

Wholesale Distribution Industry Outlook

The wholesale distribution industry is changing. The days of solely delivering manufacturers' products to retail customers at a competitive price are gone. Today, wholesale distributors are business partners participating in traceability initiatives and employing operational mobility to meet customers' demands. Looking near term, wholesalers will continue to evolve their business, providing more value added services and employing analytics to help drive new business endeavors and operational efficiencies. Looking into the future, the retail revolution, technological advances and business integration could so drastically disrupt the face of wholesale distribution that it becomes almost unrecognizable.

This industry outlook will review the following five challenges of the wholesale distribution industry.



Operational Mobility



For some industries, mobility simply adds a level of convenience or even a factor of cool. For wholesale distributors, mobility can make significant improvements in efficiency, equipping the many mobile employees to do more. It can also connect wholesale distributors to their retail customers, improving service levels, gaining speed as well as collecting data for analytics.

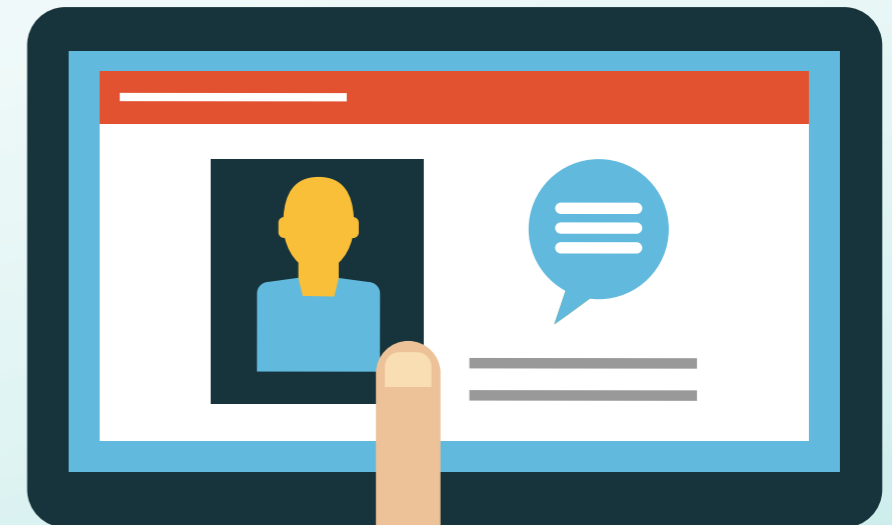
Placing devices in the hands of mobile employees provides them with the ability to execute planned trade promotion merchandising and displays for their customers. It also gives them the opportunity to collect real-time competitive and consumer information while on site with the retailer. Additionally, simply equipping this mobile force with the ability to recalculate and print customer receipts can improve efficiency and customer service.

Providing retail customers, especially mom and pop shops, with the ability to place orders through a mobile device can improve efficiency and customer service. Some wholesale distributors today allow retailers to submit orders either through web-based portals or mobile apps. Some make it as simple as taking pictures of items that are low on stock and submitting them for replenishment.

Whether equipping internal mobile employees or retail customers with mobile devices, there are many factors to consider. Because mobile devices today are more available than ever and the skillsets to develop apps are readily accessible, it is tempting to jump in head first. Wholesale distributors should first develop a mobility business case, strategy and roadmap. Distributors need to identify the specific business benefits they are trying to accomplish and then create a step-wise approach to get there. Integration with the backbone ERP system is a critical step to making mobility a worthwhile investment. Automating orders, checking and securing inventory, finalizing trade promotion activities and integrating mobile data into analytics should all be considered. Other factors to consider are device allowances and mobile security.

Looking Ahead

- Have you developed a mobility business case and strategy to get started?
- How are you or will you leverage mobile data to improve core business operations?
- Will you allow your mobile force and/or retailers to use their own devices or will you provide devices? If you are allowing them to use their own, what is your security approach?



Traceability



Traceability has and continues to be a hot topic across the many industries that wholesale distributors serve with food and healthcare among those facing the most scrutiny. By receiving, warehousing and distributing manufacturers' products to retailers, wholesale distributors play a key role in the manufacturers' ability to trace their products.

