

WHITE PAPER

A WINNING SUPPLY CHAIN:

A new model for a new wholesale reality

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INTRODUCTION

We're living in an era of uncertainties, with power shifts around the world and the erection of new trade barriers. The global economy is increasingly volatile and unpredictable. Meanwhile, society expects today's companies to be about more than just making money; in addition to the P for profit, there is a growing focus on the P for people and the P for planet.

More and more links in the value chain — especially retailers and wholesalers — are being forced to reposition themselves under pressure from both new and existing competitors with innovative, disruptive business models. B2B supply chain approaches now play an important role in future success.

In this white paper, we zoom in on the industrial and technical wholesale sector to illustrate the developments in this industry as a whole. Which evolution — or should we say revolution? — is under way? And how can wholesalers safeguard their future? We start by examining the changing customer, followed by the modern-day supply chain. We then dive deeper into the operation. What happens when a customer places an order? How can flawless fulfilment be achieved? How is the progress of the order monitored? And how can you keep the warehouse operation running smoothly and efficiently?



THE CUSTOMER

No two customers are the same — and this is especially true for companies active in the B2B sector, such as industrial wholesalers. Their client base ranges from big companies working on major projects to self-employed professionals who take each day as it comes. Every customer has his or her own demand and need, and these are changing all of the time, not least due to the influence of the internet.

FROM A PRINTED CATALOGUE TO ONLINE

Not so long ago, technical wholesalers were an indispensable link in the supply chain. Many companies turned to their catalogues for guidance when sourcing necessities like mechanical or electrotechnical components, mountings and installation materials or tools and spare parts. Good wholesalers knew what was available and what their customers needed.

However, the catalogue has now been superseded by the internet. Today's customers have an ever-clearer idea of what they are looking for, and if their favourite wholesaler can't provide it, they simply click further until they find someone that can. Moreover, an online search is increasingly likely to lead to a supplier that is not a typical industrial wholesaler; nowadays, Amazon also sells screwdrivers, door handles, kitchen taps and electrical sockets, for example. This trend has been termed the "consumerisation of wholesale".

SPOILING THE CUSTOMER

The internet is spoiling customers. People who are short on time now have the option of convenience. They can use a smartphone or computer to order virtually any type of food and have it delivered to their door within half an hour. A TV that broke the previous night can be ordered, delivered and installed in time to catch the big football match later the next day. Professionals have come to expect that the immediacy available for pizzas and TVs should also be possible for the parts and tools they need in business. A growing number of wholesalers are responding to these needs with technology like mobile apps that enable customers to order parts for delivery to the job site early the next morning — or perhaps even later the same day.

INCREASING CUSTOMER VALUE

So how can wholesalers increase their value in the eyes of customers? The supply chain holds the answer. Any company that wants to boost its customer value needs to create differentiation based on logistics, e.g., by delivering not only faster, but also to the right location. Rather than just delivering at the site entrance they can deliver to the right floor of the office block being constructed, or to the manufacturing company's production line rather than its warehouse. Some customers want to be able to pre-order products for delivery to a job site for a project starting next week. The parts must arrive in the right place at the right time — and that also means not too early.

Another way to increase customer value is to relieve customers of the burden of certain activities. Putting together toolkits of materials means that professionals don't have to first gather all of the materials they need themselves, while pre-assembling parts — such as attaching the tap to the sink in the warehouse — means that this step no longer has to be done on the job site. Wholesalers can strengthen customer loyalty by extending their service offering in this way.

TWO CUSTOMER TYPES

In general terms, there are two types of customers: big and small. The big customers primarily want to be unburdened in terms of both logistics and inventory management. They like to save valuable time by working with wholesalers who offer more extensive logistics services. Such customers ideally like to hold as little stock as possible themselves, but they need to know that they can depend on the wholesaler to deliver on time and in full. Once they've found a reliable partner, price is often of secondary importance.

Small customers are self-employed professionals who increasingly think like consumers. They expect products to be available when and where they need them. Besides placing orders using their smartphones during working hours, it's also becoming more common for them to order products from the comfort of their own home in the evenings. They are quick to look elsewhere if they can't get what they want, but a tempting special offer e.g. a promotion or incentive can persuade them to place an order after all.

