

Surviving the Amazon Effect

Differentiating and Optimizing to Thrive in the Age of Amazon



By Bill McBeath

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The Amazon Effect—Driving Ever-Increasing Customer Expectations

Many manufacturers and wholesale distributors have been profoundly impacted by the *Amazon Effect*, even if they don't compete directly with Amazon. "The Amazon effect" refers to Amazon's influence, dramatically raising customer expectations for things like:

- Frictionless commerce (epitomized by Amazon's 1-click checkout and [Amazon Go](#))
- Extremely fast, low cost, or free delivery, with precise real-time tracking and easy returns
- Nearly infinite selection; breadth and depth of products
- Rich product search, filtering, and product information
- Meaningful reviews and ratings
- Personalization

These expectations reach beyond the retail industry. In fact, the boundaries between retailers, manufacturers, and wholesale distributors have [become ever more blurred](#). Increasingly, manufacturers and distributors are selling directly to the end customer. For manufacturers and distributors who are not selling to the *end* customer, their *existing* customers' expectations have also changed. Customers, whether consumers or businesses, expect to be able to view in-depth product information, configure, order, check status, and potentially request returns or report issues online 24/7—that is *in addition* to the traditional channels of interaction.



Furthermore, many retailers are demanding that their suppliers hold inventory and drop ship to the retailer's customers. This forces those manufacturers to become proficient at fulfilling a large number of smaller orders consisting of just one or a few items, in addition to continuing to fulfill a small number of large bulk orders as they have traditionally done. Those two different types of order flows require completely different paradigms for order management, warehouse management, inventory management, material handling, pick, pack, ship, and logistic/transportation management.

In short, running a business the 'old fashioned way,' is becoming increasingly untenable. To adjust to these changing expectations, a two-pronged strategy is required: 1) differentiate and 2) optimize.

Differentiate—The Power of Unique, Compelling Products, Services, and Customer Experience

It is impossible to 'out-Amazon' Amazon. They have scale, technology, capital, and experience that is hard to compete with head-to-head. Therefore, it is vital to provide value that Amazon is unable to. This can take many forms, such as unique customer experiences, products not available elsewhere, specialized technical expertise and advice, and personalized services (including onsite or in-person services). Here are three companies across the manufacturing, distribution, and food and beverage industries who are differentiating to thrive in the age of Amazon:

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[InteriorWorx](#) is a manufacturer and wholesale distributor of interior finish options such as appliances, cabinets, flooring, lighting, doors and trim, etc. One of their key differentiations is the specialized services they provide. They work directly with residential and commercial builders to provide complete interior finish packages that include design and expertly guided selection of various finish options, installation, and a dedicated warranty department providing post-installation service. Try doing that, Amazon! Even though they are a relatively small business, InteriorWorx handles the complexities of managing over 100,000 SKUs and product variants, and sourcing from and managing international materials suppliers in China and elsewhere.



[Hincapie](#) was founded by professional cyclists to design, manufacture, and sell premium cycling apparel and gear. The customer experience and relationship are critical for their business. With total passion for the sport, they host and operate the [Gran Fondo Hincapie](#), a series of cycling events that allow professional cyclists, top amateurs, and beginners to intermingle and ride. These are festival-like, family-friendly events, with places for the kids to play, and real-time tracking of the cyclists so family members can follow them throughout the race. They also operate the [Hotel Domestique](#),¹ a cycling and outdoor-themed hotel and restaurant in the Blue Ridge mountains. Hincapie has built up and continues to grow an enthusiastic community of cyclists, thereby fostering a deep and enduring relationship with their customers. Their website allows shoppers to order custom cycling apparel, guiding the customer through the process and, as needed, bringing a customer representative into the workflow. Taken altogether—the premium custom



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¹ The hotel is named after a *domestique*, which in the cycling world, is a member of the cycling team who, rather than trying to be the individual who wins the race, rides for the team by letting its leader and the rest of the team draft off of the domestique. Interestingly, George Hincapie, one of the founders of Hincapie, is shown in Wikipedia's [definition of domestique](#) in the [picture illustrating domestiques](#), where he is riding in front of his team leader Lance Armstrong in the Tour de France. Hincapie is one of three examples of 'super-domestiques' cited in Wikipedia.

products, knowledgeable passionate customer representatives, festive events, a like-minded community, and the overall experience—these provide differentiation that is virtually impossible for Amazon or other online-only sellers to match.

