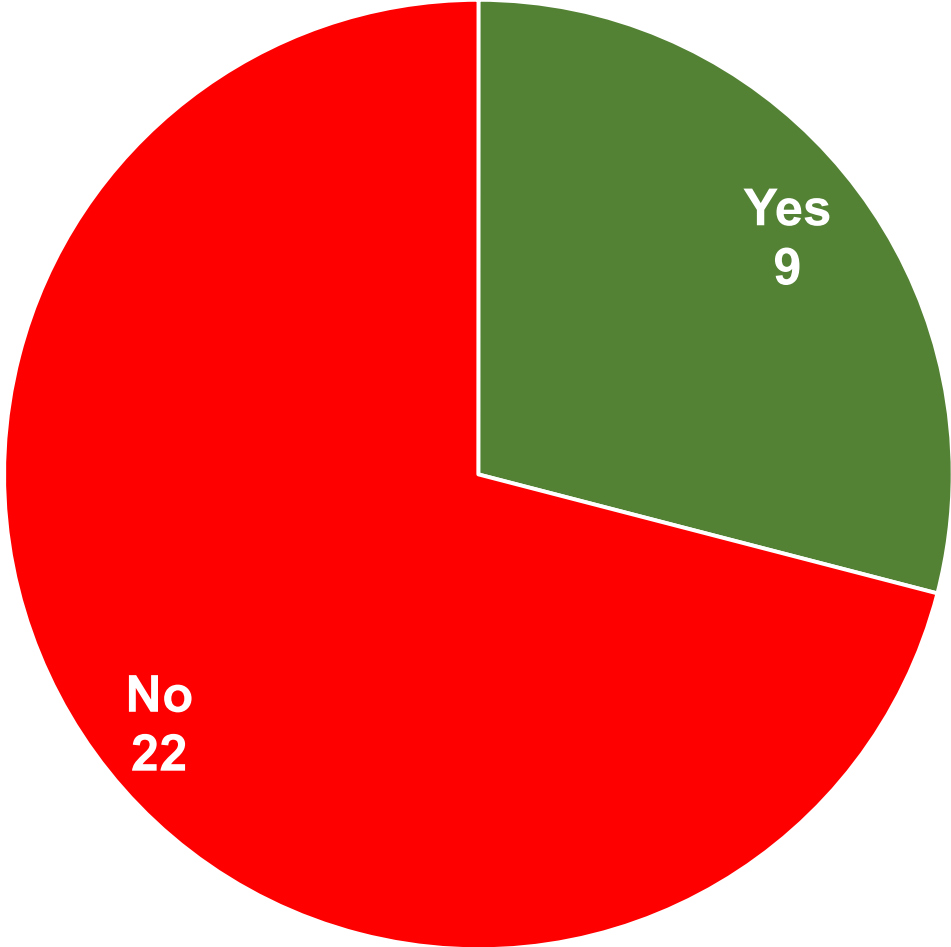**Compete Smarter, Grow Your Company, and Make More Money**