MORE CONVENIENCE

Wholesale companies that set themselves apart through logistics offer their customers more convenience. Another way to do that is to broaden the product portfolio; the delivery driver is making a trip anyhow, so could he perhaps drop off some new work gloves, disposable cups or cleaning cloths too? Wholesalers do not necessarily have to keep stock of all of those products themselves, as long as they can guarantee that they will be delivered on time.

These changes are posing new challenges for wholesalers as their customers develop an increasingly diverse range of wants and needs. How can they organise their fulfilment operation efficiently in order to consistently meet all customer expectations, even when shipments include products stored elsewhere?



THE SUPPLY CHAIN

The linear supply chain shown in many textbooks is a thing of the past and has now been replaced by a network of multiple sales and distribution channels. How the supply chain will look for a particular shipment depends on the type of customer, his or her expectations and the order itself. In other words, every customer gets the supply chain that suits him or her — whether for a large order that can be divided into multiple shipments or a small order that has to be dispatched immediately.

INCREASINGLY COMPLEX

Industrial wholesalers have extremely complex supply chains that are often made up of multiple echelons. For example, they may have a central distribution centre to consolidate all of the incoming goods flows, regional warehouses to enable rapid dispatch to customers — within just a couple of hours if necessary — and sometimes local pickup points, where professionals can collect their orders before work in the morning.

Those supply chains have grown increasingly complex over recent years. Needless to say, wholesalers have their own online stores, but they can also sell their products through other web-based channels, such as Amazon and the like. The long tail of online stores is getting longer all of the time, but, as mentioned before, it isn't necessary for wholesalers to hold stock of every item themselves, providing they can guarantee that the supplier can deliver the product as agreed.

INCREASINGLY DIFFUSE

Moreover, supply chains are changing dramatically. Wholesalers are continuously looking for ways to increase their added value. Some of them have already succeeded by joining forces with other wholesalers of complementary products to consolidate their goods flows. Besides working with suppliers who hold stock for them, some also manage inventory on behalf of their customers.

A wholesaler's network can be interesting for other companies too, such as a machine builder that asks a technical wholesaler to take care of its spare parts storage and distribution. In that case, the wholesaler suddenly finds itself fulfilling the role of a logistics service provider.

CLOSER TO THE CUSTOMER

We are currently seeing a wave of consolidation in the wholesale sector, with several major players going from strength to strength as they acquire local companies. This is creating new national — and sometimes international — networks. These players have realised the need for downstream integration, and takeovers bring them a step closer to the customer. In turn, this puts them in a better position to respond to the customer's demands and needs.

Mergers and acquisitions are also an instrument for creating the necessary economies of scale for a wholesaler to keep expanding its product range to keep pace with customers' expectations. However, mergers and acquisitions are not the only way to create economies of scale, as demonstrated by wholesalers that offer the complete product range of their suppliers online without holding stock of the items themselves.

DOING MORE WITH LESS

In terms of how wholesalers' supply chains are changing, there is one significant trend reversal: efficiency is no longer the key driver in supply chain design. Now that logistics-related activities are becoming more relevant for wholesalers, efficiency is being overtaken by other values, such as speed, punctuality, quality and flexibility. How can wholesalers capitalise on that?

