

Marketplaces: The **New Frontier of Business Models** for Wholesale Distributors

Best Practices for Excelling in B2B E-Commerce

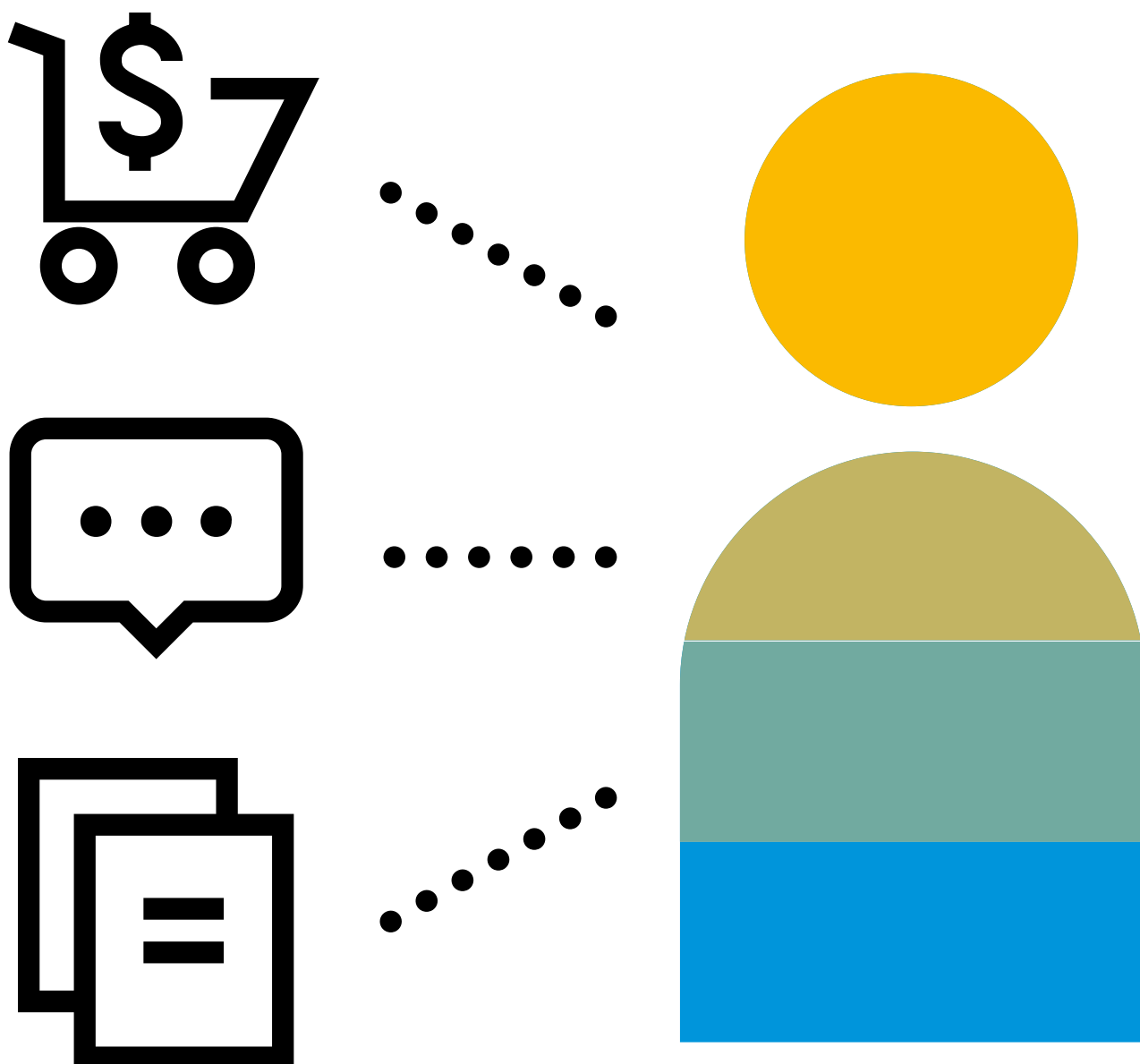


Table of Contents

4	The Evolution of Expectations and Preferences
5	Inflection Point of Disruption
7	A New Business Model for Wholesale Distribution
10	Game Plan for Becoming a B2B Marketplace
12	Why SAP Solutions and Mirakl

After years of evolutionary change, wholesale distributors are reaching a true inflection point: business-to-business (B2B) customers want access to an infinite assortment of products and services across any channel they choose. With a vertically focused marketplace business model, distributors can stay competitive by bringing to life a one-stop shop for all offerings, transactions, and interactions.