Analysis of 31 Wholesaler Websites

eCommerce

No
16

Yes
15

Tech Data Sheets

Yes 9

No 22

Services Tab

Yes
6

No
25

Services Tab

Yes
6

No
25

Quote Cart

Yes 1
No 30
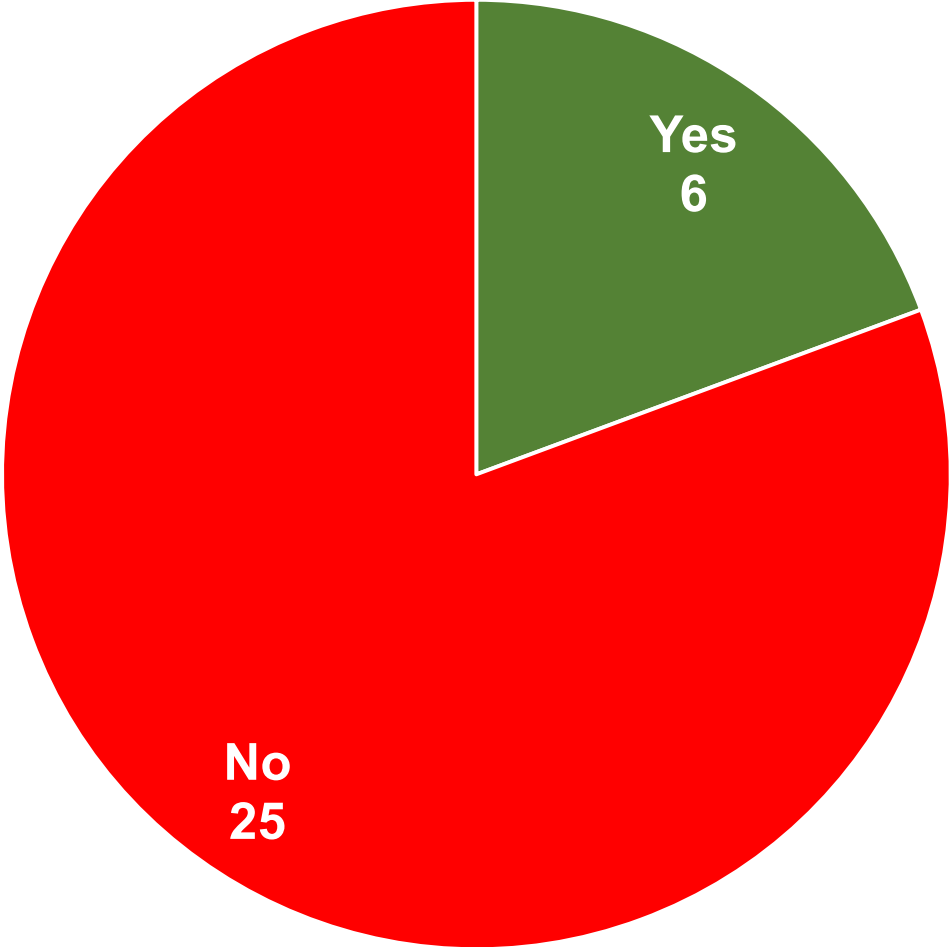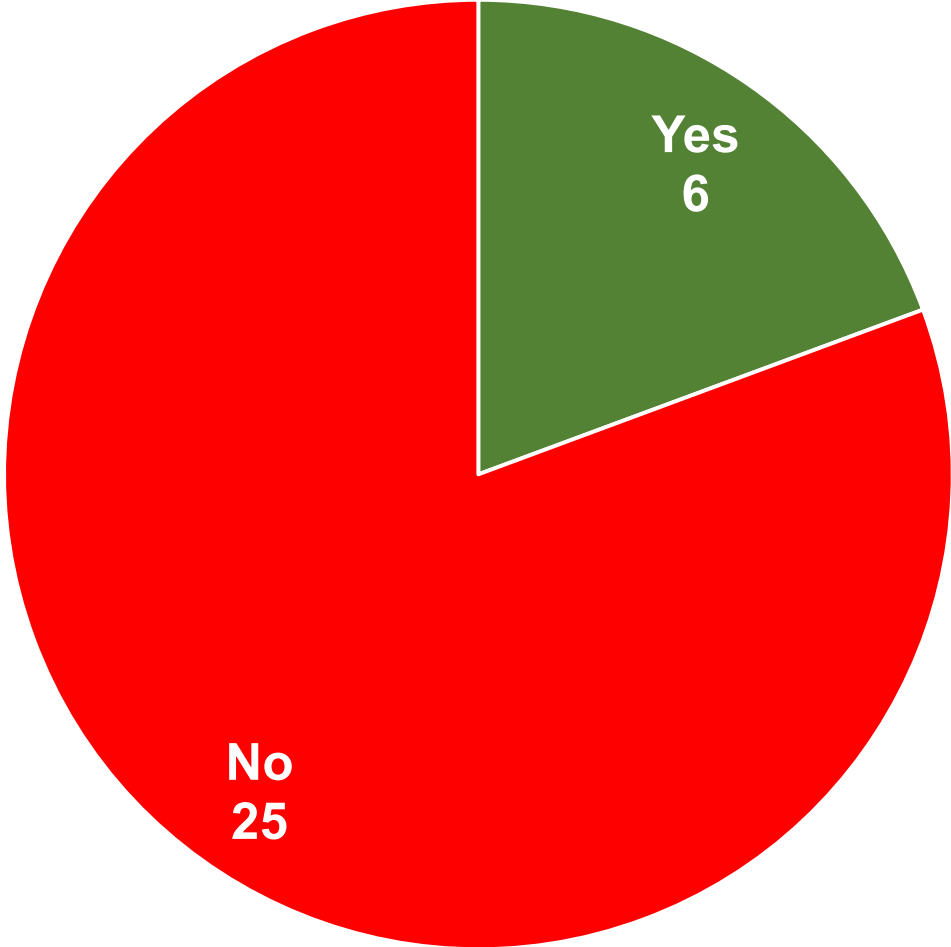
Retail vs. Wholesaler eCommerce

	Retailer	Distributor
Assortment		
Product Data and Selection		
Account Complexity		
Pricing		
Payment & A/R		
Mission		

"Your website should be like a B2C site."

- "Experts" who are wrong

Shopping vs. Buying

Shopping:

Searching for a product to buy

- **Identifying alternatives**
- **Evaluating alternatives**
- **Looking at product info:**
    - **Tech Specs**
    - **Videos**
    - **Reviews**
- **Deciding which product to buy**

Buying:

Placing the order

Shopping vs. Buying

- **Retail Customers Shop and Buy in the Same Channel:**
  - *Shop in a Boots*
  - *Buy in a Boots*

- **Business Customers Shop in One Channel, Buy in Another**
  - *Shop on a Wholesaler's website*
  - *Buy through another channel*

