Wholesaling & the Impacts of Digitalization

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Table of Contents

I. Wholesaling as a Business

Business Model

A business selling or manufacturing goods requires reliable and consistent upstream supply chain partners providing them resources. Without this operable flow, businesses have an issue satisfying demand for their customers. Supply chains consist of market channels such as producers, manufacturers, retailers, and distributors that form a value-delivery network.

Wholesaling is a market channel that contributes to this value-delivery network by buying from producers/manufacturers, selling goods to buyers for resale or Business purpose, and taking on marketing functions. This intermediation facilitates the flow of goods throughout a supply chain, bolstering efficiency by reducing channel transactions. The importance of this channel level cannot be understated, as the contributions it serves to upstream manufacturers provides economies of scale, while strengthening downstream performance through logistical resourcing.

Problems Wholesalers solve

The Wholesaling intermediary improves cost efficiency and reduces clutter. Expenses as a percentage to sales diminishes as economies of scale is acquired (Marketing in our American economy, 1940). Wholesaling activities alleviate other links in the supply chain helping absorb overhead costs. Absorbing operational risks increases performance, optimizes the fundamental value of a link, and expands he total value of the supply chain. This ensures lower prices with higher volumes of product, improving business strategy by specializing product lines (Marketing in our American Economy, 1940).

Producers on the Sell-side look to these businesses as a Selling Agent for their products. Retailers and Manufacturers on the Buy-side use wholesalers as buying agents for material inputs or finished products. By going directly to a wholesaler, a web of complicated accounts, bills, and logistic networks is reduced to a single point. This makes Wholesaling a central buying source to replenish at ease (Role of the Wholesaler, 1956).

Market Functions

Value is added into the Wholesaling Chanel Layer by performing crucial market functions for Manufacturers and Customers. Wholesaling theory states the importance of a wholesaler is dependent upon the functions it fulfills (European Journal of Marketing, 1989). These functions consist of:

- **Manufacturer** (Sell-Side)

    1. *Marketing Coverage* – areas served geographically
    2. *Sales Contact* – making sales, deliveries, and securing payments
    3. *Holding Inventory* – taking goods to title and managing stock flow
    4. *Order Processing* – Managing purchases and buying policies
    5. *Market Information* – Anticipating Demand and understanding Tastes & Preferences
    6. *Customer Support* –Business Services

- **Custome**r (Buy-Side)

    1. *Product Availability* – Fulfilling Demand with Supply
    2. *Assortment Convenience* – Depth available to customers
    3. *Bulk-Breaking* – Buying in larger lots to resell in smaller units
    4. *Credit & Financing* – Borrowing Assistance
    5. *Customer Service* – Product Services post-purchase
    6. *Advice & Support* – Product Services pre-purchase

Studies show Manufacturers expect Wholesalers to fulfill market prescriptions, adding to role dependence in market functions (European Journal of Marketing, 1989). The study looks at how Wholesalers perceive their importance in performing market functions compared to manufacturer perceptions. Understanding what to perform for manufacturers optimizes Business strategy & Operations management (Role of the Wholesaler, 1956).

This study proves three different hypotheses: Importance of Market Functions, Reliance on Market Functions, Perception of importance in Market Functions. Wholesalers perceive their importance, contributions, and reliance with market functions higher than manufacturer perceptions. Manufacturers agreed that wholesaling activities were significant in market functions but to a lesser degree.

These results help understand pressures of conformance imparted upon the wholesaler. Market functions makeup the degree to which Wholesalers take Risk and Responsibility in their operations.

II. Evolution & Organization

Evolution of the Wholesaler

Wholesalers originally were involved with foreign trade in the United States and had little distinction between retailers at the time. It wasn't until the turn of the 19th century where merchandise specialization began. At the turn of the 20th century with America's Industrial revolution in full swing, the concept of Wholesaling as a viable business model became more feasible. Factors improving Wholesaling operations stem from mass-production capacity, improved means of transportation, and improved communication & dissemination of knowledge (Marketing in Our American Economy, 1940.