The Evolution of Expectations and Preferences

Social, political, and environmental changes have a tremendous influence on how companies buy and sell to each other. Each one brings considerable pressure to adapt the customer experience to resonate with economic realities and expectations – until the next shift comes.

As we have seen in the past, business-to-consumer (B2C) customer preferences, expectations, and practices are often replicated in the B2B environment. One possible procurement model that has the potential to disrupt traditional wholesale distributors is the direct-to-customer (DTC) approach. In this case, traditional supply chain partners – including manufacturers and vendors of the products that the distributor resells – go directly to business customers to gain visibility into their purchasing behavior and capture more revenue with each sale.

Forrester predicted as of April 2020, “...marketplaces will gain momentum across multiple tech and industrial categories, and [Forrester sees] upward of hundreds of B2B marketplaces launched in the next year.”¹ Distributors’ primary defense against such tactics is amplifying why their customers often select them in the first place. Usually that reason is their ability to streamline procurement by limiting product sources to a small number of partners that can meet customer needs in both value and assortment.

In many ways, a marketplace business model is an exceptional answer to the current landscape of physically distant customer relationships and the desire for personalized, always-on service. This new channel allows buyers to circumvent traditional distribution channels to discover better pricing and products through self-services and place orders with the preferred convenience of a mobile application. Meanwhile, sellers can acquire additional business by broadening their reach to a global audience and engaging their existing customers with more personalized, data-driven interactions.

Most players in the wholesale distribution industry understand the urgency of getting customer experience and engagement right. But as B2B buyers increase their reliance on digital channels to make buying decisions and complete their purchases, distributors must move quickly to create a single platform that serves as a one-stop shop for all their customers’ needs – fast, reliably, and without error.

In this paper, you’ll explore the value and opportunities of adopting a marketplace business model and the technology available to support your journey from traditional commerce to a more modern approach.

1. “[Industry Marketplaces Take Off: A Spotlight on Chemicals](#),” Forrester, April 2020.

Inflection Point of **Disruption**

The wholesale distribution industry has experienced significant disruption across every market it serves – from healthcare and industrial machinery to high tech and food service. Although some have been impacted more than others and in slightly different ways, all subsegments encounter a common thread of four primary concerns.

INCREASING COMPETITION FROM ESTABLISHED B2C ONLINE RETAILERS

The traditionally fragmented nature of wholesale distribution is challenged by established, digitally native B2C competitors that can scale their inventory assortment on the fly based on real-time insights on customer behavior, search activity, and transactions. And now, they are pushing their way into the B2B space by raising the bar on factors such as user experience, shipping, and the endless-aisle promise.

These players may discover and onboard unconventional vendors quickly and set up distribution and warehouse services to support them. Plus, those that offer clear transparency into the price and source of their commodity and more-complex products are the ones that customers trust most and consider first for future purchases.

REDUCED BARRIERS TO ENTRY

In addition to digital natives, distributors are confronted by fast-emerging new market entrants that seem to pop up overnight. While the lower barrier to entry brings a flurry of customer concerns over product quality, traditional distributors can strengthen their brand reputation with the governance and control enabled by the marketplace business model.

EVOLVING DISTRIBUTION NETWORKS

The nature of a distribution business means that holding costs could be high for inventory. Distributors own the goods they sell, which means holding costs often take a considerable portion of overall inventory value.

Although distributors invest significant capital in sophisticated product substitution, increasing demand volatility calls for further diversification of a large part of the product assortment in inventory. Yet, at the same time, the inventory must be quickly scaled without imposing massive risk and creating a disproportionate balance sheet.

