



Becoming a Strategic Channel for Goods and Services: Challenges and Opportunities

The Best Strategy for Becoming a Strategic Channel

The notion of the "strategic channel" is a response to the highly-pressured market environment for wholesale distributors. With the availability of new technology that enables a self-service sourcing and procurement model for many companies, wholesale distributors are being forced to seek out a new definition of their role within the supply chain. Being strategic means learning how to make better use of the relationships and market knowledge that wholesale distributors already possess. Above all, being strategic means making better use of technology to add value to relationships within the supply chain.

The challenge to wholesale distributors has been clearly outlined in the Pembroke Consulting report, *Facing the Forces of Change: The Road to Opportunity*. According to Pembroke the volume of online ordering through distributors will triple by 2008 and account for more than one third of distributor revenues. As the report indicates, the self-service model provides both an opportunity and a challenge: "Online account information provides the most basic "self-service" functionality. Product information, order placement, order tracking and delivery planning are activities that customers will increasingly perform themselves." This would seem to oust wholesale distributors from their previously secure position as go-between. With empowered customers, wholesale distributors must do more to avoid redundancy.

Self-Service Systems: The Challenge of Empowering Customers

On the surface, Pembroke's predictions may seem very beneficial for distributors—getting customers to do more to help themselves reduces overhead and administration costs. And it creates "open" service availability 24 hours a day, seven days a week. However, it also erodes traditional distributor/customer relationships. If customers can help themselves, what's left for distributors to do, apart from making sure the right products are available at the right time and right prices?

In fact, even at this functional product level distributors are in danger of becoming redundant because technology empowers demanding suppliers. For example, it enables them to update product catalogs on distributors' web sites and analyze product performance in order to ensure the best-selling and most profitable lines are well represented. But there is no guarantee that suppliers will provide the goods when they are required, so when things go wrong it will be the distributors who face the customers' wrath.

On the upside, the new self-service model may well benefit distributors since suppliers give priority to distributors that are "favored" (for whatever reasons) and offer them the best deals. The downside, however, is that there is little to stop suppliers from capitalizing on technology, cutting out the middlemen and going directly to customers on their own.

So ironically, by setting up self-service systems that make it easier for customers and suppliers to do business with them, distributors run the risk of losing their position in the supply chain because self service reduces their direct interaction with customers and suppliers.



In spite of the risks, though, distributors have no option but to get connected. Quite simply, distributors that rely on “low technology” and see no future beyond “box shifting” are likely to have only a limited shelf life themselves. Reliance on increasingly high volumes to underpin eroding margins is a business model that makes little sense and is ultimately doomed to failure.

What's Your Market Strategy?

Pembroke's predictions may sound like a grim prognosis from a distributor's point of view. However, with the help of a creative approach, the challenge can definitely be met. Success requires a collective, enterprise-wide change in service focus and attitude, and the strategic application of technology to affect that change. By making these changes, distributors should find it easy to establish themselves as essential strategic channels for products and services within their supply chains.

Distributors also have the opportunity to conduct their own orchestras, so to speak, by building up a supply chain community characterized by strong relationships with customers and suppliers that is built on value-added services that contribute directly and tangibly to the commercial welfare and success of all parties.

Of course not all distributors and markets are the same. A practice that is a strategic goal for one distributor may very well already be the norm for another. For example, some distributors operate in markets where fast and accurate delivery is already an everyday reality. In other markets, fast and accurate delivery may still be a strategic objective. So it is important for distributors to make their own value judgments about the maturity and sophistication of the specific markets in which they operate.

Nevertheless, the potential for improvements in delivery performance is ever present and should not be overlooked. One of the reasons that the Lawson enterprise resource planning (ERP) solution is so popular is that time and again it has proven its ability to meet the varied, practical demands of distributors through functionality aimed specifically at improving procurement, order processing and replenishment.

But what about distributors that already have fast and efficient order handling and delivery systems in place? For these companies, being strategic means continuously finding ways to remain indispensable and pivotal. Indispensable because the smooth operation and commercial well-being of the supply chain community should, in large measure, flow from the distributor's input. And pivotal because the distributor's moving agenda should always be pushing the boundaries of performance and knowledge in order to grow both sales revenues and margins for the entire supply chain community.

Whatever the sophistication level of their specific market, distributors need to be on the cutting edge in terms of technology usage. They must exploit technology as a strategic tool to develop a range of value-added services that distinguish them from their competitors and offer compelling “must haves” to their suppliers and customers alike. In so doing, these distributors will develop a supply chain community that can compete head-on with other supply chains and consistently come out on top.

Adding Value: The Key to Becoming a Strategic Channel

While the specific approach that each distributor should follow will vary somewhat depending on the characteristics of its particular market, as a general rule there are two main ways that distributors can add value:

1. Improving the final manufacture, procurement and movement of products.
2. Supporting after-sales service and developing and expanding the business.

From a distributor's perspective, adding value that improves the final manufacture, procurement and movement of products usually relates to extensions and enhancements to product catalogs and customer-specific price lists, product availability, and order status and tracking. It is also possible to develop closer collaboration with suppliers and customers in order to share information on a daily basis and achieve further improvements in supply chain forecasting and demand planning. More formally,



distributors can undertake regular joint planning with suppliers by working together as a seamless team via collaborative planning, forecasting and replenishment (CPFR) functionality.

The key to adding value that supports after-sales service and develops and expands business is establishing value-added service extensions that permeate the operations of suppliers and customers alike. Further, it is crucial to exploit market knowledge as a high-margin commodity. By taking this approach, distributors can make themselves both indispensable and pivotal within the supply chain community.