Full-Service and Limited-Service Wholesalers accounted for most of specialized wholesaling intermediaries in the 20th century. Full-Service merchants perform *all* market functions while Limited-service merchants only perform *some.* These compete with Sales Branches & Offices of Manufacturers on the Sell-Side performing similar functions in acquiring customers and distributing product. Advances in technology and productive capacity enabled Wholesalers to dominate as a sustainable solution in the supply chain. This helped outperform Sales branches and offices that competed with wholesaling. This is consistent with Wholesaling Theory that wholesalers operate closer to an optimal point on a cost curve, therefore being more efficient in performing marketing functions. However, as a wholesaler differentiates so does its complexity and details.

Organizational Structure

As the role of the wholesaler evolved so did its organizational structure. Wholesalers are departmentally organized much like other organizations. Functional activities facilitating business operability consist of the following (Wholesaling, 1926):

- Sales
- Merchandising
- Operations
- Financials
- Accounting

Sales

Sales departments are headed by a sales manager planning sales initiatives and conducting research for operations. They initiate policies regarding branding and merchandise quality. Sales plays a pivotal role in a firms marketing mix by influencing the price function, and promotion function through salesmanship and advertising.

Merchandising

Merchandising departments headed by a merchandising manager enacts buying procedures dictating purchase requirements. They also formulate buying policies involving new items and the concentration & frequency of purchases. It is crucial for merchandising departments to be aware of external market conditions involving demand and internal control involving stock. Keeping track of order processing is important in establishing an internal control system. Finding upstream suppliers allows for accessible buying methods.

Operations

Operating departments with operations managers satisfy physical maintenance and arrangement of stock. Warehousing is crucial in the efficiency of operations. Operations management consists of Receiving, Order Filling, Packaging, Shipping, Delivering. Operations managers perform activities and decisions for the merchandising department.

Financing & Accounting

Financing departments are headed by a treasurer managing Credit & Financing, Accounts, Cashiering, and Collections. The finance function possesses more actionable authority over how cash is used in business operations. Increasing the volume of business is met with mitigating risk and reducing debt exposure. Moreover, the accounting department keeps account of how this cash is used for business operations. The accounting manager makes note of payroll, prepares financial statements for the company, and is held responsible for book-keeping. From the actions of the finance department, the accounting department can perform financial analysis and help guide financial decision-making.

III. Recent Trends in Wholesaling

Facing an Inflection Point

Within the last decade, Wholesaling faces an inflection point being driven by disruptive forces. Impacts of digitization in the industry paired with economic weakness, an increase in disintermediation, competing aggregation groups, and rising costs are attributed to this shift in industry performance. This effects the ability of wholesalers to compete effectively by eroding profit margins. This fundamental shift in performance from 2006 to 2015 was signaled by an 8.3% drop in Return on Capital between these years (Wholesale distribution disrupted, 2016). This return on capital percentage is found by dividing operating income by net fixed assets and net working capital. What this statistic tells us is that operating margins are decreasing due to a decrease in operating income (numerator). Additionally, year over year industry growth went from a staggering 16 % in 2006 to 3% in 2015 (Wholesale Distribution disruption, 2016).

Deloitte market research identifies these trends to be influenced by six factors:

1. Accelerating Digitization
2. Expanding Competition
3. Emerging Customer Demand
4. Product Innovations
5. Disintermediation
6. Consumerization of expectations

Accelerating Digitization

Accelerating digitization is characterized by the democratization and standardization of distribution. Information technology such as Enterprise Resource Planning systems expedite the capabilities of businesses small or large, reducing the number of resources needed to deliver value. This transfer of revenue to E-commerce enables new competitors to enter and flourish without the need of physical locations. The internet of things overall perpetuates an ideal free market model free of most barriers that traditional business is confined to, and sometimes thrives under. It alleviates capital costs found in brick & mortar establishments. This catalyzes disintermediation and disruptions in the value chain, transforming how businesses operate.