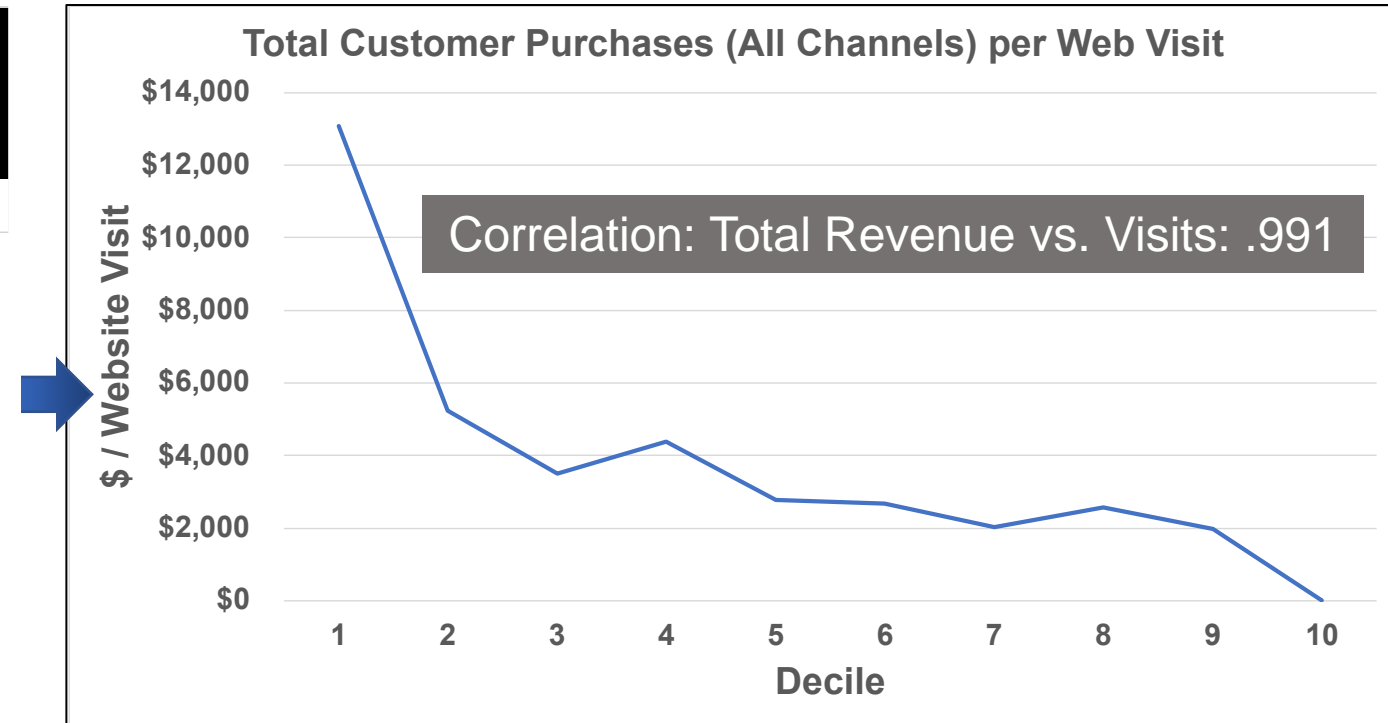# Two Reasons Customers Won't Buy on Your Website

- Buyers cannot check out via your shopping cart; they must use their own purchasing systems

- Customers know they can get discounts if they call sales employees instead of buying online
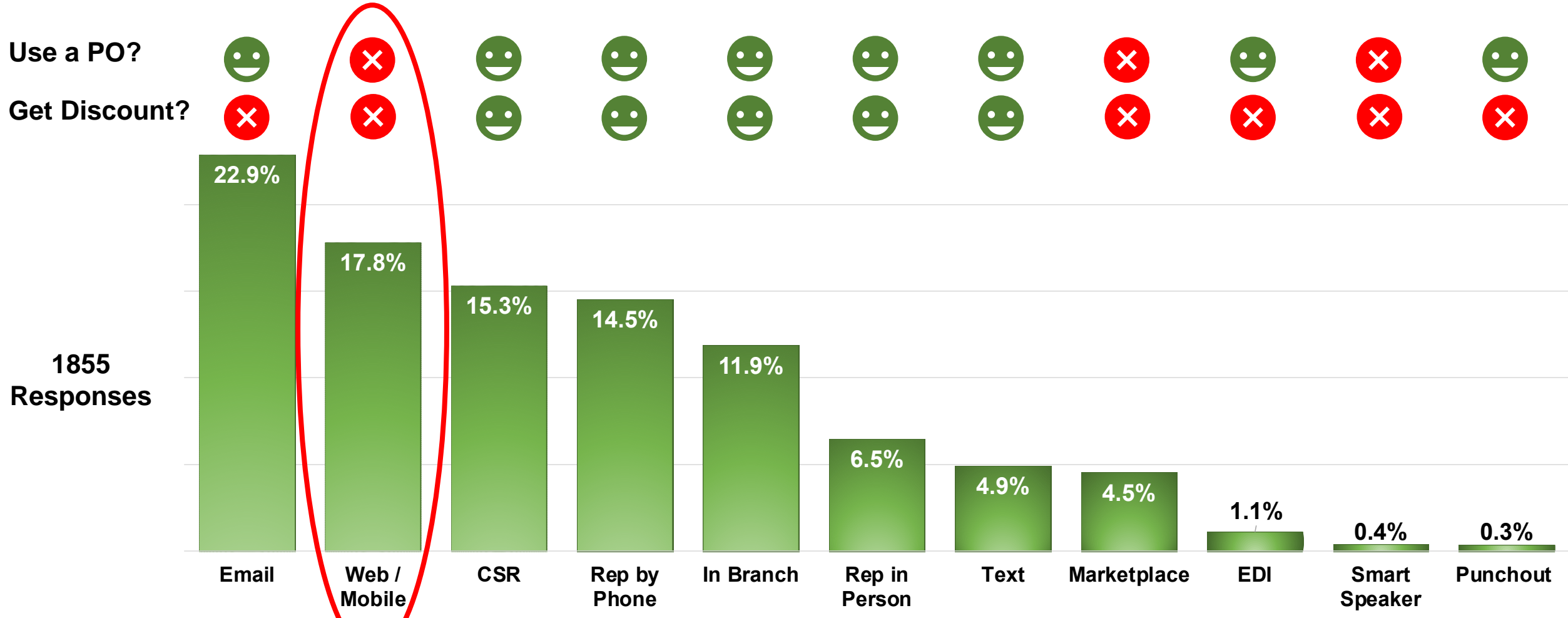
Neither of these is true in retail.

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Electrical Wholesaler Analysis

- 1% of overall revenue from website

Decile	Total Revenue - All Channels	% Total Website Visits	$/Website Visit
1	88.6%	72.3%	$13,081

Total Customer Purchases (All Channels) per Web Visit

Correlation: Total Revenue vs. Visits: .991

Minimum ROI on Digital Investment: 607%

"After you shop on a distributor website, when you go to place an order, which of the following methods do you use? Select all that apply."

