



Is B2B e-Commerce the End of Wholesale?

Management Outlook

Amazon exists since '94. Still, it took twenty years before traditional retail actually started to feel the effects of the online competition. We see vacancies in shopping streets while retail chains go broke, downsize or simply struggle. This situation strongly contrasts with the business-to-business (B2B) market where little seems to change. Can we expect a similar revolution there?



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Tipping point

Today around twenty percent of business-to-consumer (B2C) sales of goods and services in the Netherlands go via the internet. If we limit ourselves to goods, then the share of online retail is still around ten percent (Source: [Thuiswinkel, 2015](#)). For physical stores with relatively high fixed costs, a revenue decline of ten to twenty percent makes the difference between profit and loss. At the same time, retail prices are under pressure due to the transparency of the Internet. In the past two years, we have seen that the tipping point has been reached and the retail world is under siege.

Old structures

How different is the situation in the B2B market? Old structures are still going strong. Many wholesalers do not even have an online store or only publish an online catalog. Prices remain hidden behind logins. In this way, wholesalers may vary prices per customer and consumers cannot see trade prices. Then, quite clearly, the floodgates would be open wide.

Shop around

Besides prices, also markets are regulated. Wholesalers negotiate market exclusivity rights for brands. Prices may vary considerably between regions. And not everyone is permitted to buy. At Dutch food wholesalers Makro and Sligro you may only enter if you are registered at the Chamber of Commerce. Yet, this distinction is diminishing with [over 800 thousand self-employed](#) in the Netherlands. In this way, wholesalers try to avoid channel conflicts on the one hand and on the other to keep clients with small sales volumes outside the door. However, the question is how long these structures remain standing. If the internet makes prices more transparent and it becomes easier to buy in other markets, then more companies will start to shop around.

Direct sales channel

Further, we see that (brand) manufacturers are increasingly opting for the direct sales channel via their own online stores or via marketplaces like Amazon. Chinese manufacturers offer their product range worldwide via Alibaba. Conversely, local-for-local also is a trend. For instance, the Dutch portal Dterra lets local farmers sell their products directly to consumers. Market shares for direct sales are still modest and logistics remains a concern. But remember, once we said the same about online stores.

Irreversible

For manufacturers, it is lucrative to bypass intermediaries and no longer share margins. Moreover, it is advantageous to have direct contact with end customers. However, channel conflicts arise, as the manufacturer suddenly starts to compete with existing customers. Furthermore, manufacturers fear the logistics implications of the many small orders that do not go well together with the current thick goods flow. And what do you do as a manufacturer with pricing when others sell under your recommended prices? Yet this development is irreversible.

Amazonian proportions

Manufacturers who sell directly are a threat to wholesalers. At the same time wholesalers should also should keep an eye on their peers. What happens if an existing competitor or a new entrant opens the market with an accessible online store, convenient mobile apps and an unlimited product range? Before you know it, the new player reaches Amazonian proportions in the market.

Sense of urgency

The future scenario is that market shares shift to new parties and wholesale prices come under pressure due to transparency. Like retailers now, wholesalers may enter hard times. How long will it take until this happens? I do not think another 20 years. Technology now is a lot more mature than before, there is a higher sense of urgency in the market and logistics networks for direct shipping are in the making. Dutch logistics service provider Bakker Logistics is establishing a network of large distribution centers for supplying food products on behalf of multiple manufacturers to various retailers from the same stock. Leen Menken has set up a [distribution network for fresh delivery to consumers](#) where mainly other carriers do the transport on their behalf. Drivers confirm their deliveries simply via iPads. All this makes it now a lot easier to roll out new concepts.

Proven Approach

What can wholesalers do to stay ahead of these developments? A proven approach is to follow the following four steps.

1. Straighten out the basics
2. Unleash the digital channel
3. Create a scalable operation
4. Integrate channels (omnichannel)

Straighten out the basics

A prerequisite for transformation is that the basic processes are in order. Purchasing, sales, inventory management, finance, warehousing and distribution planning run efficiently and reliably, supported by modern information systems. This is the foundation on which to build the new company.