DIVERSITY OF BUYER PREFERENCES AND BEHAVIORS

Increasingly, generations of buyers are resorting to digital marketplaces to acquire goods and services. However, each demographic – baby boomers, Gen X, millennials, and Gen Z – has different expectations for the overall shopping experience.

For example, millennials demand greater flexibility and digital interactivity – prioritizing the ability to preorder and backorder, schedule orders, use mobile purchasing, and engage in on-demand live chats with customer service. Conversely, Gen X

tends to value convenience more, while baby boomers desire a more comprehensive array of service options and product assortments.²

But customers across all generations have their similarities too. They want search results that show only the products they can purchase at that moment and that meet their specific needs. The ability to reorder with ease and navigate the catalog quickly is always appreciated. But most importantly, buyers demand transparent pricing and sourcing information to make purchase decisions confidently.

By 2023, at least **70%** of the enterprise marketplaces launched will serve B2B transactions.³



2. [“The Next Generation of B2B Purchasing,”](#) Mirakl, 2018.

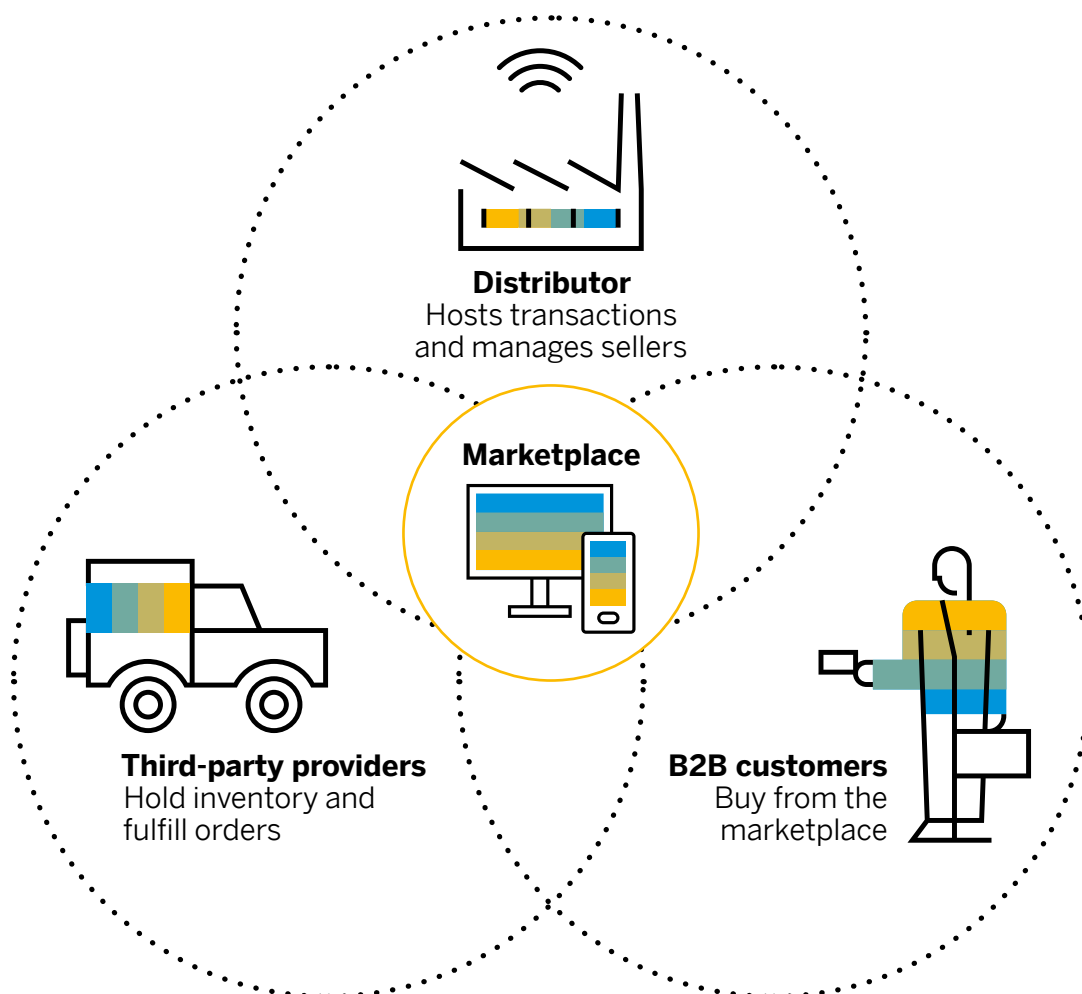
3. [“11 Imperatives When Building an Enterprise Marketplace,”](#) Gartner, December 2019.