	Email	Web / Mobile	CSR	Rep by Phone	In Branch	Rep in Person	Text	Marketplace	EDI	Smart Speaker	Punchout
Use a PO?	☺	✖	☺	☺	☺	☺	☺	✖	☺	✖	☺
Get Discount?	✖	✖	☺	☺	☺	☺	☺	✖	✖	✖	✖

1855 Responses

- Email: 22.9%
- Web / Mobile: 17.8%
- CSR: 15.3%
- Rep by Phone: 14.5%
- In Branch: 11.9%
- Rep in Person: 6.5%
- Text: 4.9%
- Marketplace: 4.5%
- EDI: 1.1%
- Smart Speaker: 0.4%
- Punchout: 0.3%

Only 18% of purchases generated by a distributor's website go through the shopping cart

Distributor E-Commerce = Basketball Point Guard

Point Guard Goal: Create Points by Scoring or Assists

Distributor E-Commerce Goal: Create Sales: Online or Offline

Chris Paul		
Points	18.3	Assists
Assists x 2	18.8	9.4
Total	**37.10**	

Steph Curry		
Points	24.2	Assists
Assists x 2	13	6.5
Total	**37.20**	

Career Diff	0.10	Per Game

E-Commerce Assist:
Customer SHOPS Online, ORDERS from Any Channel

- **CSR/ISR/FSR**
- **Branch**
- **EDI**
- **Punchout**
- **Email order**

Your website may be very important for shopping even if customers don't buy online.

You're Probably Measuring eCommerce ROI Wrong

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unilog

ROI Considerations for B2B eCommerce

By Dean Mueller

https://distributionstrategy.com/report/

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This is Retail ROI, not Distributor ROI:

Numerator <u>+Shopping Cart Gross Margin Revenue</u>

Denominator +eCommerce Capital Costs

+eCommerce Expenses (Labor, OpEx, etc.)

This leads to the eCommerce "Doom Loop"

Actual Distributor eCommerce ROI

The Full Numerator:

+ Shopping cart profits

+ All digital channel profits (EDI, email orders, eProcurement, etc.)

+ Orders generated by the website but placed via other channels

+ Omnichannel impact: Accounts engage from multiple channels are bigger

+ Customer lifecycle: Improvements in new customers, retention, wallet share

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Denominator: **+eCommerce Capital Costs**

+eCommerce Expenses (Labor, OpEx, etc.)

Measuring Your Website's "Shopping" Benefit

100 Random, Offline Orders
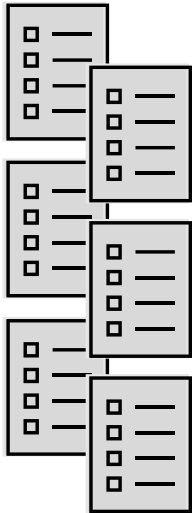
Call the Buyers

"Did you use our website when you were putting together this order?"

Yes	No
Website gets credit	No credit to website

"Digital Doom Loop"

1. Build a website designed to drive shopping cart sales

2. Measure ROI by shopping cart profits / costs

3. Conclude "Our website has failed!"

4. Reduce investments in digital capabilities

5. Fall farther behind in meeting customers' digital needs

Numerator   **+Shopping Cart Profits**

Denominator   **+eCommerce Capital Costs**
               +eCommerce Expenses (Labor, OpEx, etc.)

Distributor Digital Capabilities (Examples)

- Easy-to-shop website, no matter how customers place orders
- Great product data and information
- Online training
- Self-serve account info
- Compelling value-added services information – and configuration
- Online chat with a real person
- Have a "Quote Cart"

Use digital technologies to make your customers' jobs easier

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Growing During a Recession: Customer Lifecycle Management

Three Questions

- Do you know how many customers you gained last year and lost last year?

- Do you have specific goals for how many you will gain and lose this year?

- Do you have a specific individual responsible for hitting these goals?

Planning Based on Marketing Objectives

Marketing can affect customer behavior in many ways:

- Acquire new customers
- More frequent purchases
- Larger average transactions
  - More lines per order
  - More units per line

- Reduce rate of defection
- More purchasers per customer
- More product lines purchased
- Higher margins

Marketing's goal is not to drive sales dollars directly, but to change customer behaviors in ways that generate more sales and profits.

Baseline Year or Trailing Twelve Months (TTM)

Baseline Year	New	Retained	Results from New/Retained
# Accounts	100	400	500
Avg # Trans	15	30	27
Tot # Trans	1500	12000	13500
AOV	$1,100	$2,500	$2,344
FY Sales	$1,650,000	$30,000,000	**$31,650,000**
GM%	33%	31%	**31.1%**
GM$	$544,500	$9,300,000	**$9,844,500**

Growth from Baseline Built into this Model

Baseline		
Sales	$ 1,875,000	6%
GM$	$ 581,250	6%

Baseline Year or Trailing Twelve Months (TTM)

Baseline Year	New	Retained	Results from New/Retained	Lost
# Accounts	100 **120**	400	500	75 **60**
Avg # Trans	15 **17**	30 **31**	27	10
Tot # Trans	1500	12000	13500	750
AOV	$1,100 **$1150**	$2,500 **$2450**	$2,344	$800
FY Sales	$1,650,000	$30,000,000	**$31,650,000**	$600,000
GM%	33% **32%**	31%	**31.1%**	31%
GM$	$544,500	$9,300,000	**$9,844,500**	$186,000

Growth from Baseline with vs. w/o Changes

Baseline		
Sales	$ 1,875,000	6%
GM$	$ 581,250	6%

Five Year Growth in Sales / Gross Margin Dollars
One-Time, Permanent Change in Customer Behavior