Unleash the digital channel

The next step is to introduce an online store. This may create initial savings, because customers now often send orders by phone or email which creates a lot of work for the internal staff. The digital channel can focus on existing customers, but can also appeal to new customer groups. Possibly the online store creates smaller orders, which will require a new way of order-picking. As long as online sales volumes are limited, they typically can be processed easily in the existing warehouse. If volumes grow and they are not easily absorbed in the existing operation, then outsourcing is an option. Finally, with proven success the warehousing can be taken again into their own hands.

Create a scalable operation

The operations of many wholesalers are not ready for steep growth. Back office employees are pressured to enter orders, allocate inventories to orders, plan trips, track deliveries and register new customers in the business system, etc. That is not scalable.

In order to realize substantial growth with the same number of people, new IT is needed. Traditionally, businesses built their IT architectures around ERP systems. However, ERP is rigid and inward focused. Lately, we are see new IT components arising that provide greater business agility and easier collaboration with third parties. Companies reduce their ERP systems to transaction machines where stocks, orders and finance are kept. Along with familiar systems like WMS, TMS, CRM and the online store, the next five systems are indispensable in a modern IT architecture (Figure 1).

- PIM (product information management) system for tracking product data, including photos and commercial texts. Product data can be taken from suppliers and be

enriched for the online store and other marketing communications.

- OMS (order management system) for automatic orchestration of order fulfilment. Configurable business rules determine from which site to source, how long deliveries will take, which carriers do the transport and along which routes, directly or via hubs. The business rules can be continually extended to cater to special or new situations.
- ESB (enterprise service bus) for connecting internal systems and systems of suppliers and customers.
- Mobile apps to ensure that employees and customers are always connected. For example, a sales representative will go on the road better prepared, a driver can accept freight in real-time and customers can simply enter orders from their store or on a building site.
- BI (business intelligence) tool for analyzing data from various systems.

With these systems, the wholesaler is ready for the future. Transaction volumes can upscale easily and step-by-step services can be enhanced.

Integrating Channels

The distinctive character of wholesalers is that customers can easily purchase a complete product range from one party. For in the future to continue to make a difference as *one-stop-shop*, the wholesaler has to offer the widest choice. Modern IT makes it possible to expand the assortment with virtual stock that lies at suppliers or other affiliates. Also, the wholesaler can open his online store and



Figuur 1. Voorbeeld van moderne IT-architectuur.



distribution network as a sales channel for third parties. Conversely, the wholesaler can virtually sell its products through third-parties. To illustrate, [40 percent of sales of Amazon](#) is sold by third parties. Sales channels seamlessly intertwine. Direct sale to consumers becomes an option. The wholesaler transforms into an omnichannel supplier.

Convenience and competitive prices

Besides a complete product range, the wholesaler of the future should also offer convenience and competitive prices. Kramp Group, a progressive wholesaler of agricultural tools, offers [mobile apps](#) for ordering products in the workplace. Currently, the company is engaged in the rollout of [PIM](#) and [OMS](#) to further optimize its European distribution from nine warehouses. Another innovative example comes from Dutch technical wholesaler

Technische Unie that [delivers orders at construction sites](#) on the workplace of the mechanic prior to the workday. Wholesalers can offer these superior services at competitive prices by increasing scale and efficiency.

Conclusion

Is B2B e-commerce the end of wholesale? Clearly, wholesalers may expect fierce competition in the coming years from manufacturers with direct deliveries as well as innovative newcomers. Enterprises that aim to survive the digital revolution will have to invest in flexible IT and new models in order to continue making a difference for customers. We advise to go step by step and see what does/does not work. That is how you discover the route to success.

Jeroen van den Berg Consulting is a consultancy with specialisation on the cutting edge of commerce and logistics in a changing world. For more information you may contact us at the address below.

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