Healthcare

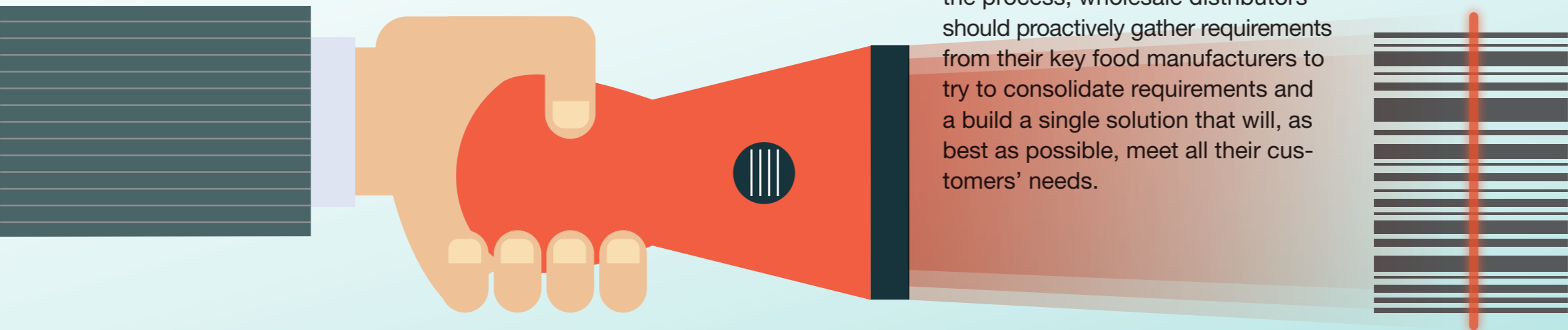
With the rise in prescription counterfeiting, regulations will soon call for wholesale distributors to validate authentication of prescription drugs. Starting in 2015, some wholesale distributors will need capabilities to maintain transaction information for all previous transfers of ownership, as well as maintain and share data on products as they move throughout their segment of the supply chain. With the new regulations calling for unit level serialization, the volume of data that will be required for compliance will be immense. Although several years away, wholesale distributors should start working with their pharmaceutical clients to align processes and technology efforts.

Food

Food safety and traceability are very popular topics among consumers today, and many food companies are focusing efforts to trace their food from farm to table. A number of wholesale distributors have already been approached by food manufacturers requesting support of traceability initiatives. Most frequently, wholesale distributors are being asked to change their labeling, such that downstream retailers can continue the products' traceability. Distributors are also being asked to capture key supply chain information, such as receiving, manufacturing, and distribution, and to provide this information back to the food company that is ultimately responsible for the products. If not already engaged in the process, wholesale distributors should proactively gather requirements from their key food manufacturers to try to consolidate requirements and build a single solution that will, as best as possible, meet all their customers' needs.

Looking Ahead

- Have you proactively connected with your manufacturers to understand their current and future traceability needs?
- How can your solution scale to meet future traceability regulations and customer needs?
- How can you leverage this traceability data to improve operations?