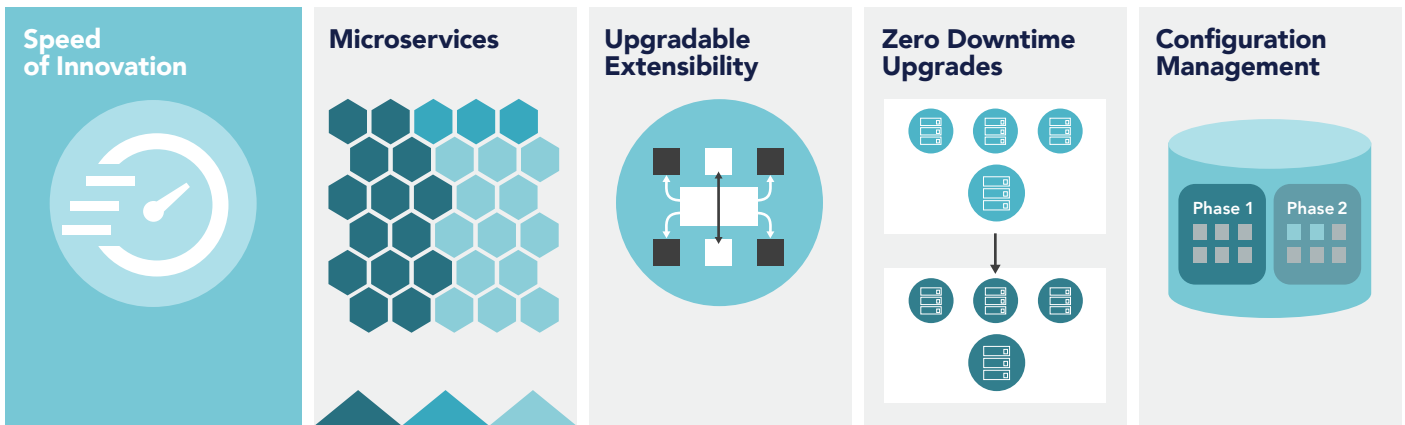
At the same time, supply chain complexity is growing. Supply chains have to facilitate multiple flows: big orders and small ones, fast and slow. Meanwhile, there is relentless pressure on costs and working capital, so tough inventory choices have to be made. How can wholesalers optimally benefit from the stock they have available, irrespective of its position in the supply chain?

ORDER MANAGEMENT SYSTEM (OMS)

OMS is a software layer that intelligently orchestrates orders and assigns tasks across the various systems and processes involved in any customer transaction. It provides a single source of truth for anything and everything related to your orders, from the initial credit check to payment settlement and sales posting.

The OMS interconnects all of the stand-alone systems involved in customer communication, order creation and data processing. It provides a single source of truth for every aspect of order fulfilment.

But that's not all; an OMS offers cost-to-serve functionality to enable each order to be assigned to the most suitable fulfilment location(s) in the context of cost-based optimisation. That makes it possible to determine the optimal route through the supply chain for each and every order.



THE ORDER

The changes in terms of both customers and supply chains are creating threats for wholesalers, but opportunities are arising too. Having said that, wholesalers that continue in the same vein as before will find their supply chain coming under increasing pressure. In order to strengthen their position, wholesalers will need to take matters into their own hands; only then can they offer each and every customer the supply chain that is most closely aligned with his or her expectations.

SAVE THE SALE

What happens once a customer decides to place an order? Most wholesalers only consider the closest inventory point. If all of the items are in stock there, the order is confirmed. But if just one of the items is out of stock, the deal is off — even if the product in question is waiting patiently to be ordered elsewhere in the supply chain. The result: a missed revenue opportunity.

Not all wholesalers let things get that far; they are quick to spot orders that are too interesting to lose. But then what? That's when the creative thinking starts: they place a rush order with their supplier, or they arrange a courier to pick up the product from another warehouse. In other words, they do everything in their power to fulfil the order — but at what cost?

RESTRICTED BY IT

A company's existing IT landscape is usually a hindrance rather than a help and restricts the implementation of efficient solutions. Mergers and acquisitions have left many wholesalers with multiple ERP systems that have difficulty communicating with one another, often making it impossible to see what stock is available elsewhere. But it is hardly worth attempting to transition the whole company to the same ERP system because the system will be outdated before the project is even halfway through. Not to mention the fact that very few wholesalers can afford to wait three years for the system to be implemented.

What wholesalers need is a system that can be added as an extra layer on top of the existing IT landscape — a layer that extracts the necessary data from the underlying systems and uses it to guide an order through the supply chain as successfully as possible before then also initiating the fulfilment of the order. Such a layer already exists. It's called an order management system.

