

Making it Easy Creates A Competitive Edge for Manufacturers

As a marketer, you know that the 4P's include price and that the 4C's include convenience.

IDEA's IDW2 enables manufacturers to improve the profitability of their line for their distributors by helping distributors increase their realized gross profit and enhance the quality of manufacturer data to reduce transactional errors.

What is IDEA and the IDW2?

IDEA provides a common language for eBusiness and a medium for transmission of electronic business documents. These objectives are accomplished through a centralized industry product database, the Industry Data Warehouse (IDW2), standardization of electronic document formats, and a low cost, reliable network for the exchange of eBusiness documents; the Industry Data Exchange (IDX2).

Benefits of Integration

The opportunity to synchronize price and product data represents the greatest opportunity for the electrical channel to become more cost-efficient. Companies that embrace this opportunity can reduce error rates, enhance customer service and improve profitability.

These benefits accrue to manufacturers and distributors. Manufacturers who actively track and promote product and price synchronization can:

- Quantifiably improve the profitability of their line with their distributors through operational efficiencies.
- Reduce customer service overhead, enabling personnel to be reassigned to more productive activities.
- Increase their throughput, generating incremental profits while maintaining overhead.
- Reallocate your sales organization's time from non-profitable issues (fixing problems)

to profitable endeavors (calling on customers).

- And most importantly, gain a competitive advantage by being the easiest & most efficient supplier to do business with.

In fact, in a recent study by Channel Marketing Group, distributors were asked to rank the importance of various manufacturer financial benefits. "Ease of doing business" ranked third, after competitive into-stock pricing and the ability to make more than an adequate margin.

With so many advantages, why don't manufacturer marketers know more about IDEA, why do they not promote their involvement and why are they not promoting the IDW2 to their customers?

Marketing Needs to Be Involved in IT

Unfortunately, IDEA and the IDW2 have been the domains of IT departments. Senior management for most companies understand the financial benefits, but many lack the technical expertise to address issues that their IT departments raise (priority of projects and allocation of resources being the main issues.)

While manufacturer sales management advocate that their companies participate in IDEA, many do so to "keep up with the Jones'."

For a company to capture the benefits of IDEA, manufacturer marketing people need to become more knowledgeable and become involved. Marketers need to express the customer benefits that can emanate through data and price synchronization; and show how the IDW2 can generate incremental profits, and revenues, with targeted customers.

To achieve this, marketers need to promote their company's ability to provide price and data synchronization through one industry-supported source.

Additionally, leading distributors are beginning to look towards IDEA to provide attributed data to populate online and print/electronic catalogs. For a manufacturer to be accurately portrayed by a

distributor, the manufacturer needs to populate their attributed data into the IDW2.

For these reasons, marketing needs to become more involved in communicating customer needs and collaborating with their IT departments to identify opportunities to further leverage their IDEA investment.

Why Price & Data Synchronization is so Important?

It is logically understood that if two data points are the same, there will not be errors when comparing the data. Further, if these data points are communicated electronically, the data is correct and communicated on a timely basis.

This is one of the major reasons that retail environments are viewed as more profitable than distribution – the transactional ease of doing business.

Distribution can strive to be as efficient as retail. While no manufacturer expects 100% of their distribution customers to transact business electronically, it is reasonable to expect that 6% of distributors (200 distributors – large A-D and IMARK distributors plus national chains) representing over \$25B in industry revenues, or almost 35% of industry revenues, could have over 80% of their revenue transacted electronically. Utilization of the IDW2 would significantly reduce errors and make these relationships more profitable. Usage of the IDX2 further enhances the profitability equation.

From a business perspective:

- Anecdotal evidence reveals that one of the biggest reasons why distributors change lines is due to "cost of doing business with a manufacturer" / frustration with their processes.
- A recent Allen Ray Associates project reviewed a distributor's price files. The results showed that 28-31% of their data files had an error that related to incorrect data input from manufacturers or third-party service. In other words, the distributor and manufacturer pricing files where cost files were not the same.

The files were then updated and a study conducted to determine how much gross profit was "lost" during the preceding 12 months from strictly incorrect pricing information – almost 2% in gross margin dollars!

- A white paper commissioned by IDEA entitled "A Valuable IDEA" showed
 - o Data and price synchronization processes, utilizing the IDW2, can increase distributor realized gross margin by up to 2.5%, making a line more profitable for a distributor and increasing their GMROI. This occurs due to error elimination and improved process efficiencies. This profit improvement is in addition to pricing improvements that may also be realized. A 3-5% profit improvement opportunity is available!
 - o Manufacturers also benefit from data and price synchronization as the white paper reported that manufacturers can improve their distribution business profitability by .25% of sales through error reduction and process efficiency.
 - o The IDW2 provides distributors the ability to frequently download price increases/changes, and integrates the information into their ERP systems. This ensures that price increases are passed through quickly, product number changes are made, and appropriate descriptions are utilized. This reduces errors and enables distributors to update their customer pricing and reduce profit leakage.
- IDW2 facilitates pricing strategies. Recent research shows that 27.1% of distributors prefer net pricing and 36.1% prefer some type of transactional differentiation pricing which could include SPAs. To manage this, technology and accurate pricing data is essential.