Middle Men No Longer



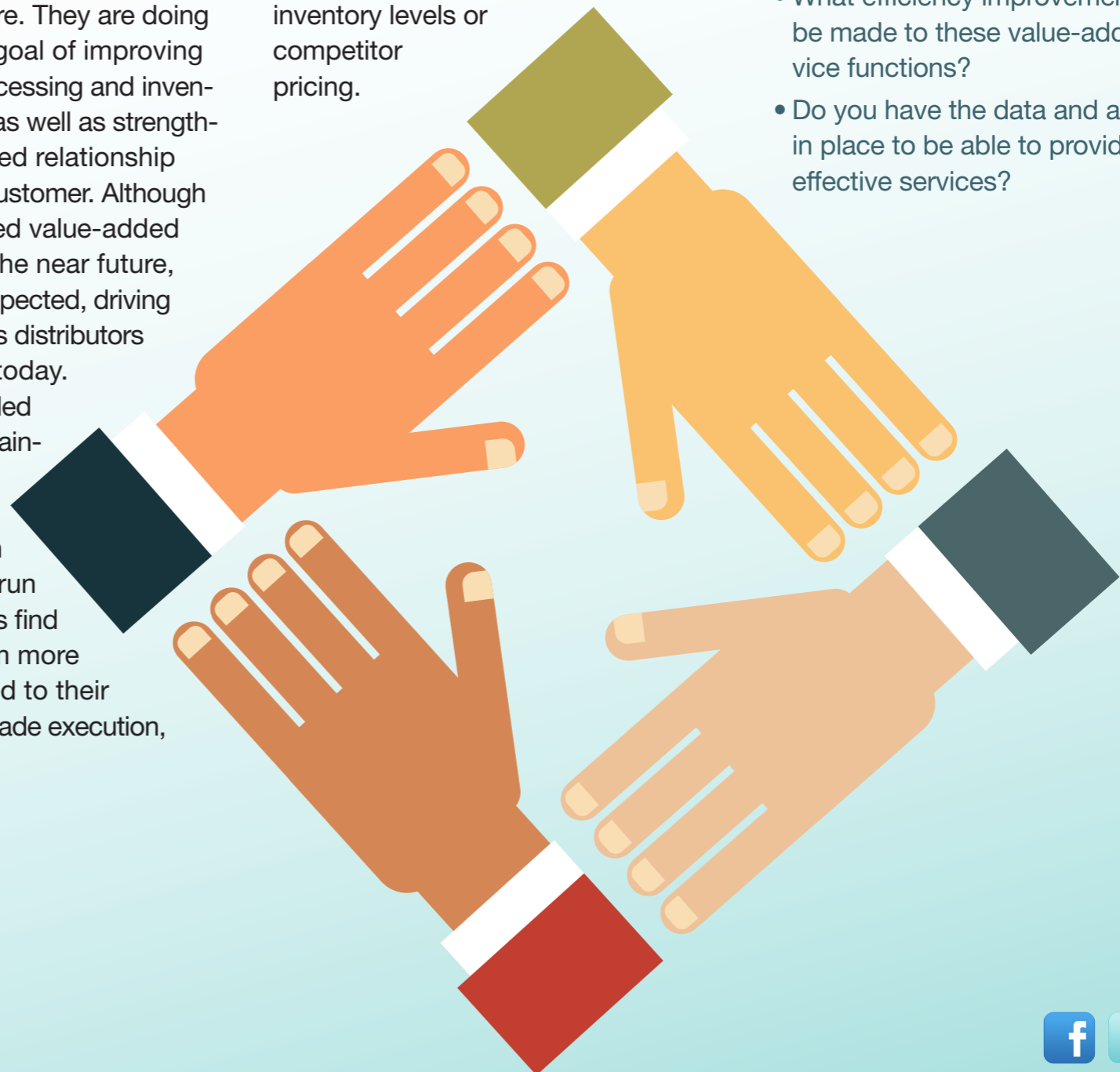
Historically, the wholesale distribution model was more simplistic – efficiently deliver manufacturers’ products to retail customers at a competitive price while providing great customer service. Today, however, manufacturers and retailers are expecting more from their wholesale distribution partners. And, although these additional service demands can be revenue generating, they can be challenging to execute, as they are traditionally outside of the most distributors’ core competencies.

Leading wholesale distributors are now offering value-added services to manufacturers and retailers. Some are kitting products, executing trade activities, financing growth initiatives and hosting business systems and related infrastructure. They are doing all of this with the goal of improving their own order processing and inventory management, as well as strengthening a differentiated relationship with vendors and customer. Although these are considered value-added services today, in the near future, they will soon be expected, driving down any premiums distributors may be collecting today. As these value added services become mainstream, wholesale distributors will need to make each of these functions run efficiently, as well as find ways to make them more attractive compared to their competitors. Take trade execution,

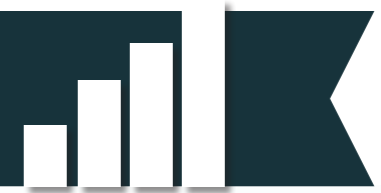
for example. Wholesale distributors need not only to track and submit accruals and chargebacks, but also to have business intelligence to guide manufacturers of needed pricing or promotions based on inventory levels or competitor pricing.

Looking Ahead

- What value-added services are you not providing your manufacturers and customers compared to your competitors?
- What efficiency improvements can be made to these value-added service functions?
- Do you have the data and analytics in place to be able to provide more effective services?



Analytics



The core wholesale distribution business is about managing costs. Reducing safety stock, better leveraging warehouse resources, and improving and gaining efficiencies on cube utilization and route planning can make significant differences to a distributor's bottom line. Outside of operations, analytics can be leveraged to assess pricing strategies, customer profitability and program performance. With the availability of data today, wholesale distributors can see a huge internal rate of return on analytics investments.

Although the big data topic gets much press, the real challenge for wholesale distributors is what to do with the available information. The goal of analyzing data should be to drive out costs, find missed revenue opportunities, and make faster decisions with fewer resources. That's very easy to say, but with the sheer volume of data available and the embedded experienced-based decision making that is so common in this industry, investing time, talent and technology is often challenging.

Data can come from several sources – manufacturers, large retailers and a great number of mom-and-pop shops. Collecting, organizing, calculating and making the right data available in close to real-time provides wholesale distributors better visibility and the capabilities to make decisions more frequently. See list below for areas wholesale distributors should target to improve.