ORDER MANAGEMENT SYSTEM

So what does an order management system (OMS) do exactly? A split second after a customer places an order, the OMS analyses the various options for fulfilling it, accounting for factors such as stock availability, costs and the desired delivery date. Before confirming the order, the customer can see when the products can be delivered and the costs involved.

If an item is out of stock in the nearest warehouse, the OMS immediately searches for solutions. Which warehouses do have the item in stock? How long would it take — and how much would it cost — to ship the order from that warehouse? Can the order be fulfilled from a single inventory point to minimise transport costs? Or would it be better to place a rush order with the supplier? And should the supplier then ship the item to the end customer or to the warehouse so that it can be added to the rest of the order?

An OMS can also be used within an organisation that has several different ERP systems. This creates synergy more quickly by making it easier to integrate newly acquired companies.

WHOLESALE IN CONTROL

Every wholesaler with an order management system has full control over its own supply chain. The wholesaler is able to decide which part of the supply chain will be involved in fulfilling an order and when — and always based on considered scenario analysis and algorithms rather than creative thinking. It is similar to the role of a conductor of an orchestra, who interprets the score and determines which musician should play when and with which intensity.

An OMS prevents wholesalers from missing out on revenue by enabling them to seize every opportunity to fulfil an order. An OMS also helps wholesalers to avoid incurring unnecessary costs by ensuring they select the best route through the supply chain for every order. And if an order cannot be fulfilled with an acceptable margin, the OMS will immediately tell them so.

DELIVERING ON PROMISES

Generating a plan for order fulfilment is a good start, but how can you ensure that the plan is actually executed? The answer: by integrating the order management system with the warehouse management systems in the various warehouses. Ultimately, it's the warehouse operation that is responsible for a wholesaler delivering on its customer promises.

THE WAREHOUSE

The warehouse is the place where promises are kept or broken — is the order dispatched on time and in full? This part of the supply chain faces its own challenges in terms of complexity, lead times, unpredictability and quality. The warehouse management system (WMS) is key to the success of the warehouse operation.

HUGE DIVERSITY

One thing that makes the warehouse operation so complex for wholesalers is the huge diversity of orders, which often range from large orders for big customers to small orders for self-employed professionals who perhaps only need a single spare part. Although those professionals usually want to receive that part as quickly as possible, speed is not crucial for every order. For example, big companies working on a large-scale project do not need their order to be shipped in one go. Quite the opposite, in fact; they prefer to be able to adjust the products as and when they need them.

Besides order diversity, industrial wholesalers also have to cope with product diversity, with their comprehensive portfolio stretching from tiny O-rings to bulky items that are too big for any pallet. Whether big products or small ones, fast movers or slow movers... it must be possible to consolidate everything into a single order if necessary. And what if the orders entail extra value-added services, such as kitting or assembly: how should that be organised?

DIFFERENT PROCESSES AND SYSTEMS

In view of the huge diversity of orders — with numerous order lines or just a couple, fast or slow orders, big or small products — a single put-away and order picking approach rarely suffices. Most wholesalers' warehouses therefore work with several different processes and systems, but they all need to be aligned with each other eventually. After all, even if an order is made up of various products from various warehouse systems, they all have to come together at a certain time in a certain location in order to be dispatched as one shipment.

Another challenge is the rise in warehouse automation. The ongoing shortage of good employees is prompting more and more wholesalers to opt for automation and robotics. The catch is that each robot or material handling system comes with its own control system, and they all need to be aligned with each other somehow — but how?

On top of this, because good employees are hard to find, manual processes are demanding greater attention too. Now more than ever, it is important to take a value-based assessment approach in order to deploy workers in roles that capitalise on their strengths, where they can work at their own ideal pace, supported by innovative cobots if necessary.