By Year Five, Sales and GM$ are 32% Bigger with
No Additional Changes in Customer Behavior

Sales - One Time, Perm Change: $31.7, $35.8, $40.3, $44.9, $49.4, $54.0

Sales - No Change: $33.5, $35.4, $37.3, $39.2, $41.0

GM$ - One Time, Perm Change: $11.1, $12.5, $13.9, $15.3, $16.8

GM$ - No Change: $9.8, $10.4, $11.0, $11.6, $12.2, $12.8

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5

— Sales - No Change   — Sales - One Time, Perm Change   — GM$ - No Change   — GM$ - One Time, Perm Change
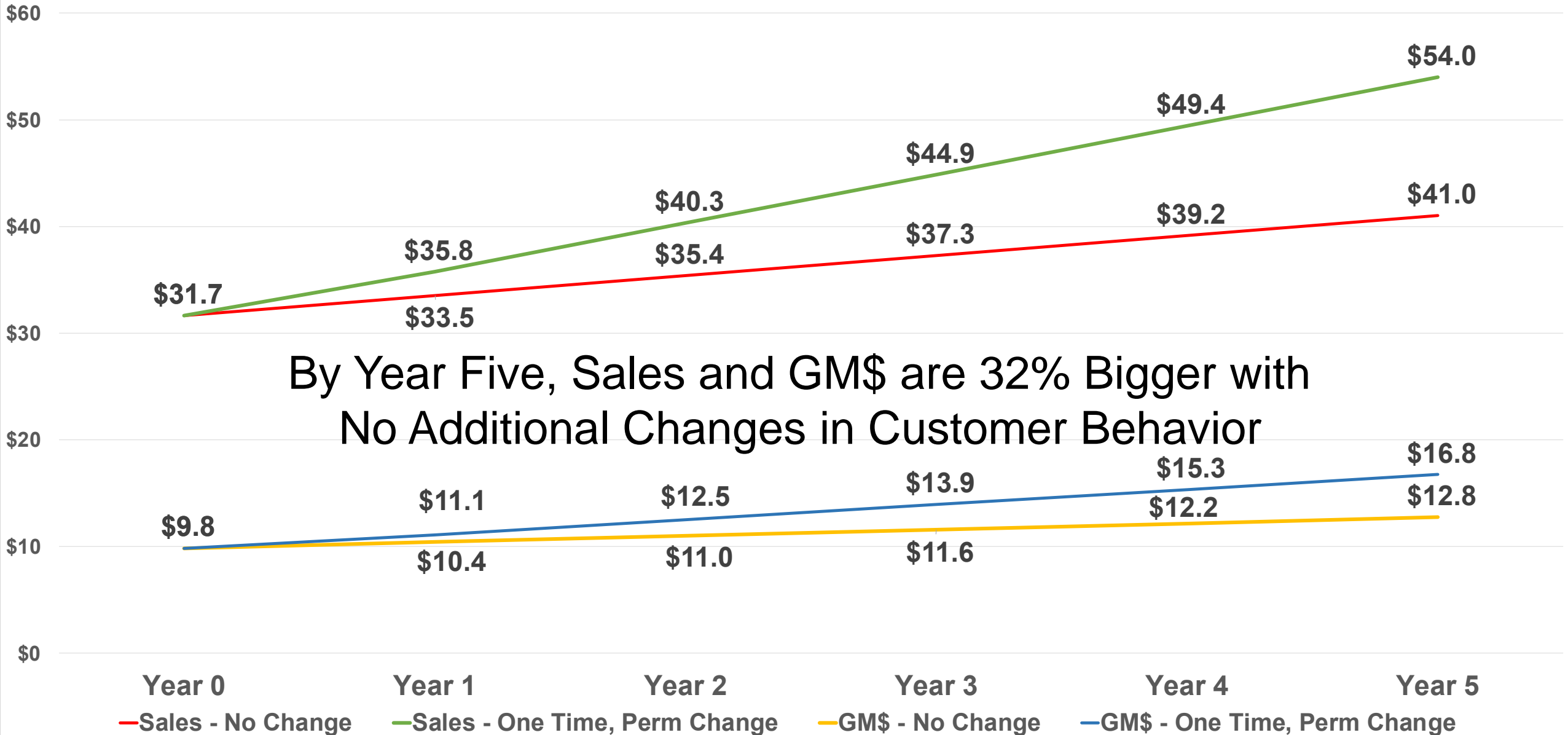
Planning Based on Marketing Objectives

- Evaluate your company's transaction history
- Develop pro-formas to see how changing each variable affects your bottom line
- Build programs that change customers' behaviors
- Enroll the company in your efforts

The output of this exercise is the core of your budget presentation

How to Get Started

- Build a marketing database – all prospects, customers, lost customers

- Create a contact strategy for all customers / prospects:
  - Outside sales contacts
  - Outbound telephone calls
  - Email

- Implement "trigger marketing"

- Implement an effective "onboarding" programs

- Set alarms to alert you of pending defections – and act

Building Multiple Contact Channels

- **Outside Sales**

- **Telesales**

- **Inside Sales (upselling, etc.)**

- **Marketing emails**

- **Direct mail (in some cases)**

- **Sales collateral at counter and for reps**

- **Branch events (if done to maximize number of attendees, all of whom provide contact information)**

- **Tradeshows (must be designed to generate contacts)**

Contact Channels and Frequency

More frequent offers correlate to more frequent purchases

Outbound

- E-mail, flyers, catalogs, retargeting

Inbound

- Google Maps Local Inventory ads, website, SEO, SEM, geofencing,

In-Person

- Branch displays, open houses, tradeshows, counter/will call, customer service

Communication Frequency Examples	
Commnication Type	**Frequency**
Email	Weekly
OSR Call	2x Month
Telesales Call	2x Month
Promo Catalog	Monthly
New Product Flyer	Quarterly

Target customers with *relevant messages*. Start with "trigger" marketing that generates offers based on customer prior purchases.