One of the key business processes where data analytics can make an immediate impact is with Sales & Operations Planning (S&OP). The right analytics can transform this process from a rearview mirror, gut-based meeting into a fact based, scenario planning exercise. This transformation, as well as gaining the benefits below, is not just as simple as creating the right set of analytics. It requires a cultural shift that must be driven from the top down. The wholesale distribution business has traditionally been run by seasoned industry executives that have excelled through their impeccable decision making based on their knowledge of the industry. Moving ahead, wholesale distribution leaders need to make the investment in both technology and analytical talent to fully leverage the power of available data.

Looking Ahead

- Have you defined the needed data and corresponding analytics needed to make key improvements in your business?
- What investments have you made to make real-time analytics a reality (e.g. technology, process, people)?
- How do you plan to create an analytics driven culture?

Analytics for Measurable Improvements

- *Reduce safety stocks and overall inventory levels freeing up cash for other investments*
- *More efficiently use warehouse resources, reducing overtime and improving productivity*
- *Gain greater efficiencies on equipment, assets and cube utilization through ad-hoc what-if analysis*
- *Optimize route planning and loading*
- *Improve purchasing decisions considering downstream impact on warehousing costs*
- *Better negotiate deals that require complex calculations of pricing conditions and discounts*
- *Provide manufacturers intelligence on business decisions*
- *Stratify customers and products for better and faster profitability analysis*





Retail Revolution

The new consumer reality, the changing basis of retail competition and the disruption of online shopping is creating a stir among retailers and manufacturers alike. This Retail Revolution will at minimum require today's leading retailers to change the way they serve their consumers. It could alternatively leave behind the retail leaders that have been so dominant over the last thirty years. No matter where this new world of retail goes, wholesale distributors will be impacted and preparation for this shift must start sooner than later.

With the growth of online shopping, retailers will continue to morph their business to fulfill consumers' expectations. Same day shipping and free shipping are becoming a norm. Managing retail floors along with online order fulfillment may soon be too much for retailers to handle alone. Those retailers who survive the Retail Revolution will most likely turn to their wholesale distributors for support.

Looking at the wholesale distribution business model, it is most certainly not designed to fulfill consumer orders. To adequately support retailers, distributors would need to process exponentially more orders, significantly

beefing up capacity. Although this approach would present a significant business model change, distributors may find that this is the only way to maintain volumes, as retailers will most likely start reducing in store SKUs. The focus and capabilities of AmazonSupply also add to the urgency to partner with retailers and expand capabilities. Additionally, preparing in this way for the Retail Revolution will better position distributors to partner with online retailers who also need support with fulfillment, which could be of critical importance if some of the large, traditional retailers do not survive.

Looking Ahead

- What business plans do you have in place if your key retail customers do not make the Retail Revolution transition?
- Have you considered a business plan for approaching your retail customers about fulfilling online orders?
- What process and technology changes would you need to make to help retail customer fulfill online consumer orders?



Future Disrupters & Wrap Up



About the Author

Sebastian Valencia is a senior manager with Clarkston with over thirteen years of management consulting and supply chain experience. He has extensive experience in consumer products and life sciences wholesale distribution and supports clients in supply chain, outsourcing, mergers and acquisitions, vendor selection, pricing and distribution network optimization.

In the next 5-10 years, there are several technological advances that could very likely disrupt the wholesale distribution industry. The advancement of 3-D printing is gaining significant traction on several upstream industries, including life sciences and food. It is unclear at this point how this technology will penetrate these industries, but the wholesale distribution impact could range from moving into the 3-D printing business to becoming obsolete in delivery of certain products where retailers or consumers could print the products themselves.

Looking even further out, the use of drones for product delivery could also impact wholesale distribution, especially as the Retail Revolution continues and more purchasing is conducted online. Again it is hard to know when and how drones will ultimately be used domestically, but it does not seem too farfetched that wholesale distributors could one day own a fleet of drones to supplement their fleet of trucks.

Considering many of the value added-services wholesale distributors are already providing customers combined

with these advances in technology, it is expected that wholesale distributors will continue to diversify the portfolio to manage risks. Considering the specific industries served, wholesale distributors may start to provide their manufacturer and retail customers financing, insurance, research and development support, analytics and/or consumer marketing and sales solutions. This vertical and horizontal integration could transform the traditional wholesale distribution business into something almost unrecognizable.

To continue the discussion on the outlook for the wholesale distribution industry, contact Sebastian Valencia / svalencia@clarkstonconsulting.com.



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