



**White Paper
October 30, 2014**

**Big Data, or Not?
Are rank and file wholesalers losing the battle for the e-sale?**

E-commerce has dominated opinion and research pages of the 5 trillion dollar wholesale sector for the last several years. Starting with Amazon Supply’s announcement approximately 2 and a half years ago, the wholesale sector has been abuzz with research, thought pieces, and prognostications on the future of the thousands of independent and largely family-owned firm(s).

Most analyses have focused on the cost advantage of an e-commerce entity over a traditional full-service, brick-and-mortar wholesale firm. The cost advantages, to be sure, can be substantial; however, there remain only a small number of Amazon-Supply type firms (transactional distributors) who have made a successful go of it. These firms have limited brick-and-mortar locations and little sales support. They can often undercut traditional full-service firms’ pricing by 10% or more. After reviewing the competitive landscape, evidence exists that the big winner in the wholesale sector may not be the transactional firm but a much more well-known entity; the billion dollar behemoth replete with big-data.

What’s Big Data?

For us, in layman’s terms, big data is the number of full-content sku’s available in the e-commerce system. Big, in our experience starts at 100,000 or more of full-content sku’s under management. Most wholesalers with e-commerce capability, have somewhere in the range of 10,000 to 30,000 sku’s under constant management. This typically represents the top sales items or those items of top vendors where product data is of good quality, and reasonably easy to upload.

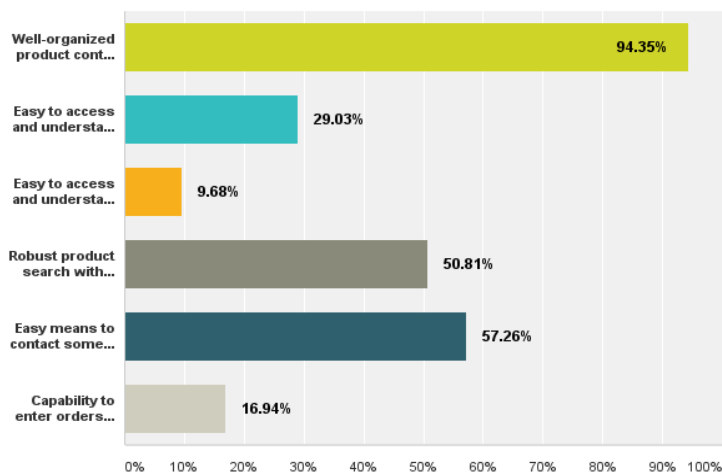


Exhibit 1

Outside of this range, product data is more difficult to secure and keep consistent. The vendors often do not have data formatted in a way where it is easy to convert to the ERP and CMS (content management system) systems that back-up e-commerce. Securing the data and populating the ERP system and CMS fields is often a heavy manual process, very detailed, and fraught with areas where mistakes can be made. The problem with mistakes in data is that, over a short time, the customer doesn't trust the data and leaves the wholesaler's site.

In Exhibit 1, we surveyed 160 wholesaler customers on what makes an e-commerce system easy and desirable to use. (Multiple responses permitted) The number one response, far and away, was "well-organized and accurate product content." Our further research, supported by outside studies, is that customers who consistently come across inaccurate information tend to leave the site fairly quickly and don't come back. The inference is that if the information is inaccurate, other parts of the working relationship will be also. Information currency and accuracy are visible quality standards of the seller.

Big data appears to be an advantage in organic sales growth. A recent spate of quarterly or YTD announcements from Billion dollar players finds that many of the Billion dollar players are

Big Data 2014			Exhibit 2	
Growth Sample				
Distributor	Growth	Time Period	Notes	SKU's on Website
MSC	13.10%	3rd. Quarter	Ended May 31, 2014	795,000*
Barnes	18%	3rd. Quarter	Organic 8%	N/A
Grainger	7%	3rd. Quarter	2% Acquisition	1.2 Million
Anixter	7%	3rd. Quarter	9% Organic Growth in North America	450,000**
Motion	10%	3rd. Quarter	7% w/out Acquisition	N/A
				* All catalogs including e-commerce
				**Unknown if all are on site

posting organic growth well in excess of GDP growth of approx. 2.5% for 2014 ytd. Exhibit 2 gives organic growth and reporting periods for a common group of large industrial firms. In all cases, the organic growth is well above GDP growth and three of the data points for number of sku's on site are well into the hundreds of thousands with one going into the millions.

