



**ENAVATE**™

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# HOW TO COMPETE AND WIN AGAINST AMAZON

**THE WHOLESALE-DISTRIBUTOR'S TECHNOLOGY PLAYBOOK**

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# IN 2015, AMAZON BUSINESS CARRIED 500,000 SKUS. BY THE START OF 2018, THE NUMBER WAS 500 MILLION.<sup>1</sup>

## AMAZON IS NOT AN EMERGING THREAT TO THE WHOLESALE DISTRIBUTION INDUSTRY. THE THREAT IS HERE AND NOW.

If you needed any further proof that we're living in an Amazon world, consider that, in 2017, 43% of all online sales in the United States went through Amazon. Amazon's dominant position in the every day lives of consumers was driven by a set of unique strengths that we have all come to recognize:

- The breadth of products offered (through their own marketplace and through third party sellers)
- The ease of their online buying experience
- Their logistics superiority
- Their world-class customer intelligence tools that provide real-time product recommendations and that predict buyer behavior
- Their strong loyalty program offerings (Amazon Prime, Amazon Business)

Amazon has created a new standard for consumers focused on the "ease of buying" and have succeeded in disrupting entire industries in their wake.

Whether or not you have been actively concerned about Amazon's direct threat to your business as an independent wholesale distributor over the past several years, you should be concerned about it now.

# THE AMAZON DISPLACEMENT - WHY THE TIME TO ACT IS NOW

Amazon has been moving aggressively into the B2B retail and distribution market with their Amazon Business offerings over the past several years. At first, their inroads were with small business buyers whose purchase behaviors are most similar to consumers. These buyers like the familiarity and value of buying from Amazon like they do at home. However, Amazon isn't content to focus on just the small business part of the market. In recent analyst and investor briefings, they are now reporting significant revenue growth in the large enterprise and midmarket sectors – those segments traditionally served by wholesale distributors. They have indicated their intent to build a slate of valuable offerings for corporate procurement and purchasing officers.

In March 2018, Modern Distribution Management magazine published “Your Amazon Business Playbook: A Strategic Evaluation for Distributors”. This report should be required reading for any business or technology executive working in wholesale distribution today. The authors of the report, Tom Gale (CEO and Publisher) and Ian Heller (President), make a critical observation about how Amazon is uniquely positioned. They define Amazon as both a product marketplace/distributor (including 3rd party sellers) AND a procurement software company (or they threaten to be). What makes it very tough to “out-Amazon Amazon” is that they are prepared to invest with limited to no profit return for five to ten years in order to drive growth in a new industry at scale. Most independent distributors, even global powerhouses like Grainger or the big box giants, are required to actually deliver profit and increase shareholder value on a much shorter timeline.

At the same time that Amazon has emerged as a force within B2B, wholesale distributors have faced a new and expanding set of challenges. While shrinking margins and slow turn times on inventory have always been a concern, operational complexity is increasing at a rapid pace. Many executives are questioning whether their operations are agile enough to keep up with rapid changes in business conditions.

Specifically,

- You need to be able to effectively serve your customers in the channel they prefer to use. This could be website, phone, mobile app, chat, branch, digital assistant (like Siri) or face-to-face with a sales person.
- You need to know what your customers are buying from you, and more importantly, what they are not buying from you.
- You need to have full visibility into your business... to dive into your business data to find the answers to the questions you didn't even know you had.
- When a new business opportunity presents itself, you need to have the flexibility to adapt to customers' changing demands using technology that is an enabler to deeper relationships with customers, greater value through operational excellence and better customer insights.
- You need to continuously improve your operational excellence KPIs in sales orders, distribution, and fulfillment/delivery in the areas of speed, quality of service, and customer self-service capability).

In short, as Amazon advances, you need to ask your organization if you find yourself reacting to a changing market or anticipating it and “making the market”?

The time is also now to defend your existing customer base (who are also actively being targeted by Amazon) and to create a roadmap for sustainable growth. You won't do this by being better at digital and logistics

and scale than Amazon. You can only do this by being a better you – serving your customers better than Amazon can and building on your strengths to find new markets with unmet needs.

Here's how to get started with your Amazon Compete plan:

## STEP 1 | DETERMINE WHERE YOU CAN DIFFERENTIATE + WHERE THE MARKET NEED IS

Chances are that you are already thinking about, or acting on, your product and service differentiation today. A critical step in any competitive strategy is having a clearly defined vision or market niche – knowing who you are and how you help customers better than anyone else. If you want to disrupt your market, or create new markets via innovative offerings, you must first ask yourself several questions about what value you deliver to your customers now and how to expand on that in the future:

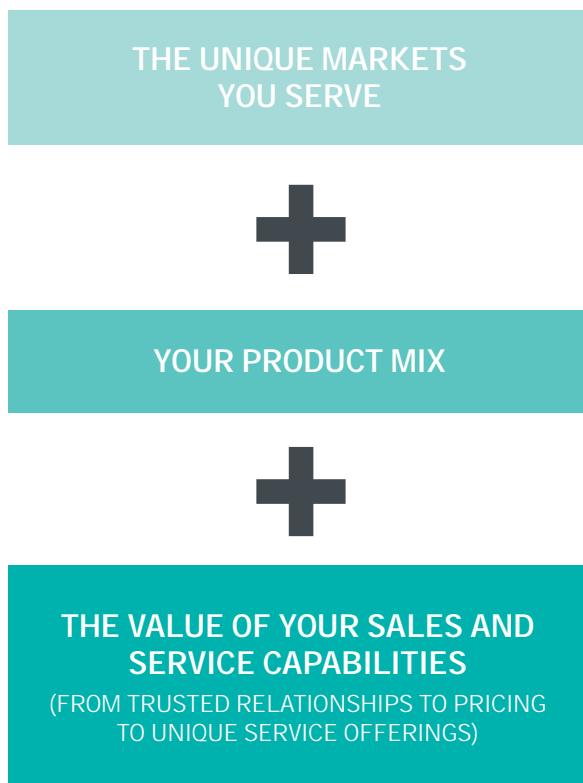
1. What is the value of your current products and services from a customer's perspective now and in the future? You have to start by asking customers:

- a. Why they do business with us today?
- b. What are our customers plans for buying from Amazon and other disruptors?
- c. What needs do our customers have today that no one is fulfilling and makes sense to offer to create more value and loyalty?

It's critical to start from the customer's point of view rather than an internal perspective or a "If we build

it, they will come" mentality.

Your differentiated position will come from:



2. Once you have a differentiated offering, your sales and marketing teams need to know those offerings cold, so that they are promoted in all of your sales and marketing interactions with current and potential customers. Everyone at your company needs to be able to tell the pitch in a way that is compelling and relevant.

3. Ensure that you can prove the value of your differentiated offerings to customers and prospects. Can you improve on an existing need for your customers with offerings that are faster, cheaper or provide more capability? Who, within your customer base, has those needs and cares about better outcomes?

## STEP 2 | UNDERSTAND WHERE THERE ARE NATURAL OPPORTUNITIES AND VULNERABILITIES WHEN COMPETING FOR BUSINESS WITH AMAZON

You already have some built-in advantages when competing with Amazon that you need to recognize and promote. Below is a list of competitive advantages that many distributors will be able to exploit in the areas of product sales, purchasing, and services.

TYPES	OPPORTUNITIES
Product Sales	Deep customer relationships – a high-touch, personalized sales and service model that is valued by your customers
Product Sales	Complex, technical, or customized products
Product Sales	Products that drive a large need for full product lifecycle services – “from cradle to grave” services requirement
Product Sales	Exclusive products not sold on Amazon or other large marketplaces
Product Sales	Vendor-managed inventory, consignment, vending
Purchasing	Established procurement processes and systems in large customer organizations
Purchasing	Customers with limited technology maturity may not be comfortable purchasing 100% online
Services	Value-added services (special credit, mass personalization, loyalty programs)
Services - support	On-site support
Services - delivery	Products that require special shipping (heavy equipment, hazardous, regulatory compliance, specialized cross-border customs mgmt)
Services - delivery	“Need it today” convenience – pick up at your location or hand delivery

Now, here is a list of potential vulnerabilities where it will be difficult to challenge Amazon in the future.

TYPES	VULNERABILITIES
Product Sales	Long-tail product purchases
Product Sales	Price-sensitivity
Purchasing	Small customers that buy like consumers (for now), Midmarket and Enterprise procurement is a big growth area that Amazon is targeting and making strong traction in: <ul style="list-style-type: none"> <li>• Simple products + reorders</li> <li>• Speed of delivery</li> <li>• Price-sensitive</li> <li>• Preference for digital ordering across multiple suppliers</li> <li>• Loyalty of Business program; 2-day free shipping; familiar experience</li> </ul>
Purchasing	Preference for digital ordering across multiple suppliers
Purchasing	Simple products + reorders
Services	Loyalty of Business program; 2-day free shipping; familiar experience
Services - delivery	Speed and pricing of delivery

Creating a SWOT analysis (Strengths, Weaknesses, Oppprtunities, Threats) using the advantages and vulnerabilities list above is a good starting point to assess your current situation and set the stage for step 3.

## STEP 3 | DEVELOP YOUR DIGITAL STRATEGY AND ROADMAP

Customer requirements are changing so it's critical to get a handle on where they are going and what options only you can provide customers.

The first area to drive forward is your digital strategy. As buyer's expect omnichannel sales and service, you have to provide a seamless and easy-to-use customer experience across multiple online and offline channels for customers to buy products, get support, and interact with your team.

In this era, not all relationships are being built face-to-

face. Think of an example of a brand that you are personally very loyal to where you have never once spoken to a single person at the company (and yet you would give them high marks for customer service on any survey). What is your online experience with these companies that makes you a loyal customer? How can you translate that to your business model with your customers?

