

COVER

story

# E-COMMERCE COMES OF AGE



Many suppliers have a keen interest in promoting electronic commerce with their distributor partners. The reason is simple: It's the most efficient way to do business, and the potential cost savings are well documented. The time is fast approaching when suppliers won't suggest that distributors move to electronic transactions; they'll demand it.

"It is now very clear that to grow profitability in the electrical industry, distributors, as well as manufacturers, must fully utilize e-commerce—not just to automate, but to eliminate unnecessary work being done by both organizations," said Bernie Westapher, vice president of marketing services and e-commerce for Panduit.

More and more, suppliers are measuring how much business they conduct with distributors via electronic data interchange, or EDI, and taking that into account when making strategic decisions.

Pass & Seymour/LeGrand measures the level of EDI transactions conducted with various distributor partners monthly, and has increasing targets that it tries to meet annually. "We also talk about it on an e-business report at our executive staff meeting," said Mike Gambino, president and CEO.

"It's been trending upwards over the last five years, but not skyrocketing," Gambino said. "By the end of this year, we'll probably approach 40 percent of our business electronically with distribution. That's not bad, but it's not close to our goals. Our goals are well above 60 percent right now."

Manufacturers were pressured long ago to implement electronic commerce by the big box retailers, who recognized the enormous benefits of doing business this way.

"The big box retailers require that we have the capability to do the basic as well as some advanced transactions electronically in order to do business with them," Gambino said. "What that did is, manufacturers years ago had to build in the ability of their back offices to do EDI. And it's done. So when a distributor today asks to do a transaction, most likely we've got everything in place to do it."

#### **Mandates and incentives**

Just as the retailers mandated that manufacturers get up to speed with e-commerce to do business with them, manufacturers may soon make the same demand of distributors. That may not mean refusing to conduct business by any means other than electronically, but perhaps penalizing those who stick with fax and phone.

"Ultimately, we will have to reflect in the cost of our products to distributors who choose not to utilize e-commerce—the extra cost incurred in processing their orders, quotations, ship and debit credits, and so on," Westapher said.

Currently, Panduit employs a carrot rather than a stick to promote e-commerce among distributor partners, offering an annual incentive to distributors that meet



its minimum e-commerce requirements, Westapher said.

It's inevitable that electronic commerce capabilities will influence suppliers in making decisions on desired channel partners, said John Morgan, president and chief executive officer of Acuity Brands Lighting, parent company of Lithonia.

"Our primary decisions about channel partners will be based on what the ultimate customer wants," Morgan said. "I do believe the ultimate customer, such as a contractor or building owner, is not interested in paying for things that do not add value. If we fail to connect electronically, a lot of cost in the supply chain is dedicated to non-value-added activities. For that reason, we believe this direct electronic connection is important, and we will do whatever is necessary to make sure we have that in place."

The ability of electrical distributors to conduct business electronically makes them more valuable to suppliers for a number of reasons. Westapher lists the following advantages identified by Panduit:

- Distributors' orders can be processed with 90 percent less labor, and distributors can receive invoices with substantially reduced processing labor.
- Information received is instantaneous.
- Accuracy is much higher because data input errors are eliminated.
- Distributors on Pan-Pro VMI with Panduit automatically communicate with Panduit every night, which enables the supplier and distributor

to provide world-class service levels to customers at inventory turns that are well above industry standards.

- Distributors that participate in automated ship and debit reduce labor to process such requests for credit by 93 percent; they're also assured that 100 percent of the requests that they should be submitting are indeed submitted.

### Measuring the benefits

Panduit can measure the savings and increased efficiency resulting from serving distributors that utilize EDI transaction sets, Westapher said. "We can, but we don't waste time trying to ascertain the exact savings," he said. "The benefits are obvious when you look at the staffing we have not had to add in departments processing orders and credits, even while sales have risen significantly each year."

The savings due to fast availability of information and reduction of errors is very significant but difficult to measure directly, he said. "However, we are extremely confident the payback is there."

Gambino said it's very difficult to numerically quantify the benefits realized by transacting business with distributors electronically. "How do you measure the value of growing businesses without having to add human resources for non-value-added work?" Gambino said. "We firmly believe that we wouldn't have been able to grow the business the way we have without electronic commerce."

Morgan said his company measures the savings associated with eliminating waste when conducting business via EDI with some trading partners. "To do it accurately, it creates a rather complicated measure. But, ultimately, you can measure the waste removed from the supply chain," Morgan said.

"I hate to refer to it simply as savings because that gives the impression that it's just about dollars and cents associated with the transaction itself," Morgan said. "It's errors that get compounded when people have to re-keystroke things. It's the number of people that have to enter or reenter information. It's legibility of orders that are faxed instead of sent electronically."

It's also the length of time for transactions to move through the supply chain. "Sometimes an order may sit on a salesperson's desk for two or three days before it's sent to us," Morgan said. "So there are three days of waste in the supply chain. We could have been working on producing that product and shipping it."