Our recent survey of distributors in the \$100MM-\$500MM range, found that organic growth averaged around GDP growth of 2% with many firms showing no organic growth. We also found that these wholesalers, representing a variety of industries, had less than 5% of sales online in the most recent fiscal year. They also showed little usage or recognition of PIM (Product Information Management) or MDM (Master Data Management) software.ⁱ These software offerings, appearing a little over a decade ago, are specialized to help manage big data. In our experience, it is almost impossible to consistently and accurately manage big data without this functionality and most of the Billion dollar firms have leading PIM/MDM packages.

Our hypothesis is that Big Data, in the hundreds of thousands of skus, is giving Billion dollar firms an advantage over their smaller, regional rivals. This advantage fuels organic growth and takes share away from wholesalers who have a smaller range of sku's represented on their sites.

The Role of Software to Manage Big Data

In working with the subjects of data integrity, data management, and data quality, the wholesaler is forced into four immutable truths:

1. All vendors won't deliver data in a standard digital format.
2. The ERP system is cumbersome and inadequate to warehouse and deliver product data to the e-commerce buyer.
3. The less one touches vendor data and automates population of data to the ERP and CMS system, the higher quality it is.
4. It is impossible, or nearly impossible, to have Big Data without proper software designed to manage it; human systems will not suffice.

Most PIM software dates back 10-12 years when the early, retail-based, e-commerce systems struggled to manage their online product portfolios. These early systems could not, with much efficiency and even less accuracy, grow the online catalog without difficulty. Hence, the software community came forward with solution(s) of PIM/MDM systems. PIM systems provide a centrally managed platform for product data and into a variety of distribution systems. In the words of one notable PIM provider, they offer the user a "golden record" of product data that is uncorrupted, reliable, and able to populate many systems.

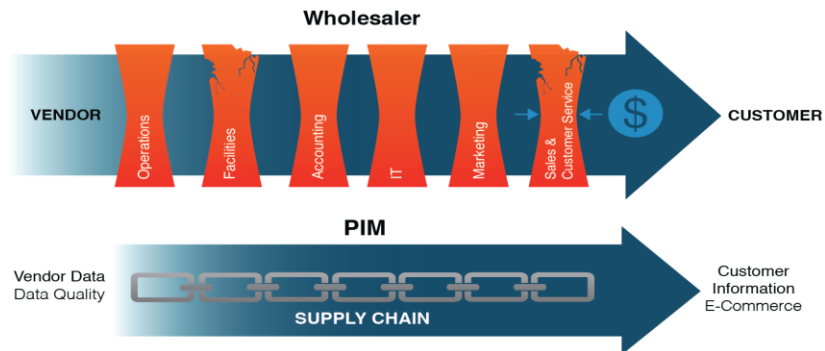
Our work in data management stems from our core client base of \$150MM to \$700MM in sales distributors. We have found where most of these large regional companies tend to use their ERP and CMS systems for product data management. Simply put, these systems were not created for product data and, hence, their ability to manage the scope of Big Data and scale the labor dedicated to the task is poor. Based on our current research, we believe that the Billion dollar firms are finding superior organic growth from Big Data supported by PIM/MDM software.

Thinking Horizontal

PIM software follows the shortening of the supply chain between vendor and end user. It is an outgrowth of an industry sector using technology to take cost out and deliver higher productivity. In Exhibit 3, at the top of the slide are the major functions the distributor provides in the supply chain. Vendor data flows in to the ERP to drive the core functions and is also parsed into the content management system. The PIM system follows the supply chain, storing uncorrupted product data from the vendor and flows it through to the customer. Data is converted to information for the customer; information solicits and sells.

As data is moved across the supply chain certain functions begin to lose their value. In distribution, we see local branches and commodity sales forces declining. These entities will always be with distribution; they will not be funded and as prolific as they were in the past. They are simply too costly and customers don't see their value in the channel commensurate with their current expense.

Exhibit 3



The Burgeoning Need

The growth of B2B e-commerce has been forecasted at \$559 Billion in sales at the end of 2013 and twice the size of B2C sales.ⁱ The sales of durable goods distribution are approximately 2.5 Trillion. However, our prior research has found that durable goods distributors' portion of the GDP has been slipping since the late 1990's; about the time E-Commerce first emerged in B2B markets.ⁱⁱ The big need for the less than billion dollar distribution firms is a review of the existing e-commerce platform and full-content sku's on their website for quality and scope. If either one of these is not up to current day standards, it could well mean the loss of much of organic growth for the firm.

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ⁱ Benfield, S "Growth Research, 2014," TUG Spring Meeting

ⁱⁱ Hoar, A. "US B2B E-Commerce Sales. . ." Forrester Research, October 2012

ⁱⁱⁱ Benfield, S. Research from US Govt. Census and Bureau of Economic Analysis, November 2012