Recommendation: Expand Prospecting Campaigns

- Use your customer database to predict what's relevant for each contact

- "Lookalike analysis" helps you formulate offers to non-customers by evaluating purchasing tendencies of existing customers that "look like" prospects

- Marketing's prospecting goals should be:
  - Generate a first-time purchase, quote or inquiry
  - "Onboard" first time buyers effectively to drive 2nd and 3rd transactions
  - Gather data about new customers and estimate sales potential
  - Hand off some new customers to telesales / outside sales based on estimated potential or actual sales

The Golden Rule of Distributor Marketing

The more frequently you put relevant offers in front of targeted customers, the more frequently they will buy from you.

Managing Supply Chain Risks

**Thanks to G. "Ravi" Ravishankar
University of Colorado**

Shipping & Transportation Disruptions

Labor shortage
Chassis shortage

Capacity shortage
Labor shortage

Labor shortage

Container shortage

Truck

Warehouse

Mfg.

Truck

Port

Ocean Carrier

Port

Railroad

Labor shortage

Labor shortage
Power shortage

Labor shortage
Space constraints
Higher volumes
Chassis shortage

Labor shortage
Space constraints
Higher volumes
Chassis shortage
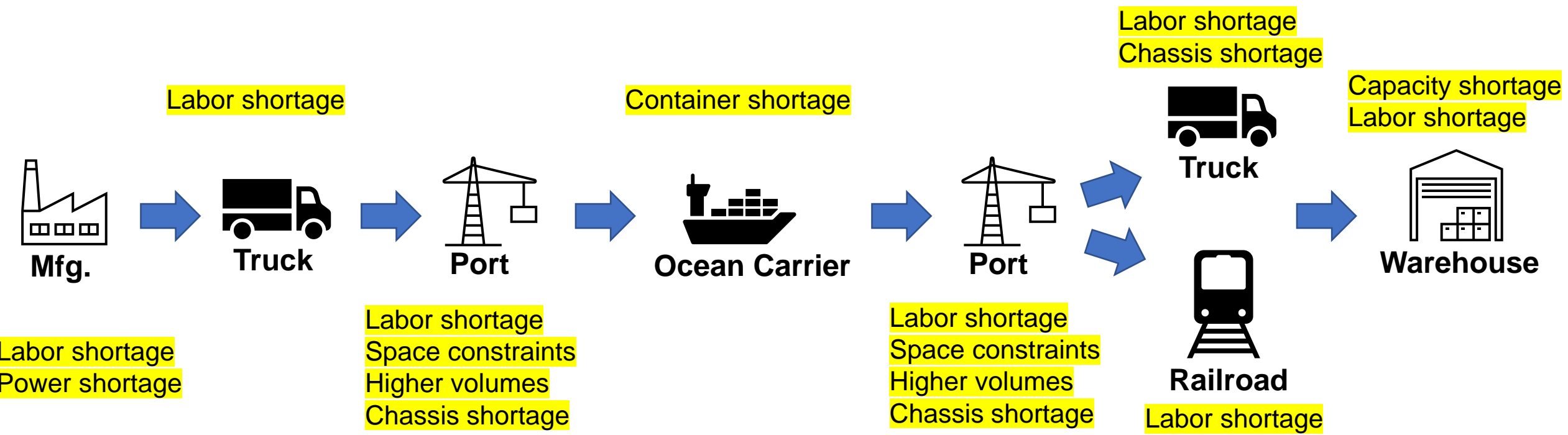
Chassis Supplier
Raw material shortage

How well do you believe you have managed supply chain issues compared to your competitors?