Lawson M3 Supply Chain Management, which has been designed to improve service and relationships, is a very useful tool when it comes to adding value in these ways. It automates supplier sourcing, introduces real-time information handling to category management, undertakes spending analysis and margin control as a part of contract management, and facilitates consolidated sourcing for purchase order proposals.

Lawson M3 e-Sales provides the opportunity to manage the diverse needs of customers and suppliers through web-based portals that offer self-service, while web-based ordering speeds up the entire process and significantly reduces administration costs.

The Lawson customer relationship management (CRM) solution for distributors builds up a comprehensive customer knowledge database by supporting and tracking all aspects of customer relationships. It tracks all customer-related activities including contact and campaign management, lead generation, specific sales initiatives and follow-up activities. Lawson M3 Customer Sales and Service is integrated with standard office tools, e-mail and groupware, and makes up-to-date information available to everyone—improving the accuracy of decision making and the efficiency of individuals.

Three Highly Successful Strategic Channels: Fiege, Econocom and GBC

A few distribution companies have already moved beyond the old way of doing business and, as a result, they have transformed their fortunes and built a strong foundation for future success.

With the help of Lawson, leading European logistics provider Fiege has set up an Internet-based pull model for the centralized supply of medicine and non-drug-related products to a group of 11 hospitals and 18 sheltered centers in and around Münster, Germany. Now, every time a nurse on a ward scans the bar code on a box of aspirin for patient use, the “event” is automatically registered by replenishment functionality within Fiege’s Lawson-built enterprise system at the Fiege Medical Order Centre.

But Fiege is not content with mere logistics, no matter how state-of-the-art they may be. The company is now setting new standards in supply chain efficiency by finding opportunities to extend its services in order to become further embedded within the daily business of hospital life. As part of these efforts, Fiege has developed a specialized sterilization service based at its Medical Order Centre.

Fiege vehicles collect reusable medical instruments and equipment, such as scalpels and trays, from each hospital and return them within four hours. The service has significantly enhanced the company’s relationships with hospitals, as well as creating a new, highly profitable source of revenue.

Dirk Berlemann, managing director of the Fiege Medical Order Centre, is planning further service extensions. “Currently, our supply chain stops at each ward dispensary,” he explains. “So, we are examining the extension of our IT system to record and provide information to improve patient and cost management. This will include monitoring which drugs have been dispensed to individual patients and assigning indirect costs such as bed charges.”

Berlemann adds that the company can only achieve this further extension of its services by complying fully with data protection laws and demonstrating that the system is secure. He is emphatic about the role of technology in the company’s growth. “Our competitive advantage is our IT solution,” he stresses. As Berlemann sees it, Fiege’s IT

solution is a strategic factor in the company's continuing growth and commercial success. He believes that technology will play an increasingly important role in the development of the business.

Econocom is another distributor that has transformed its long-term business prospects with the help of Lawson. Prior to its restructuring, Econocom was a very successful distributor of IT-related hardware and peripherals. A few years back the company began to notice that its margins were shrinking and that the physical distribution of products to customers had become complicated and expensive. Econocom realized that unless it changed its business model it would not be able to sustain its revenues and attract new customers in its highly competitive, high-volume market.

Econocom's solution was to transform itself into a value service provider. The company no longer purchases, warehouses, handles and delivers products. Instead it has outsourced these facets of the business and focuses on providing a value-added IT outsourcing service to customers that centers on procurement, system support, maintenance and financing.

"Our success is based on giving customers considerable extra value," says Philippe Opsomer, director of finance and operations at Econocom. "Every day we focus on adding value to our customers' businesses and playing a part in their commercial success. And what's more, our suppliers and outsourcing partners see how successful we are and give us full support by ensuring that the right products are delivered on time every time."

General Binding Corporation (GBC), a global manufacturer and distributor of products used to bind, laminate and display information, is another Lawson customer that successfully embarked on the value-added trail to secure its long-term commercial prosperity. Faced with a high-volume market and shrinking margins, the company decided to transform itself into a value-added distributor and service provider, both for its own products and those manufactured by third parties.

The company now has field engineers, local machine repair workshops and a quality assurance certification procedure that GBC Europe President Thomas Stenebring says, "... differentiates GBC in a cutthroat market, builds customer loyalty and generates an additional revenue stream in an area that is not margin sensitive."

He adds, "Differentiation is key to our future success... We will utilize our IT investments with Lawson in order to continue to improve our business."

The Way Forward: Turn Your Business into a Strategic Channel

Tellingly, there is one key characteristic that Fiege, Econocom and GBC have in common. Each of them looked beyond the normal boundaries of their business and exploited their knowledge at both the operational and strategic levels to develop service extensions that make a positive contribution to the commercial success of the entire supply chain. Quite simply, each was determined to become the strategic channel for products and services in the supply chain.

Most distributors face similar, stark choices as their markets become increasingly subject to pressure from suppliers and customers, some of whom are themselves moving forward and backward along the supply chain in order to secure and improve their own futures.

In many ways, though, distributors are in a very good position to win. They are uniquely positioned to see the market holistically through the eyes of both suppliers and customers and draw upon the experiences of both. As a result, they can use their knowledge to develop a business model that influences the shape and direction of the supply chain, and thus secure for themselves a future based on growing revenues and margins that are protected, in large measure, from the unpredictability of the market. And there is no denying that that makes sound business sense.

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