A New Business Model for Wholesale Distribution

Most wholesale distributors recognize that they cannot grow or move their company forward without a business model that addresses the significant challenges of current market realities. While traditional B2B sales models are still beneficial, the promise of a marketplace-oriented business model proves to be more advantageous as B2B customers increasingly prefer purchasing through digital channels.

Marketplace business models are supported by an online platform on which a distributor hosts and secures transactions between customers and themselves (see the figure below). The distributor invites third-party vendors to list their products and services directly online as part of their inventory. Customers could then access this greatly expanded assortment with minimal risk to the distributor – which, in turn, leads to more customers and higher lifetime value of customers through a larger wallet share.

Figure: The Framework of a Marketplace Business Model



Distributors can build a specialized vertical marketplace based on their strengths, such as product and service experience and specific focus on customer segments, vendors, and offerings. They may apply their in-house expertise to consider relevant partners to extend their assortment and individualized offerings.

The marketplace model opens distributors to five vital opportunities to meet the needs and expectations of B2B customers.

OFFER A COMPLETE CATALOG

Distributors can give customers a wider array of options that could be delivered quickly. This approach accelerates the ability to scale online assortment based on real-time customer demand and preferences – much faster than drop-shipping and sourcing their inventory.

A dramatically expanded online catalog gives more opportunities to improve knowledge on customer behaviors and needs. After reaching a volume of sellers, products, and new customers, the platform builds more insight by tracking customer traffic, searches, and transactions.

The information generated gives more visibility into what products customers want that are not currently carried in the store and which categories should be optimized to complement popular products. Distributors can test new categories and products, identify top sellers to promote more heavily, and recruit new sellers to boost cross-selling and up-selling – all with greater ease and less financial risk.

For distributors, hosting an endless inventory and more value-added services online provides a new critical information source that either couldn't be obtained before or was difficult to get through distribution partners. The data and knowledge acquired may help improve the product selection process, customer experience, and sales revenue and profitability.

EXPAND REVENUE STREAMS

In addition to serving as a channel for customers that prefer to buy online, marketplace platforms can serve as a new revenue stream. By 2023, organizations that have operated enterprise marketplaces for more than one year will see at least a 10% increase in net digital revenue.⁴

For example, a transaction fee can be applied to each sale executed online, a common practice among consumer retail e-commerce sites and food retail mobile apps. Distributors may also sell advertisement space to their vendors or complementary service providers when the user base grows large enough and represents the desired market segment. Furthermore, the cost of acquiring new customers and retaining existing ones decreases significantly through improved search engine optimization, ongoing digital marketing efforts, and higher conversion rates.

PROVIDE COMPETITIVE BUYING OPTIONS

A marketplace model allows distributors to present multiple qualified suppliers simultaneously, giving customers the freedom of choice and agreeing to terms that best fit their business needs. The online platform can support routine purchasing by offering subscription purchase options as a value-added service of competitive pricing and commitment to keeping the desired product in stock.

4. [“11 Imperatives When Building an Enterprise Marketplace,”](#) Gartner, December 2019.

With a marketplace model, distributors have the opportunity to exercise control of vendor service levels and the quality and integrity of the products and services sold. An annual vendor meeting should be held to share service-level requirements, specific policy guidelines, and the marketplace platform's latest functionalities. If found noncompliant after a monthly audit, the vendor should be suspended from the platform for a short period – such as three months – to improve performance before being removed from the catalog altogether. Audit measurements may include return rates, customer service calls, and Net Promoter Scores.