DSG Data

About the same, 37%

Much better, 15%

Worse, 2%

Not sure, 2%

Much worse, 0%

Better, 44%
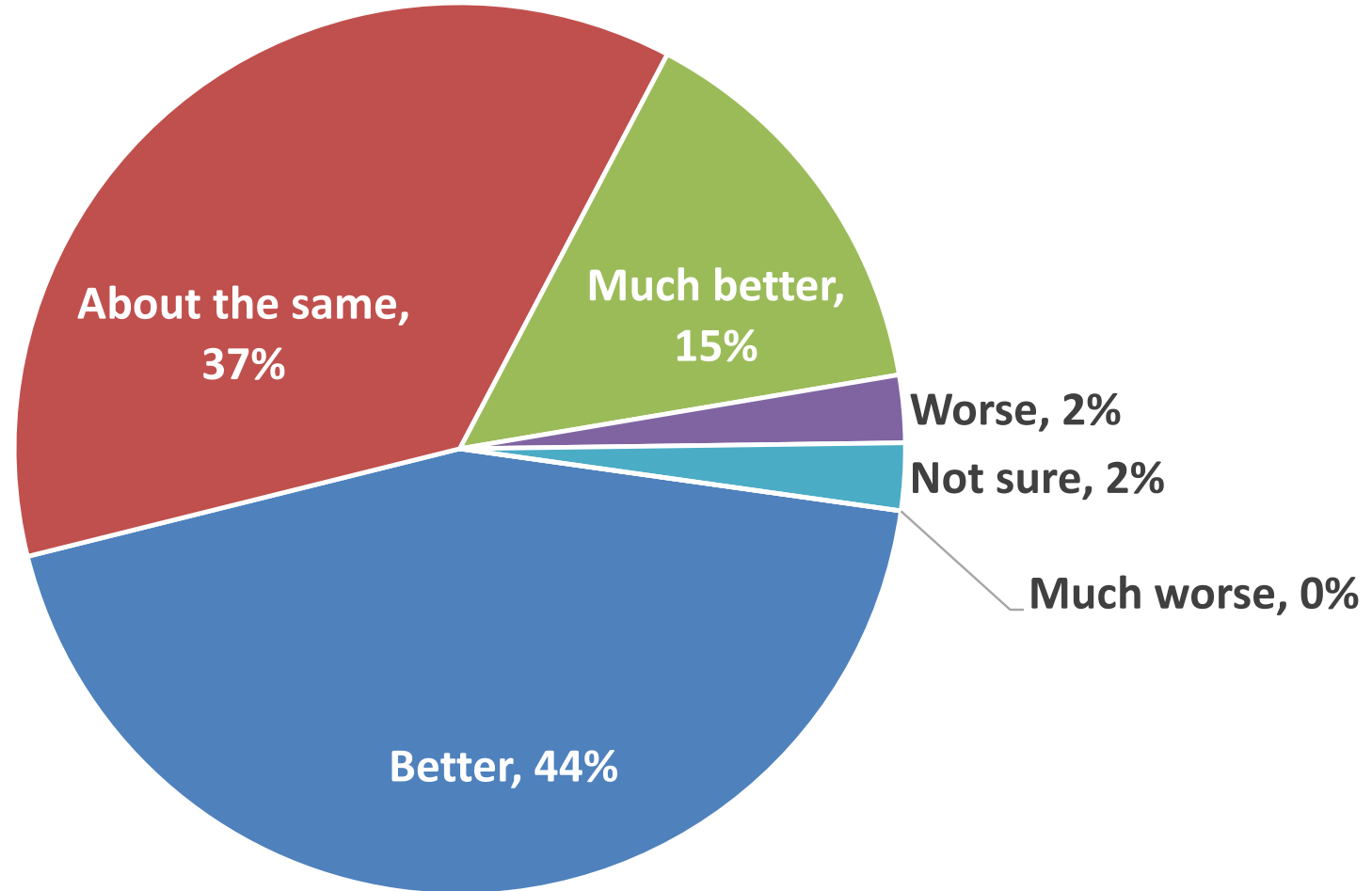
Only 2% of distributors think they manage supply chain issues worse than average

Inventory Bubble Risk

- Too much cash converted into inventory

- As demand diminishes, prices fall

- Obsolescent inventory growth
  - Esp. dated goods

- Inventory write-downs

A Potential Bankruptcy Equation

The "Panel Board Bubble" (Example)

Bob's Electric

Needs 10 Panel Boards

Orders 10 Panel Boards from 3 distributors

Orders 10 Panel Boards from 3 Mfrs

Orders 10 Panel Boards from 3 Mfrs

Orders 10 Panel Boards from 3 Mfrs
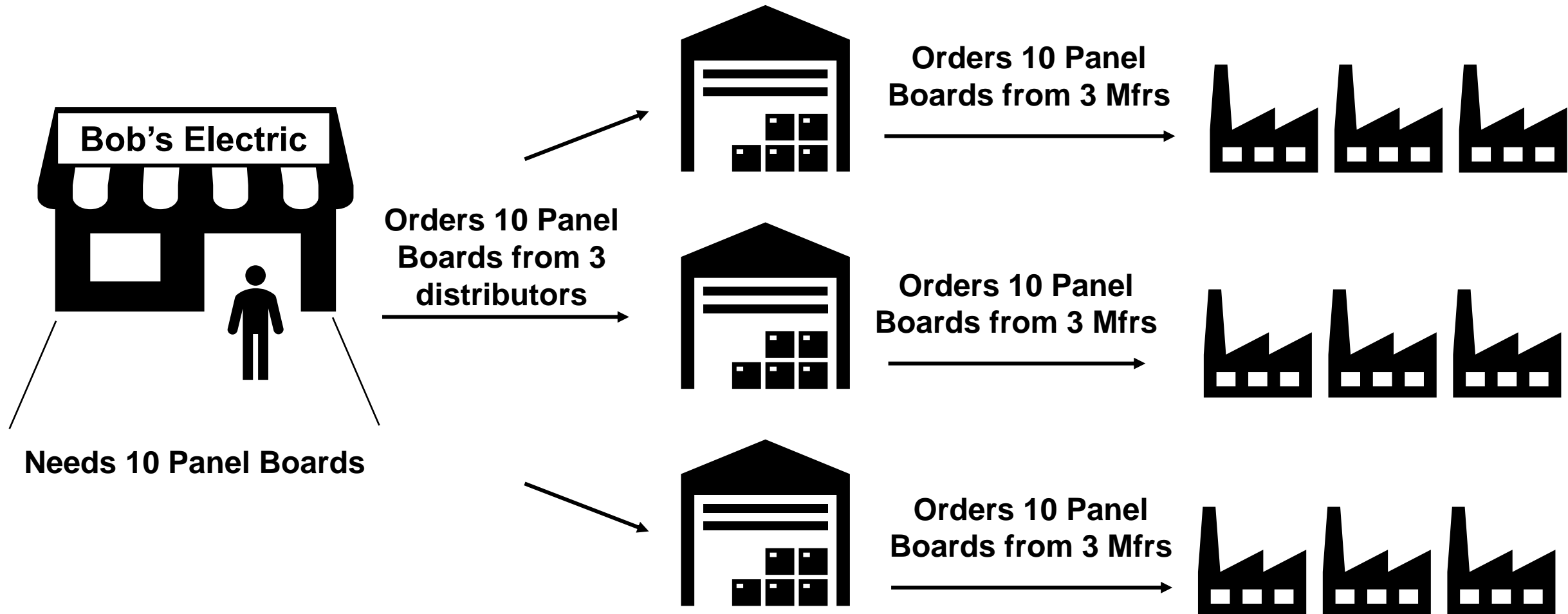
Actual Demand: 10 Panel Boards **Actual Supply Chain Orders: 90 Panel Boards**

Why does this happen ?

