

MICROSOFT BUSINESS SOLUTIONS—NAVISION

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WHAT IS A WHOLESALE DISTRIBUTOR?

**This document is intended as an aid to partners not already familiar with the concept of the wholesale distributor. This document will discuss:**

- **What the general functions of wholesale distributors are within a supply chain.**
- **The characteristics of and demands on wholesale distributors working with specific product types.**
- **The various general challenges wholesale distributors face and how they can address them.**
- **Brief considerations for selling ERP solutions within the wholesale distribution segment.**

**The Campaign for Wholesale Distributors includes material offering more specific information for partners with experience in this segment, as well as greater detail on how Microsoft® Business Solutions—Navision® addresses the needs of this segment.**

General Definitions

A wholesale distributor occupies a middle position in the supply chain between the manufacturer of an item and the retailer or end user of that item, holding and delivering a range of goods and often services for resale purposes. The definition does not include manufacturers who sell directly to retailers.

What Function Does a Wholesale Distributor Perform?

A simple way of explaining this is: “we receive orders, we deliver them, and we get paid for them”. The primary purpose of a wholesale distributor could be any one, or more, of the following:

- To carry many product brands within the same product category, meaning that they can offer a range of choice that a single manufacturer could not (nor would want to) offer. For example, a wholesale distributor carrying gardening equipment can offer a choice of brands for one particular item as well as various supplementary items, making the wholesale distributor a one-stop vendor for a number of different needs

within a segment. This makes life easier for both customer and manufacturer, as the manufacturer does not have to attempt to reach each individual customer, and customers can obtain what they want in a smaller number of transactions, rather than go to each individual vendor.

- To add some form of value to the products they sell that could not have been added by the manufacturers. Examples of this could be superior customer service, maintenance contracts and product or industry expertise. In particular, deep product knowledge across a range of product types is one of the most valuable services a wholesale distributor.
- Some wholesale distributors also engage in light assembly or packaging of products to add value. This could also involve kitting, where a distributor repackages a number of items from various vendors as one unit, for example stationery kits.
- To provide the manufacturer with a local presence in a market. Wholesale distributors take on the burden from the product manufacturer to ensure the effective and rapid distribution of items to customers when required, as well as holding the necessary inventory to achieve this.
- To take on the burden of delivering the variety of quantities that differing customer needs demand. Manufacturers may produce their items in bulk quantities and do not want the job of then distributing items in small quantities to resellers or end users. Instead, the wholesale distributor takes on this role, breaking down bulk deliveries into more manageable quantities and often bundling these with other items from other manufacturers.

### Types of Wholesale Distributors

Wholesale distributors can be roughly divided into 3 subsets:

- *Those specializing in durable goods.* This involves the selling of goods with a lifespan of three years or more, generally items intended for repeated use. This subset has certain challenges and opportunities for differentiation relating to warranties, product support and maintenance, given that the products sold will often be used over a long period of time. An example

of a wholesale distributor specializing in durable goods might be a distributor of auto spare parts – this role requires holding a large variety of stock as well as specialized competence within the auto industry. Other examples might be distributors of furniture, hardware or household goods.

- *Those specializing in non-durable goods.* Non-durable goods are goods that have to be replaced soon, or directly after use, which creates specific demands and opportunities for wholesale distributors. Primarily, a wholesale distributor has to ensure that it can keep the user or reseller fully supplied at all times, though what ‘fully supplied’ means can change dramatically due to buying trends or seasonal variations. This means that a wholesale distributor has to be good at planning who will need which items when, so they can avoid having too much capital bound in inventory that is not being turned over. Furthermore, customer service is critical in this segment, because repeat purchases rather than single purchases are the nature of the business. This customer service can even develop into unified planning, where a wholesale distributor actually manages the customer’s inventory cooperatively (Vendor Managed Inventory), rather than having a more traditional order-deliver relationship, which ensures that the customer always has the right stock and the supplier is always aware of what demand it needs to meet. An example of a wholesale distributor specializing in non-durable goods might be a distributor of pharmaceuticals or cosmetics.
- *Those specializing in foodstuffs.* This is regarded as the most competitive and pressured area within the wholesale distributor industry. One major reason for this is the short life cycle of many foodstuffs, requiring an extremely careful management of stocks and the necessity of a large turnover of goods. As with companies dealing with non-durable goods, a close relationship with resellers, highly competitive pricing and value-adding strategies are critical for success in this area. In particular, knowing the impact of pricing promotions and individual product/brand initiatives are paramount.