STAND OUT AS A ONE-STOP SHOP

By adopting a marketplace model, distributors can proactively and seamlessly keep up with every shift in customer demand. This capability is a profound competitive edge in an economic and market landscape that is unpredictable.

The model provides a mutual benefit of strengthening the distributor's brand and its third-party providers upstream (such as vendors and

manufacturers) and downstream (including channel partners and resellers). New buyers could be attracted with less effort, and sales teams can close deals faster and maintain account revenue with more ease.

ESTABLISH TRUSTED BUSINESS PARTNERSHIPS

With the competitive advantages offered by a marketplace model comes a responsibility to help ensure every customer receives a good experience at all times. If any aspect of the sales process goes awry, the distributor is held accountable, which places its brand value and reputation at risk.

For this reason, trust with all third-party providers is essential. Such partnership faith is best built by giving each provider a stake in the entire network's success. Vendors should be given access to their customer base acquired through the marketplace platform. Customers should also be welcomed into the partner network if they offer products and services that complement the existing catalog or fulfill unmet demand.

By 2023, **30%** of enterprise marketplaces will transition to a majority third-party seller model for better profitability.⁵



5. "[11 Imperatives When Building an Enterprise Marketplace](#)," Gartner, December 2019.

Game Plan for Becoming a **B2B Marketplace**

By 2023, 15% of digital commerce organizations with medium to high gross merchandise value are expected to deploy their own marketplaces.⁶ This means the reality of competing in a primarily digital ecosystem is gaining. More important, this trend makes a marketplace business model a viable option for distributors that want to go directly to the customer.

But before diving into an initiative to create and bring marketplace business models to life, distributors should take a critically honest self-study guided by six fundamental topics.

THE CURRENT STATE AND THE FUTURE VISION

Distributors should first define their business' current state and declare their future vision as a digital brand. This step includes knowing the brand DNA, customer experience goal, and ways the brand will evolve and improve in the next few years.

EXISTING BUSINESS CHALLENGES

This topic identifies the issues confronting the business and fosters understanding on whether a marketplace business model can truly resolve them. Throughout this paper, we've discussed the benefits of this model – such as category expansion, stock optimization, long-tail assortment, competitive pricing and offers, and delivery of previously unavailable services. Now, it's time to determine whether these advantages will deliver the outcomes the business needs to bolster customer acquisition and retention.

CLARITY OF SPECIFICATIONS

This line of questioning is focused on creating a tactical plan to advance the business model strategy to successful delivery and operation. This planning stage should be driven by a well-defined customer experience vision and brand narrative. Distributors should evaluate fulfillment options, pricing and promotional strategies, visual guidelines, stock interfacing, product listing specifications, attributes interface, service-level agreements, brand bidding on the business name, commissions, and drop-ship service.

6. "[11 Imperatives When Building an Enterprise Marketplace](#)," Gartner, December 2019.

A CULTURE THAT VIEWS VENDORS AS PARTNERS

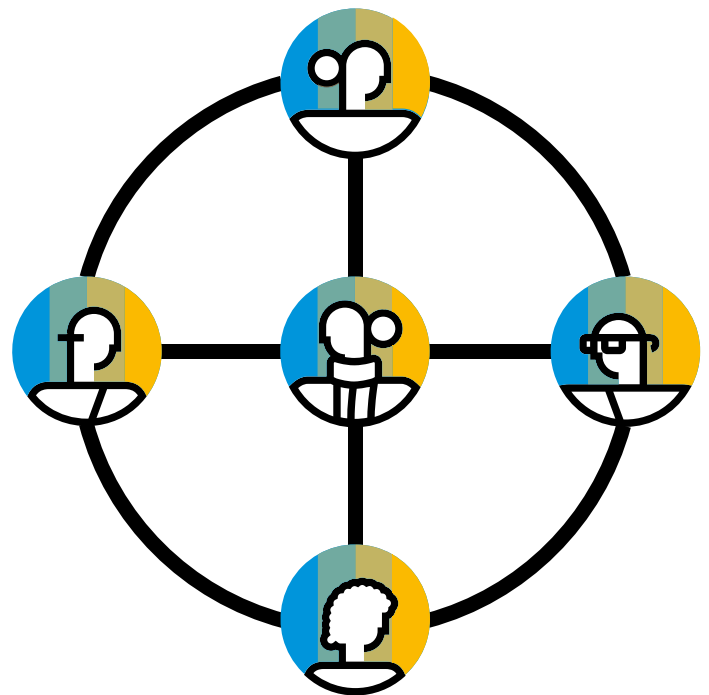
Distributors must consider value-added services to foster a trusted partnership with all third-party vendors. They may choose to share customer targets, the marketplace platform's key performance indicators and product listing page ranking, Web site development road map, and omnichannel services. Knowledge should also be exchanged with vendors to help ensure they perform well – such as SEO guidelines, brand enhancement content, photography support, and monthly and annual business reviews.