- Demand signal confusion
- Lack of supply chain visibility
- Lag in the system response
- Humans. Sigh.

Working Capital Risk Ratio

$$\frac{\$ \text{ Value of outstanding backorders x Probability of not being cancelled}}{\$ \text{ Value of outstanding purchase orders to suppliers}}$$

= **>1 = Okay**

<1 = Higher risk of problems

Demand vs. Supplier Order variation
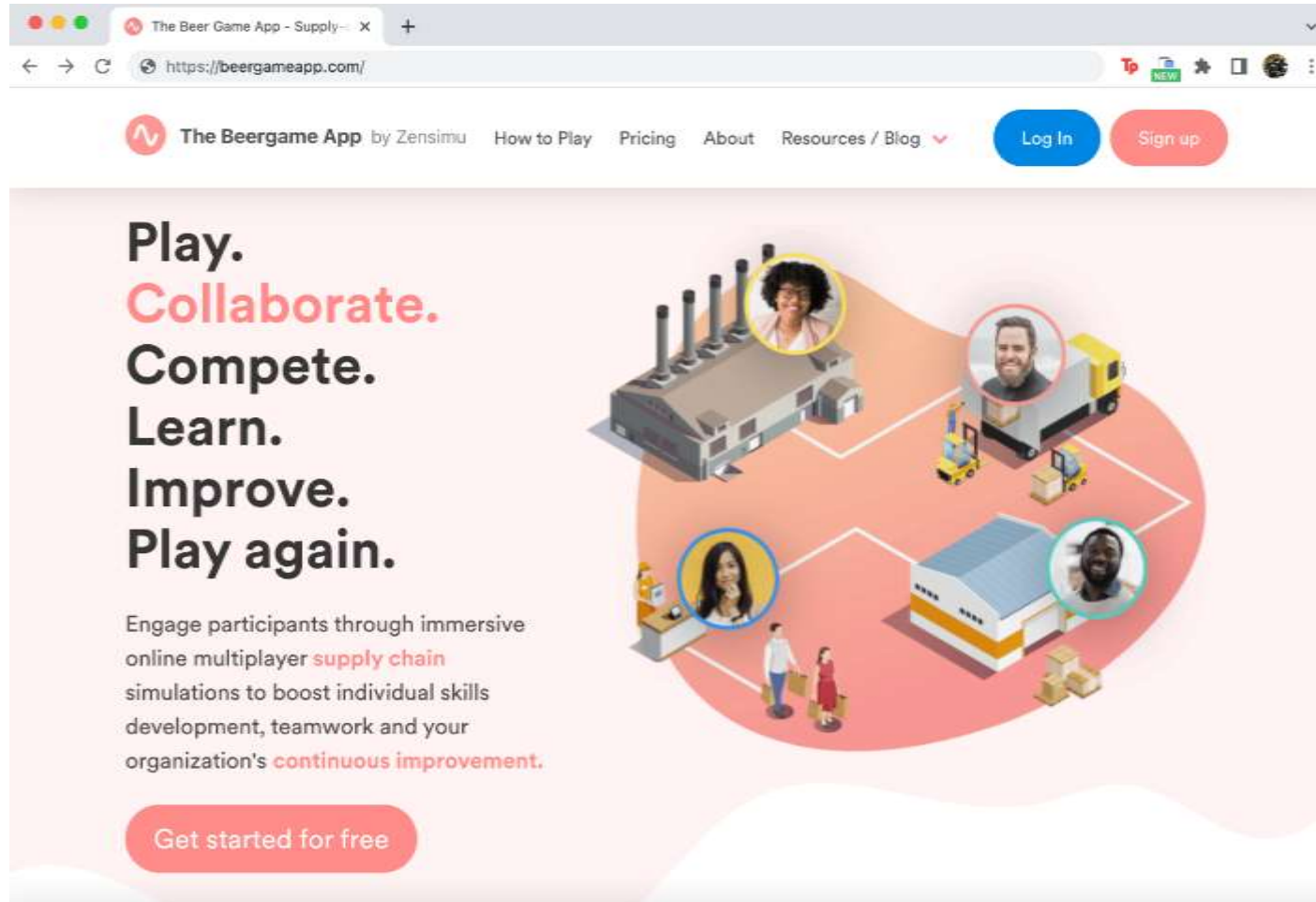
A. What is the average demand and variation in demand (standard deviation) from _customers_?

B. What is the average orders and variation in orders (standard deviation) placed with _suppliers_?

• When B is greater than A the risk of the financial whiplash (bullwhip effect) increases

For more details, see our recent webinar:

How Distributors Can Act Now to Mitigate Supply Chain Disruption

www.distributionstrategy.com/all-events/on-demand-webinars/

The Beer Game: Beergameapp.com

What to Do When You Go Home

- Embrace digital
  - Modern IT and digital architecture
  - Industry standard product database / Robust customer database
  - Design your website to drive engagement and sales through ALL channels
  - Add a "Quote Cart"
  - Measure eCommerce ROI properly (not just shopping cart £)
  - Services tab

- Manage Customer Lifecycle
  - Set goals for customer acquisition, wallet growth and retention
  - Identify an owner
  - Measure performance

- Work with manufacturers to normalize supply chain demand

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