### What Challenges Does a Wholesale Distributor Face?

A wholesale distributor most often occupies a position between manufacturers of goods and those who purchase them in bulk for use or resale via retail channels. It is this middle position that gives the

wholesale distributor its unique role in the supply chain of goods from creation to usage, but this position brings its own challenges: the wholesale distributor is at all times forced to address the pressures and demands of both suppliers and customers. Vendors want to sell at (for them) the best possible conditions, and customers want to buy at (for them) the best possible conditions, and in the center the wholesale distributor has to accommodate these competing pressures whilst also trying to meet its own revenue expectations.

Wholesale distributors typically tackle these separate agendas in three ways:

### **1. *By strengthening their position with vendors***

Wholesale distributors might offer vendors a service of a quality or nature that makes the wholesale distributor an integral and important part of the vendor's supply chain, thereby making the decision to drop or pressure the wholesale distributor a less attractive one. It is also critical that a wholesale distributor selects the correct mix of vendors, in terms of quality, pricing and also successful products for the wholesale distributors market.

### **2. *By maximizing the efficiency of internal processes***

If costs are kept to a minimum, more profit can be obtained from lower revenues. Wholesale distributors obviously need to maximize the efficiency of their warehouse processes for reduced costs, but to be truly competitive, they also need to maximize efficiencies throughout all areas of their business.

### **3. *By creating a relationship with customers***

The relationship has to be about more than just competitive prices and discounting. Pricing can win short-term gains, but is easily copied and rarely sustainable unless linked to some other kind of value strategy.

Ways of achieving a mix of the above might be:

- Optimization of inventory planning. This is especially important when handling a large product mix and high-volume goods. Anticipating demand is also critical, especially for seasonal non-durable items or frequent-purchase items. This is the balancing act of minimizing inventory levels to reduce costs whilst also maintaining

a high level of customer service and customer satisfaction.

- The ability to know what is in stock and what can be promised is critical for buyer confidence. Also, a great deal of time can be wasted in the warehouse searching for unavailable items. With good visibility into inventory, wholesale distributors can eliminate inefficient warehouse processes and improve their ability to provide customers with what they want, when they want it.
- Gaining a full understanding of individual product performance and the dynamics of that performance, e.g. margins, number of orders, re-order frequency and so on. This information can be used for negotiating prices with a vendor, while knowing which products perform best can also be used when selling to frequent customers and so on.
- Optimum warehouse layout and workflow, as well as the ability to change this according to needs.
- Keeping shipping errors at an absolute minimum. Delivering the wrong item or quantity costs money and credibility.
- Cutting out as many manual steps as possible in the workflow, (this could include the automation of the distribution of orders, invoicing, picking lists, delivery details).
- Knowing customers' purchasing habits. This will enable the wholesale distributor to better understand and respond to the dynamics of their market, as well as targeting their best or poorest customers to ensure that marketing and service initiatives are aimed at those who most deserve it or require it.
- Offering services instead of constant price reductions. This can be in a number of forms; favorable warranty and service agreements, repackaging of goods for immediate resale, specialized helpdesks, business/product consultancy and many more innovative models.
- Enabling electronic exchanges of various kinds, from customer self-service to integrated order planning. This enables customers to manage their accounts when they choose, as well as reducing the number of

direct contacts required between wholesale distributor employees and customers via fax or telephone.

#### **Brief Comments on Selling ERP to Wholesale Distributors**

Firstly, as part of this toolbox, a full document on “How to Sell Microsoft Business Solutions–Navision to Wholesale Distributors” is available with more specific hints on how to target and talk to a wholesale distributor. However, relating to the content of this document, the following comments may prove valuable:

- This document has outlined why wholesale distributor’s revenues and profits are so squeezed and this means that a very special and convincing case has to be made to get a wholesale distributor to change from current methods to new ones – firstly, ROI has to be thoroughly documented, and secondly, the wholesale distributor’s situation means they cannot afford any mistakes so you as a Microsoft Business Solutions partner have to be very thorough in understanding the customer’s needs and communicating with the customer.
- While many wholesale distributors are taking on new business models and new technologies to attain competitive advantage, you will also meet many

prospects who simply want to do what they do now, better and cheaper. Keep this in mind when positioning the breadth and depth of Microsoft Navision.

#### **About Microsoft Business Solutions**

Microsoft Business Solutions, a division of Microsoft, offers a wide range of integrated, end-to-end business applications and services designed to help small, midmarket and corporate businesses become more connected with customers, employees, partners and suppliers. Microsoft Business Solutions' applications optimize strategic business processes across financial management, analytics, human resources management, project management, customer relationship management, field service management, supply chain management, e-commerce, manufacturing and retail management. The applications are designed to provide insight to help customers achieve business success. More information about Microsoft Business Solutions can be found at [www.microsoft.com/BusinessSolutions](http://www.microsoft.com/BusinessSolutions).

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5/13/2004

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