A third example is [Sugar Bowl Bakery](#), a manufacturer of baked goods with two manufacturing plants in the San Francisco Bay area. Sugar Bowl Bakery (SBB) sells to many retail chains nationwide including Costco, Albertson's/Safeway, Walmart, Kroger and others. One way SBB has differentiated itself is by making healthier options that still taste good, such as their newly launched whole-grain Breakfast Bites, sweetened with dried fruits in the Blueberry Lemon and Cranberry Orange Breakfast Bites. They appeal to health-conscious shoppers and are ahead of trends; they were one of the first to have trans-fat free products, and its bakeries are certified organic, gluten-free, and non-GMO. They are constantly working on efficiencies to keep costs competitive.



An Integrated Platform Supports Differentiation

All three of these businesses are small to mid-sized companies with limited IT staff and budget, yet all three have been able to leverage technology to support their differentiation and compete with larger firms. Small and mid-sized companies require technology solutions that are not just easy to implement, but that have broad functional footprints (such as built-in ecommerce, warehouse management, [unified billing](#), and more), as well as the ability to easily do incremental customizations that are guaranteed to work across platform upgrades. An integrated platform reduces time and effort spent building and maintaining integrations between multiple best-of-breed systems. All three chose NetSuite ERP as their platform in part because of its broad functional footprint of integrated capabilities, ecosystem of deeply integrated partner solutions, customizability, and rapid implementation. As outlined in [Agile ERP](#), the ability to rapidly implement a core solution, and then build on that foundation over time, allows companies to quickly gain value and momentum.

InteriorWorx implemented NetSuite to manage the complexity of its international supplier relationships and logistics, as well as its 100K SKUs and variants. They are also implementing NetSuite's WMS (warehouse management system) functionality, to automate fulfillment workflows and get rid of manual processes.

For Hincapie, NetSuite's integrated, full-featured ecommerce system was important. It enabled them to implement complicated online workflows, such as ordering custom cycling apparel online, that may require participation of customer representatives, and make those simple for the customer. Those capabilities have helped them increase average transaction sizes. The platform provides their marketing team with visibility into buying patterns to create more relevant and targeted social media and email campaigns. They plan to integrate their cycling event system into NetSuite as well. This kind of integrated platform helps Hincapie create the differentiated experience and a deeper, long-lasting connection with their customer base.

Sugar Bowl Bakery has a complex supply chain and sourcing needs as well, with traceability and quality requirements mandated by regulations. They are using NetSuite's Advanced Manufacturing module and Quality Management System (QMS) to get one-up, one-back traceability, rapid recall capabilities, as well as support their [SQF level-3](#) safety and quality certification (the highest level available from SQF). In addition, SBB uses NetSuite's modules for inventory status (integrated into their WMS), forecasting, and advanced procurement.

Optimize—Creating an Integrated, High-Performance Omnichannel Engine

In addition to differentiating from Amazon and others, businesses must also optimize their execution in order to profitably meet the rising customer expectations that Amazon has created. Even small and medium sized businesses need to have a business that is an *integrated, high-performance, omnichannel engine*. This means that behind the scenes, no matter how folksy or relationship-oriented their brand is, a business needs to be fast, efficient, integrated, and profitable. Two key elements of this are A) rapid profitable fulfillment, and B) integrated channels.

Rapid, Profitable Fulfillment

As everyone is acutely aware, modern expectations now include ever-faster order-to-delivery cycles. 7-day used to be standard, then came 3-day, 2-day, next day, same day, and in some cases 2 hours or less. Expedited delivery, especially over long distances, can be very expensive, and Amazon is making it even harder for competitors with their practice of subsidizing their own shipping costs. In 2016, Amazon's shipping costs exceeded their shipping revenue (including all Prime subscription fees) by \$7.2B (about 5% of revenue) and that figure is estimated to have grown to over \$10B in 2017. Another way to look at this is that Amazon is sacrificing profit to subsidize shipping costs and grow market share. They can do this in part because of their highly profitable AWS business, but also because the stock market continues to reward them for high growth over high profits.



Amazon's competitors do not have that same luxury, so those competitors must become as efficient as possible to offer rapid delivery, while still turning a profit. In practice, there are several keys to this:

- Improved forecasting and Inventory optimization—This is not just about forecasting the right aggregate quantities. It is also about understanding *where* those units are going to be consumed and being able to forward-position the right amounts at the right places. This allows you to move inventory most of the way there in bulk, slow, low cost shipments, and rapidly deliver the last mile at a reasonable cost. But forecasting at a granular location level is difficult. If inventory is in the wrong place (or worse yet out-of-stock) then it becomes impossible or painfully expensive to provide rapid delivery. In addition, having a platform and inventory processes to achieve accurate network-wide inventory visibility is critical. This means that the same platform should be able to track inventory at

the plant, DCs, distributors, retail outlets ... everywhere across the chain. Practices to ensure accurate per-item per-location inventory should be in place, such as procedures to double check receiving and shipping quantities,² to minimize incorrectly shipped items and quantities, while improving perpetual inventory accuracy.