IDEA's IDW2 is capable of delivering net prices and/or costs into stock by passing the

data through IDX2. Current testing with select manufacturers and distributors is currently underway. Once this testing is complete, manufacturers will be able to pass the nets into stock through a safe environment directly to the distributor.

The three major ERP software companies Activant's P-21 and Array; Infor's SX and Intuit's Eclipse have parallel software enhancements under development and testing to receive these special net prices, allowing the distributor to review pricing and to import into their current ERP software systems.

- Since SPA claims are dependent on accurate data, synchronization with a IDEA manufacturer increase the claim back amounts of dollars in a automated fashion. The net result is that SPAs claims can go from a negative to a positive very quickly for a distributor that is synchronizing with you through IDEA.

Getting the Most from Your IDEA Investment

No, we are not skills for IDEA, but with so many manufacturers paying to participate, and the importance of IDEA to future distribution profitability, it is important that manufacturers maximize their investment.

From a marketing perspective, there are a number of opportunities manufacturers may wish to consider. They include:

- Promoting that your data is accurate in IDW2.
- Incorporate distributor IDEA usage as part of your preferred distributor marketing program and reward distributors for downloading your data through the IDW2. It benefits you and them. Consider this a way to share cost savings and generate future efficiencies.
- Incent distributors to conduct multiple EDI transaction sets with you. EDI invoicing benefits manufacturers, others benefit distributors still others reduce customer service costs. The more transaction sets

that a distributor utilizes with you, the more efficient (and profitable) the relationship is for both.

Anecdotally, EDI activity for a manufacturer increases when manufacturer management makes it an issue. Salespeople then go and determine what transaction sets distributors can implement. Achieving tighter EDI relationships to reduce channel costs can strengthen relationships (and VMI users have found it increases sales!) Advocating EDI needs to be a sales & marketing responsibility. Buying groups should be able to help by identifying which of their members can implement specific transaction sets, hence helping you target your efforts.

- Train your salespeople or provide supporting resources. Most salespeople currently do not discuss IDEA with distributor management or their IT people. For the most part they are uncomfortable with the topic and may not know the IT person. To initiate a discussion, develop tools to show distributors their missed profit opportunity, train your salespeople on IDEA and distributor processes and appoint an individual to work with sales on targeted accounts.

How Manufacturer Marketers Can Benefit from IDEA in the Future

With the ability for data to be synchronized, sharing data becomes feasible. IDEA allows you to synchronize data so that distributors can talk the same product language. This creates future opportunities to:

- Conduct data mining
- Mine customers
- Mine customer usage

The quality of data is the foundation to enable distributors and manufacturers to mine their respective information. Once the data is in an appropriate format, tools can be utilized to identify trends. These trends can identify opportunities for growth strategies to be developed and enhance new product

introductions and suggestive selling (or achieve higher account penetration).

Perhaps this is the future of partnering relationships between selected distributors and manufacturers? While the concepts require investment, leading manufacturers and progressive distributors, who seek dominant share, can take advantage of retail techniques to drive their growth.

Next Steps

If you sense an opportunity, you are correct. While the market is expected to grow in 2006, IDEA can help make the year more profitable, and hopefully help you grow at a faster rate than your competition.

To capitalize on this opportunity,

- **Get more involved.** Learn your company's status. Start with IT, talk to sales, talk to IDEA and talk to your key customers about the importance of data to them.
- **Identify how many of your customers are using the IDW2 and the IDX2.** At what level are they using them? With whom do you do many transactions with, and what is your error rate with them?
- **Identify operational opportunities.** Do you know your data and pricing error rates with your national chains and your top 20 independent distributors? How could you reduce this through synchronization? What percentage of your transactions are handled via EDI? How many EDI transaction sets do you conduct with your larger distributors (you should target 5 – 8 transaction sets per distributor). Who should be targeted?
- **Is your data DAC certified by IDEA?** Learn what DAC means and why it is important for your company. Make sure that your company is updating the IDW2 frequently.
- **Review pricing file dissemination.** How much time is allocated to sending pricing files to distributors? Would it be easier to send to one service from which distributors, and other third-party

providers, can download information? Save yourself time, and resources, and use the IDW2 as a one-stop shop.

- **Use marketing to drive adoption.** Think of the need to streamline operational processes as a product. How would you market it? How would you gain adoption? What tools are needed by sales? How would you target customers? Develop a "product" introduction strategy to capitalize on this opportunity.
- **Market your success.** Once you know that you are more operationally profitable for your customers based upon trial efforts, market your success to your sales organization and to a broader segment of your customers. Use your operational efficiency as a tool to convince other distributors to do business with you.

The goal is to reduce errors for you and your customers, and to actively promote that you are "easy to do business with" and "a more profitable partner" for you customers. The role of marketing is to be the voice of the customer and to differentiate the company to them. Beyond building the brand and product support, operational superiority can be a compelling reason for a distributor to do business with you.

To help manufacturer marketers initiate a discussion to become more profitable for their distributors by becoming easier to do business with, ARA and CMG have developed a list of key questions as thought-starters.

The questions are available by calling us at the telephone numbers below.

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