Even as you invest in digital, at this stage in the evolution of ecommerce, creating omnichannel options won't necessarily win you new customers. As younger employees are hired into purchasing and procurement roles, they will expect nothing less than a great digital experience with many self-service, digital assistant, and live or in-person sales and service options. These are table stakes in 2019 – not differentiators. At this point, it's like having automatic steering or cruise control in a new car. It's only noticed if you don't have it.

But being great at digital can help you “build a wall” around your existing customers to keep you from losing revenue – it's critical not to underestimate the threat of customer flight here.

The next strategy to embrace is taking a data-driven approach to achieving operational excellence. A few example scenarios might include:

- Connected systems providing real-time order status to customers that they can check on their mobile device
- Mining historical customer data to predict customer needs so that you can proactively offer the right products and services at the right time

– anticipating their needs rather than reacting to their orders.

- Creating new revenue streams with better upsell and cross-sell strategies to your customers based on their historical purchases. Lastly, you need to understand what internal organizational hurdles must be overcome to execute on your strategy?

Finally, consider what changes are required within your organization in terms of people, processes, and tools. Your employee's skills and your existing corporate culture may be too entrenched in “the way we've always done it” or your current business processes, or your previous investments in inflexible technology platforms. Ask yourself, what trade-offs can be made as you set net goals for what you can deliver to customers and at what cost?

Once you have created your digital strategy, the last question to ask is how quickly you can move. The time for iterative change is over. How long will it be before Amazon has a billion SKUs at a better price point with faster delivery and good-enough, cheaper service offerings? What is the potential impact to your business when that happens?

## STEP 4 | SELECT THE RIGHT ERP + CRM + ECOMMERCE PLATFORM TO FUEL YOUR GROWTH

It's critical to update your technology backbone to deliver on the opportunities posed above and mitigate the vulnerabilities.

Why is upgrading to the right platform so critical?

**1. Customer expectations have gone digital.** As we reviewed in step 3, the online experience from sales to order management to product recommendations (powered by cloud ERP, CRM, and ecommerce solutions) is the new backbone for delivering the digital customer experience that you need to stay in the game.

**2. "Data is the new black."** How you mine insights about profitable customers, products, as well as recommend new products/services in real time determines your ability to offer the right customer the right product at the right time. To do this, your ERP + CRM + ecommerce solution needs to be equipped with:

- A common data management model so that data is easily shared and passed across applications in real time and employees are enabled to access the data they need to serve customers in the right business process.
- Product Information Management (PIM) – a library of common product data that is updated in real time between ERP, ecommerce sites, and catalog.
- Easy-to-use Business Intelligence Dashboards – empowering your employees to gain insights, make decisions, automate decisions and drive more value to your most profitable customers is essential. Everyone in your organization needs BI dashboards that are easy-to-use and help them

take valuable action.

- Ability to handle new data types – more than ever distributors need to deal with new data types – pictures of products, voice, video, "crowd-sourced" reviews and pictures.
- Harness the power of Machine Learning/AI to forecast demand, predict future purchases, recommend products for cross-sell and upsell, create dynamic pricing models, as well as understanding who is most likely to pay.
- Track the impact of value-added offerings such as discounts and promotions.
- Create pricing advantages with custom pricing and real-time deployment of pricing elasticity to preserve and grow margins.
- Create customer service advantages with advanced cloud technologies, such as chatbots and cognitive services.
- Create pricing advantages (elasticity, custom pricing).

**3. The cloud helps you achieve business agility.** As you need to make decisions and move faster, you can scale your technology up and down with the cloud – using only the computing power you need when you need it. You can also reduce the risk of downtime with cloud vendors that back their uptime commitments with financial SLAs.



## STEP 5 | GETTING STARTED

Our team of distribution experts at ENAVATE can assist you in developing your business case and road-map for how to build the right technology foundation to compete and win against Amazon and create new revenue growth for your company. We can connect you with companies in your industry that are implement-

ing these approaches today and we can translate your vision in to action.

Contact us to schedule a 1-day "Competing with Amazon" Assessment for Wholesale Distributors.

### Additional resources:

- ENAVATE'S [Solutions for Wholesale Distribution Companies](#)
- ENAVATE'S webinar, "[The Technology that is Reshaping the Wholesale Distribution Industry](#)"
- ENAVATE'S [The 365 Blog for Wholesaler-Distributors](#)



### About the Author

Matt Petersen was the Senior Director of Industry Solutions at ENAVATE and is now Business Applications Partner Sales Lead for Microsoft. He is a recognized leader in Wholesale Distribution software solutions having held leadership roles at both Microsoft and SAP.

### About Enavate

ENAVATE provides business consulting and Wholesale Distribution-focused enterprise software solutions based on Microsoft Dynamics 365, AX and CRM platforms, with a full range of services including professional services, maintenance, and support. With global capabilities, we are committed to providing transformational software solutions and services that help our clients and partners achieve their ambitions.

#### FOOTNOTES

<sup>1</sup> "Your Amazon Business Playbook: A Strategic Evaluation for Distributors," Modern Distribution Management, 2018.

<sup>2</sup> "Business Insider Intelligence Report," 2017

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