# Wholesale must change to stay relevant

## Survival of the industry calls for digitization

The wholesale industry is under considerable pressure worldwide. Retailers and consumers are demanding increasingly shorter delivery times and margins are under pressure. At the same time, business growth is stagnating and wholesalers are under threat of being forced out of business by their former partners in the chain. With the erosion of the revenue model, innovation is the only way to survive. This white paper describes different ways of doing this.

Wholesalers play a key role in the chain between manufacturers and retailers. Traders traditionally buy from suppliers and sell to retailers. However, the extremely rapid growth of e-commerce has altered the playing field drastically. More influential e-tailers such as Amazon and Coolblue are increasingly taking over wholesale tasks. This is threatening to push wholesalers out of the driver's seat, according to ING's Economics Department report Digitization puts pressure on wholesale revenue model* (in Dutch: *Digitalisering zet verdienmodel groothandel onder druk*). But it is not just the shift to e-commerce that is causing the industry to face huge challenges. Companies must take proactive action in order to stay in control.

Compared to the wholesalers themselves, their chain partners generally have access to more strategic advantages, such as customer data and digital expertise. Hence, these wholesalers are being forced to make targeted investments in digital platforms and IT personnel. This is much more affordable for large companies than for the small players within the industry. But, according to the report, if companies do not start making use of digital platforms soon, it will be too late for them to take control of the chain. Communicating with suppliers and customers is extremely important.

## E-commerce and fast deliveries put pressure on the market

In addition to e-commerce companies taking over the role of wholesalers, manufacturers will also increasingly start selling their products directly to the consumer or retailer**. This will marginalize the role of some wholesalers and, at the same time, put even greater pressure on the small margins. In addition, retailers are demanding that deliveries be made faster than ever before and sometimes even within 12 hours, making huge demands on wholesalers' stock management processes.

Not only is speed of delivery crucial, where even a single failure to deliver leads to a loss of customers, but there are also companies that maintain product stocks instead of depending on the retailer for this. Although this entails additional costs for these companies, at least it allows them to always guarantee quick deliveries. In addition, stocks have to be large enough so that orders do not have to be refused. If wholesalers are unable to keep large stocks, retailers (just like consumers) will decide to shop directly from somewhere else and will never return. This combination of factors requires a smart stock management system, ensuring there is always sufficient stock available without this cost item affecting the narrow margins. Here we see several emerging trends, with the Internet of Things (IoT), big data and a sharp change in focus playing a major role.

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## The logical next step: automation of stock management

Industry leaders are already deploying automated systems. The necessary technology for eliminating human error and optimizing speed is available. Traditionally, sales reps visited retailers with their notepads ready. They would take the order on the spot, so they could enter it into their systems at the end of the day. Nowadays, with the introduction of mobile applications, orders are directly placed during the customer visit, allowing for faster deliveries. The whole process can go even faster if retailers are also able to place their orders directly via the wholesaler's website. Optimal speed and efficiency can be achieved with the use of IoT. This can be done in various ways.

One method is to link the retailer's ERP point-of-sale system to the wholesaler's ERP system, such that it is immediately clear to the wholesaler when products are sold. At a critical level, new orders are sent directly to the wholesaler, which in turn immediately sends a purchase order to its supplier. Another method is to measure stock levels using sensors.

Trek Bicycle has automated its stock management in this manner***. A stock rack with brand labels is fitted with a sensor which communicates the stock level, in centimeters, via the Internet. If the level is less than or equal to the reorder point, the sensor ID is translated into an item number. The system also generates an immediate check to see whether there are any pending purchase orders. If not, a new purchase order is created via a web-based service. At the same time, an email is sent to the buyer.

This is why they will have to carry out more and improved analyses based on their data. For modern wholesalers, data is becoming an increasingly important source of insight. According to research by KPMG , 90% of entrepreneurs see the potentially positive effects of big data as an added value. Order processing and report generation are already commonplace, according to the KPMG report. The possibilities of data analysis, however, are still far from being fully exploited. Larger wholesalers, in particular, should be able to invest and derive strategic benefits from this. In this manner, wholesalers can start playing a pivotal role in the chain in terms of data.

## Wholesale must make better use of (big) data

Another way for wholesalers to remain in the driver's seat is to assess the flow of goods and stock management via forecasting. By analyzing the available data, companies can assess new developments and future requirements. A particular month, the weather or specific events, such as holidays, may affect the demand for goods. Indeed, wholesalers have huge amounts of data at their disposal which are not yet being sufficiently utilized.

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****: https://assets.kpmg.com/content/dam/kpmg/pdf/2015/08/insurance-big-data-analytics-fs.pdf

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## Wholesalers turn brokers with a digital portal

The question is whether mass deliveries will continue to produce the desired profits as in the past, especially since e-tailers often work with lower stock levels. Some wholesalers will continue to deliver large quantities; others will exchange pallet and bulk deliveries for smaller deliveries of niche products to retailers or directly to consumers. This requires a totally different method of working and will also put more pressure on the relationship with retailers if they are side-lined. As a result, e-tailers, retailers and wholesalers will not just be partners, but also become each other's competitors.

If a wholesaler can set up a digital portal to easily serve manufacturers as well as consumers or retailers, they will succeed in retaining their key position within the chain. In this way, they remain the middleman, but only in the capacity of a broker. If the distribution is outsourced, the wholesale business will evolve into an intermediary that only needs to check the transactions. This means it is essential to have an open ERP system, which makes it easy to link to other solutions of chain partners via XML.

## Vital and flexible heart of the business

JD Edwards offers such solutions, which are available to wholesalers that have their own on-premises data center, as well as for a private cloud where JD Edwards runs in a hosted environment. But it can also run on public cloud infrastructures such as Oracle IaaS or on the Amazon Cloud. Additionally, JD Edwards can be on-premises while connecting to SaaS applications, forming a hybrid cloud. Oracle has in fact developed a complete range of SaaS apps, known as Oracle Cloud Applications, whose modules can be integrated with JD Edwards. A few great examples of this are Oracle BI Cloud Services and Oracle Sales Cloud, which is a CRM system. The Oracle Market Place offers countless SaaS applications that can be implemented quickly.

In other words, JD Edwards can run on anything and it is also independent from databases, middleware, operating systems, and browsers. JD Edwards is an open platform that can communicate with all popular middleware platforms via XML interfaces, web and business services, and REST APIs. This makes it easy to link to third-party applications, through which extra value is continually added to both JD Edwards and the business. If the digital heart of the wholesale business stays flexible and can communicate successfully with chain partners, the industry will be able to stay on top of its game.