DRIVEN BY SPEED AS WELL AS EFFICIENCY

Wholesalers need a warehouse management system that:

- Coordinates all of the systems and processes
- Subdivides automatically orders and assigns them to the relevant sub-systems
- Ensures that all of the sub-orders are later recombined into one
- Manages machines and robots as well as people
- Monitors continuously operational progress and human performance
- Indicates when intervention is required to realign the staffing level with the workload
- Helps to give employees personal feedback on their performance

Unlike in the past, efficiency is no longer the only driver in today's warehouses. Wholesalers that want to set themselves apart through logistics are driven by other factors, such as speed and flexibility. A traditional WMS which 'saves up' orders to form batches that are allocated throughout the warehouse in one go is no longer enough. What today's wholesalers need is a WMS that focuses on efficiency whenever possible but can put orders on a 'fast track' through the warehouse whenever necessary.

CONTROL TOWER

To ensure a smoothly running supply chain, the WMS must be seamlessly connected to the OMS, not only to be able to transmit the right order to the right warehouse, but also to communicate regarding the status of orders. In this case, the OMS fulfils the role of a control tower, enabling wholesalers to closely monitor the progress of all orders. That makes it possible for them to keep customers and/or employees informed in real time, irrespective of their location (e.g. in the call centre or at local level). Furthermore, it enables them to quickly spot any supply chain issues and take immediate corrective action (such as switching to a different warehouse) — whatever it takes to deliver on the customer promise.



ORDER STREAMING

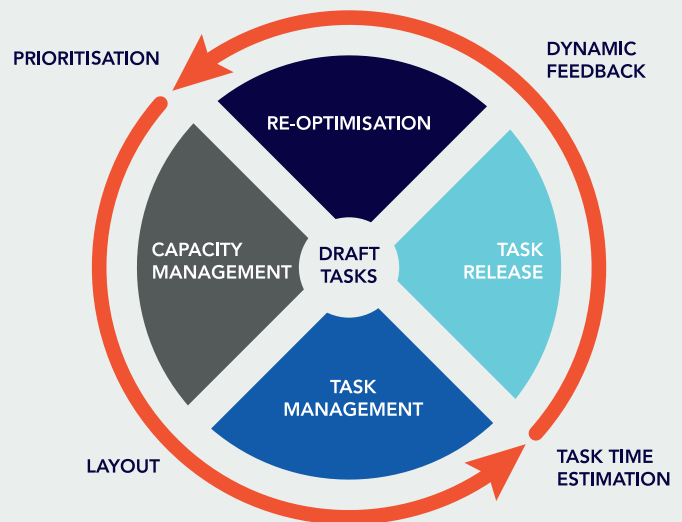
The art of remastering fulfilment

Wholesalers normally plan their order fulfilment in waves, yet online orders are handled as a waveless process.

- Bigger batches offer more opportunity for optimising the work
- Smaller batches increase the flexibility

Order streaming makes it possible to alternate between both of these processes in the same warehouse, thus improving the efficiency, profitability and agility of the warehouse.

Order streaming combines the two processes by utilising intelligent optimisation algorithms that release the ideal amount of work to the shop floor (small batches). Meanwhile, all remaining orders in the pool are continuously assessed in terms of their urgency and suitability for being processed efficiently as part of the next release. This provides the flexibility needed to prioritise specific orders without having to intervene in the process, while also making optimal use of available manpower and mechanisation.



CONCLUSION

The B2B world, and hence the world of technical wholesale, has become too fast and too complex for the human brain to handle alone. Fulfilling an order in line with the expectations of modern-day customers calls for forward thinking, but today's wholesalers no longer have time to stop and think when an order is placed. Besides that, the complexity of the supply chain makes it impossible to identify the optimal solution on the spot.

Therefore, you will need to do the forward thinking in advance, by considering all possible scenarios that could occur. What kind of orders can be expected? What options do you have for fulfilling those orders? And what is the best way at a particular point in time? Next, you will need to use your software systems to determine the most suitable approach for each and every new order, and then the execution should be initiated automatically. Only then you will be successful in winning the customer's favour.

This applies not just to technical wholesalers but to any wholesale company. Whether you are a wholesaler for foodservice products, pharmaceuticals, building materials or fashion, we are happy to help you think about how to futureproof your supply chain.

For more information, see manh.com/en-nl/wholesale or send us an email: ce@manh.com

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