### Challenges remain

"More and more distributors are starting to do EDI, but most distribution at this point is only focusing on the basic or starter transactions," Gambino said. "That would include purchase orders, the 850 transaction; invoices, the 810 transaction; and advance ship notices, the 856 transaction. Of those that use purchase orders, maybe 60 percent use the invoice side of it. At this point we don't even have a 100 percent match on that yet."

The obstacle slowing down implementation lies with software, Gambino said.

"Not to blame anyone, but there's no doubt that a lot of this goes back to the software vendors that have been used in our industry to manage the day-to-day business," Gambino said. "If the software isn't set up well to support the transactions, it's difficult for distributors to implement it because most of them don't have large IT staffs or skilled EDI specialists. When you get beyond the top 50 distributors across the country, they rely on their software vendor or an outside consultant."

Acuity Brands has seen only a modest increase in the level of EDI transactions processed with electrical distributors over the last three to five years, Morgan said.

"The greatest single challenge has proven to be database synchronization. We think it's important that the industry as a whole gets to the point of utilizing a single database, as opposed to having synchronized databases," Morgan said. "So the priority for us is to get to a single database utilizing the IDW that we and distributors will both look at for our products."

The Industry Data Warehouse has set the path to allow manufacturers to provide data on a constant basis in the

necessary format, Gambino said. "But right now, the advantages the IDW can bring are nowhere close to realization yet across the industry," he said.

He sees two primary obstacles: "Number one, from the distributors' standpoint, it's the back-end software," Gambino said. "The question is, are they going through the upgrades from the software providers and are the upgrades from software providers there yet? I believe they're still getting there."

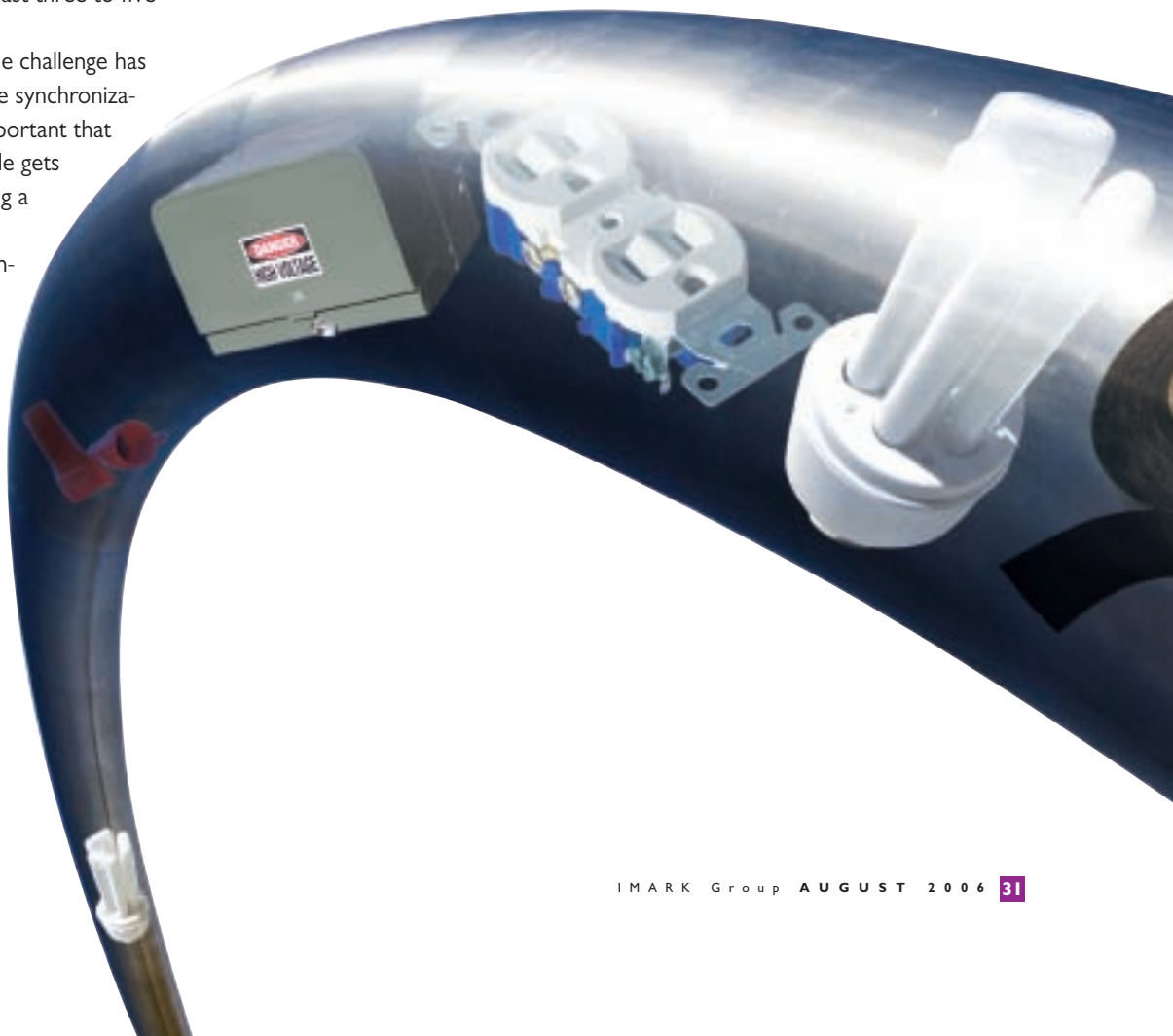
"The second thing is, if we move to the IDW, we need to get continued reinforcement from manufacturers on a timely basis, feeding the proper data into the IDW. That takes

some work on the manufacturer side. It's getting there, but it also takes some work," Gambino said.