Implications of this accelerating digitization empowers consumers and businesses to educate themselves. This affects wholesaling market functions. Marketing efforts are now more easily advertised on e-commerce platform and other decentralized forms. This expedites market research in the online space, providing more immediate results via online surveys and other data collection tools. Mobile and virtual businesses are then more effective in covering various market environments, helping sales coverage.

Overall, technology decreases back-office costs. Implementing it reimagines business models and cost structures. This opens new market channels, enhances supplier to customer engagement, and ushers in greater pricing transparency.

Expanding Competition

This trend of increased competition and variety requires wholesalers to add a greater product assortment & perform more market functions for customers. Business to Consumer markets put downward pressure on wholesaler growth through their purchasing power, supply-chain network, and customer experience over wholesalers. To overcome these barriers, wholesalers must leverage product availability, target more consumer segments, and expand into more market channels. This can be made feasible through the integration of digital e-commerce solutions.

Capturing New Demand

What manifests out of disruptive forces are new industries, customer segments, and competitors. Wholesalers overall must improve their relationships with its marketing environment to ensure stability of demand. This can also be done by performing market penetration into new segments or acquiring startup companies that show new market potential. For instance, the new space sector has potential to breathe life into industrial distributors by providing new inputs for an evolving development (Wholesale Distribution Disrupted, 2016).

Product Innovation

Innovating products reshapes a wholesaler's value chain and presents new challenges and opportunities. This puts high stress on the research and development of a company, requiring them to adopt improved ways of expanding product availability and maintaining good depth. For instance, additive manufacturing (3D printing) provides flexibility in the products that are created simply by adjusting the design template. The materials used can range from plastics, metals, ceramics, and even foods (Wholesale distribution disruption, 2016). The implication of this innovation creates new suppliers, market channels, and deteriorates existing value streams. This overall requires wholesalers to constantly monitor the value proposition of its products.

Continuing Disintermediation

The internets growth has been a main cause in the Disintermediation process. This is when supply chains cut out intermediaries or new channels disrupt traditional ones. Improvements in direct marketing threatens the viability of wholesalers as an intermediary. Manufacturing Sales Branches and offices with improved technology can perform market functions at a much greater efficiency compared to the early 20th century when they needed wholesalers to perform it for them. This lack of dependence pressures wholesaling revenues and margins. To combat this, a long-term response must strengthen current capabilities and leverage existing lines of trade.

Consumerization of Expectations

The consumerization of expectations explains how the Business to Consumer (B2C) segment is influencing the Business to Business (B2B) segment. The wholesaling intermediary serving businesses traditionally performs more complex marketing efforts in comparison to the retailer serving customers. However, with improvements in the digital sphere this alleviates that complexity. Additionally, consumers want better transparency and usability when selecting market channels to shop from and compare. This forces wholesalers to provide easy user interfaces integrated with their online platforms that provide the right tools and facts in evaluation. Cross-channel experiences improve usability by providing multiple avenues of receiving personalized customer services. This is crucial for wholesalers to maintain Ratings, Reviews, and Advocacy for their Net Promoter Score.

IV. Conclusion

Overall, Wholesaling is an important intermediary that adds value to a supply chain by performing market functions for both manufacturers and customers. The channel layer was a necessity in bringing to fruition the capabilities of industrial mass-production efforts. This allows Manufacturers to achieve economies of scale and optimizes their cost structure strictly towards productive capacity while allowing the wholesaler to act as an agent arranging customers for them.

The existence of wholesaling however is threatened when marketing functions are absorbed by other portions of the supply chain. When looking back to the main competition of Wholesaling at the turn of the 20th century, Sales offices and branches of manufacturers couldn't perform as efficiently compared to wholesalers due to high overhead costs. This built a dependence upon wholesaling services in market functions. Yet with increased digitization this lack of reliance of their services empowers their disintermediation.

This requires wholesalers to take a step back in how they operate as a business. Changing times require up-to-date business models compatible with what achieves cost efficiency and customer satisfaction. If wholesalers want to find success in the long-term, they must find a way to reach customers in more insightful ways, improve the value chain by enhancing product innovation, and modernize the business by capitalizing upon digitization efforts.

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