DEVELOPMENT OF A DEDICATED TEAM

By forming a team dedicated to managing the marketplace business model and the supporting platform, distributors can provide a unique entry point that simplifies and accelerates the vendor onboarding process. The team can also keep track of brands' and vendors' overall Net Promoter Scores and create and execute an action plan when necessary.

C-LEVEL SPONSORSHIP

Executives must be on board with the reality that their distribution business is accountable for everything that happens in the marketplace platform – good, bad, and indifferent. Such a responsibility requires monthly meetings with the platform provider, the third-party downstream and upstream providers featured in the catalog, and business stakeholders. More important, all these enablers and participants in the marketplace ecosystem should work together to build a strong strategy and foundation that delivers an unparalleled experience.



Why SAP® Solutions and Mirakl

The foundational element of a sound marketplace business model is a single platform that enables a virtuous circle of stability that frees the entire network from maintaining and updating the technology on their own. Distributors focus on their business strategy, while third-party sellers concentrate on their products and services.

One application that helps accomplish this goal is SAP® Commerce Marketplace Management by Mirakl. With the simple integration of Mirakl's prebuilt connector with SAP Commerce Cloud solutions, distributors can quickly launch marketplaces, rapidly onboard new sellers, and swiftly map new products and categories to catalog

taxonomies. SAP experts provide the support and services to discover the latest tools and add marketplace functionality as needed to stay competitive.

For wholesale distributors, SAP Commerce Marketplace Management presents an opportunity to benefit from a powerful combination of consistency and agility. The application is designed to deliver a configurable marketplace platform that works well for B2B and B2C business models – even ones that offer vastly different product offerings. This enables wholesale distributors to create a digitalized operation that can rapidly respond to evolving demand.



LEARN MORE

For more information on how SAP solutions and Mirakl can help your wholesale distribution business accelerate its transition to a marketplace business model, visit us [online](#).

Follow us



www.sap.com/contactsap

Studio SAP | 71211enUS (20/11)

© 2020 SAP SE or an SAP affiliate company. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP SE or an SAP affiliate company.

The information contained herein may be changed without prior notice. Some software products marketed by SAP SE and its distributors contain proprietary software components of other software vendors. National product specifications may vary.

These materials are provided by SAP SE or an SAP affiliate company for informational purposes only, without representation or warranty of any kind, and SAP or its affiliated companies shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP or SAP affiliate company products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.

In particular, SAP SE or its affiliated companies have no obligation to pursue any course of business outlined in this document or any related presentation, or to develop or release any functionality mentioned therein. This document, or any related presentation, and SAP SE's or its affiliated companies' strategy and possible future developments, products, and/or platforms, directions, and functionality are all subject to change and may be changed by SAP SE or its affiliated companies at any time for any reason without notice. The information in this document is not a commitment, promise, or legal obligation to deliver any material, code, or functionality. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, and they should not be relied upon in making purchasing decisions.

SAP and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP SE (or an SAP affiliate company) in Germany and other countries. All other product and service names mentioned are the trademarks of their respective companies.

See www.sap.com/copyright for additional trademark information and notices.