Westapher agrees that it's largely on the shoulders of software providers to facilitate implementation of EDI for their distributor customers.

"Those independent third-party software suppliers have to recognize the IDEA standard and change their systems so that when a part number comes flowing down the IDW with 20 attributes hanging on it, the software will put those fields into the distributor's system where they're supposed to be," Westapher said. "It's called mapping, and it's easier said than done. It takes time and people who are trained to do it."

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In addition, if something doesn't work right, the software company has to fix the bug and come out with a new release.

"If they have 400 distributors, they have to get the new release to all of them," Westapher said. "They may or may not charge for the new release, and some distributors might not want to go through the time and expense of upgrading."

### Catalysts for change

With all the day-to-day demands of running a business, implementing a major change in operations tends to get put off until something acts as a catalyst.

"There's nothing forcing it yet. Distributors aren't demanding it; they're not saying they're only going to do business with manufacturers that are providing their information to the Industry Data Warehouse on a proper timely basis. That would certainly move the needle," Gambino said.

IMARK's new incentive program to reward members for advancing their e-commerce capabilities will provide an important boost, Gambino said.

"That's an absolutely positive move by IMARK," he said. "I think that will move the needle."

Westapher said the National Association of Electrical Distributors' Special Price Authorization Task Force has ignited a spark that may cause an explosion in the implementation of EDI. The task force, a joint

effort between manufacturers and distributors, was charged with developing an automated ship and debit process to take the labor out of processing SPA transactions and improve the accuracy and timeliness of the information.



"The ship and debit process has always been extremely labor intensive, involving thousands of lines and hundreds of pieces of paper," Westapher said. "Both the distributor and the manufacturer have a lot of people in the back room processing this information. There are time delays. Distributors often don't get their money back for three, four months. Sometimes they're late even asking for it, or they forget to ask for it at all."

So when the task force came out with recommendations and standards for automating the process, it caught the attention of distribution management who recognized the potential for significant savings, Westapher said.

"This was finally the catalyst that made them say, 'This would be a helluva good investment; we've got to do this,'" Westapher said. "There are distributors coming to us now saying they want to automate. That rarely happened in the past."

Some distributors are finding that they'll have to upgrade to the latest software version to do the automated transactions, and that it will cost them some money, Westapher said. "So they might decide to put it off, but they definitely want to do it."

### The right people

While direct electronic connections between manufacturers and distributors are important from a transaction standpoint—creating a more efficient means of moving information back and forth—the biggest competitive advantage lies not in digital resources but in human ones, Morgan said.

"All the direct electronic connections in the world won't do any good if you don't retain and train the right people," Morgan said. "The broad range of products electrical wholesalers sell, from lighting to wiring devices to datacomm systems, creates such complexity that product training for distributor sales personnel is extremely important."

"We can connect directly electronically. That's easy. We've done that with other channels. But we sub-optimize the margins that a distributor can realize on our products if their people aren't deeply knowledgeable in the products that they sell. If you were forced to make the choice between one or the other, it's the people that make the difference."

Other industries may have been ahead of the curve when it comes to electronic commerce, but electrical distributors have done a much better job in having trained, qualified people than have other industries, Morgan said.

"I believe that getting connected directly electronically will not create a comparative advantage," Morgan said. "But I believe failure to get connected directly electronically will create a significant disadvantage, because such a large portion of the industry is going to be connected directly that if you're not part of that, you'll lose business."

Going forward, Westapher said Panduit intends to support IMARK's new uniform standards of EDI performance program by being fully capable in all EDI transaction sets covered by the IDEA standards, continuing its e-commerce rebate bonus, and promoting the use of automated

ship and debit to help IMARK distributors achieve gold status.

"IMARK has introduced a bold program that is well timed to lower distributors' operating cost significantly while enabling their suppliers to do the same," Westapher said. "To really achieve this savings, distributor management needs to redouble their efforts to communicate to their software system providers how essential it is to fully integrate their distributor software systems with IDEA EDI standards."

The ability for the majority of distributors to make maximum use of EDI is dependent on their software system providers completing this

integration and working with distributors to verify with multiple suppliers that the integration is fully operational, Westapher said.

"It all comes down to one standard format from every manufacturer, so the software provider is able to map it," Westapher said. "That's what's been happening in the industry for the last three or four years. It's to the point now where it's there, it's functional, and it's working."

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