- ***Fulfillment optimization***—Having the right inventory in the right places is the first step. To truly optimize fulfillment, a company can use a Distributed Order Management (DOM) system that optimizes each order, shipping it from the best location, using the best mode, at the lowest cost, while still meeting customer delivery requirements. Smaller companies usually do not need a full-blown



DOM, but can still benefit from a simple DOM-like rules engine, to help them make smarter fulfillment and shipping decisions. Some manufacturers and wholesalers who ship both large bulk shipments and small individual orders have been able to do ‘zone skipping’—this is where the smaller orders piggyback or ‘hitch a ride’ on bulk orders to take advantage of the lower cost LTL or TL³ rates for those large shipments. At the destination, the individual orders are then separated out and delivered the rest of the way via parcel to the end customer, for a much lower rate than if they were shipped via parcel the whole way. Zone skipping is a fairly sophisticated practice, requiring the ability to figure out which small orders are eligible for zone skipping (i.e. a truck is headed to their zone, and will arrive in time for the delivery window),

the ability to interleave the small orders in with the big orders, and facilities at the destination to send it the final mile. Often the labeling and request to the parcel carrier is all done at the origin, simplifying the destination operation.

- ***Compressed cycle times/digital supply chain***—Providing rapid fulfillment requires continually working on compressing cycle times throughout the end-to-end fulfillment process and across the supply chain. This is a combination of rethinking existing processes to eliminate steps and waste, and automation, moving towards a fully digital supply chain. The former (process improvement) requires a mindset of continuous improvement among all employees and a culture of empowerment where suggestions are taken seriously and those resulting in improvements are rewarded. The latter (automation/digitization) requires having the right system(s) in place for automating not only your own processes, but your supply chain partners as well, and the linkages in-between. Manual paper-based processes are a major culprit adding delays and errors.

² For example, some companies use scales to weigh boxes after they have been packed, but before they have been sealed. These scales are connected to a system that brings together the order information with data about the weight of each item and the shipping carton. Thereby, the system knows exactly what the shipment should weigh. If it varies from that, the shipment is flagged to be checked to ensure a mistake hasn’t been made. For some firms, order accuracy is important enough that they have a second person barcode scan all items in the order, to ensure it matches what was ordered.

³ LTL = Less-than-truckload, TL = Truck-load

Integrated Channels

Today's customers expect seamless integration across online, call center, physical locations, and onsite services. They lose patience quickly when dealing with a company whose left hand doesn't know what the right hand is doing. Meeting these expectations requires tight integration between all of the systems involved, across all channels, on both the frontend and backend. Stitching together multiple best-of-breed systems is possible, but is expensive, difficult to maintain, and often not truly seamless. Often a better approach is to have a single integrated system that includes ecommerce, fulfillment functions, core financials, product information management, order management, logistics (warehouse and transportation), and unified billing.

Furthermore, to avoid the pain of having to switch horses midstream (i.e. implement a new ERP system just when the company is growing fast), it is recommended to choose a system that can take you the distance, enabling growth from a small startup to \$1B and beyond. That requires complete support for multi-division entities (with all the financial tools needed), and deep localization across a wide range of geographies for things like taxes (these can get *really* complicated), regulatory requirements, languages, currencies and exchange rates, local conventions, and preferably a local presence on the ground that understands the culture and keeps up with regulatory and legal changes.

In addition, a system should have the ability to run bulk orders and individual small order fulfillment in the same facility. Of course, these two streams will have very different ways of storing materials (pallets vs. eaches), material handling systems, different picking, packing, and shipping, replenishment, and so forth. But this should not be done with two separate, unintegrated systems or else economies of scale and the ability to pool inventory is lost. It is critical to have a unified forecast, a single accurate view of inventory across channels and locations, and the ability to easily shift inventory from one pool to another to meet demand. It also can be valuable to be able to interleave the two streams (bulk and individual orders) for smoother utilization of labor, ability to handle priority shipments without interrupting the operations, and to take advantage of lower cost bulk shipping.

Thriving in the Age of Amazon

Amazon and other innovators continue to set new heights for customer expectations. Whether small or large, businesses can thrive in this competitive environment, provided they relentlessly differentiate and optimize. An integrated system, with full omnichannel capabilities, is crucial to support the competitive differentiation and optimization needed for success.





120 Eagle Rock Ave, Suite 330
East Hanover, NJ 07936
877.979.5462

info@swktech.com

www.swktech.com/products/netsuite

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For more information, contact ChainLink Research at:

321 Walnut Street, Suite 442, Newton, MA 02460-1927

Tel: (617) 762-4040. Email: info@clresearch.com Website: www.clresearch.com