box UK

White Paper

Turning the Oil Tanker: Effecting Change in Wholesale & Distribution

Providing you with:

- ✔ Advice on becoming more speedy and flexible
- ✔ Tips to encourage innovation while mitigating risk
- ✔ Practical next steps to get you started
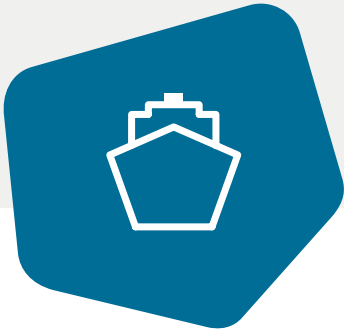
Introduction

When it comes to rapidly responding to new trends, threats and opportunities, organisations in the Wholesale & Distribution (W&D) industry have often struggled; hindered, in many cases, by a reluctance to upset established ways of working (and risk compromising the success they've built up over time). The size of many of these organisations adds further challenges, as if even small changes go wrong they can have a significant negative impact on profit and productivity - at a time when maximising margins is more important than ever before.

In some cases these organisations may also believe that their size will insulate them from the effects of disruption. However, while this industry might not currently be experiencing the levels of innovation seen in sectors such as fast-moving consumer goods and finance, it would be a mistake to think that it's immune to change. On the contrary, as costs to enter the market decrease many manufacturers are growing their Direct to Consumer (D2C) offering, to gather data that will increase their understanding of their current and future consumers - think of Dyson, Nike, Unilever, and Procter & Gamble, for example. As a result, W&D organisations need to be ever more innovative, agile and customer-centric in their offer in order to add value and grow market share.

These is clearly a need, then, for a framework that supports innovation in the W&D industry, while at the same time enabling business-as-usual activities to continue unimpeded, so that core revenue streams are protected, and brand reputation safeguarded.

"Almost every large company understands that it... needs to deal with ever-increasing external threats by continually innovating. To ensure their survival and growth, corporations need to keep inventing new business models. This challenge requires entirely new organizational structures and skills."

Harvard Business Review

This white paper explores in more detail some of the most common challenges faced when trying to balance the innovative and the proven, along with a range of potential solutions. We'll show you how you can 'turn the oil tanker' and adopt a more nimble way of working - allowing you to rapidly develop and trial radically new concepts, products and approaches in a lean and cost-effective manner, and so gain significant tactical and competitive advantage.

Challenge 1: Maintaining business as usual

Being cautious about tampering with an existing system for fear of losing established sources of revenue is common among many organisations, but it is particularly evident in sizeable, high-turnover enterprises such as those found in the wholesale and distribution industry. It's likely that steady and reliable business processes will have been built up over the years, alongside the incremental refinement of activities to deliver optimal results. As a result, you may be struggling to square the requirement to maintain your existing production outputs with the desire to introduce new ideas into your core operations.

A solution may lie, however, in embracing a new operational model, and installing a team - distinct from the main business - that's focused solely on facilitating innovation. With this team in place you can then allocate a dedicated budget to your innovation projects, giving you a much better understanding of the exact time and funds you have available for researching and testing progressive, tactical projects, and can consequently also be more confident about the resources that are committed to delivering production-ready, revenue-generating outputs. This allows you to effectively balance the competing demands of progress and maintenance; safeguarding a baseline level of growth while still exploiting the opportunity to pursue new chances for increased returns.

Challenge 2: Creating the drive for disruption and innovation

Although your organisation may embrace innovation in principle, there might be uncertainty around exactly where you should be directing your efforts - especially since practical difficulties associated with legacy technologies, frameworks and processes can make overturning the status quo a challenging prospect.

Here, it's vitally important to focus on your audience, building an understanding of how well they're being served currently, and where any opportunities may lie. By looking at what services your customers are and - crucially - aren't able to access through your current touchpoints, and where they go for the alternatives, you can start to explore innovative new paths to market, as well as understand what changes may be required to your platforms and infrastructure to turn those ideas into a reality.

Taking responsibility for innovation away from your main business can further support this activity, as it frees teams from existing ways of working - enabling them to more effectively challenge previously-held rules and assumptions, and ensure every aspect of their approach is tailored to encourage disruptive thinking and rapid prototyping.

This benefit can be emphasised still further by collaborating with external parties on these kinds of projects. If chosen well, not only will your partner bring a fresh perspective to the requirements of your business, customers and industry, but they'll also deliver in-depth technical knowledge and expertise to support the development of innovative solutions that may not have been possible with solely internal capabilities.

For example, the analytical data you possess may contain hidden insight into how users behave across your different touchpoints; insight that, once drawn out, can be used to devise more effective multi-channel solutions.
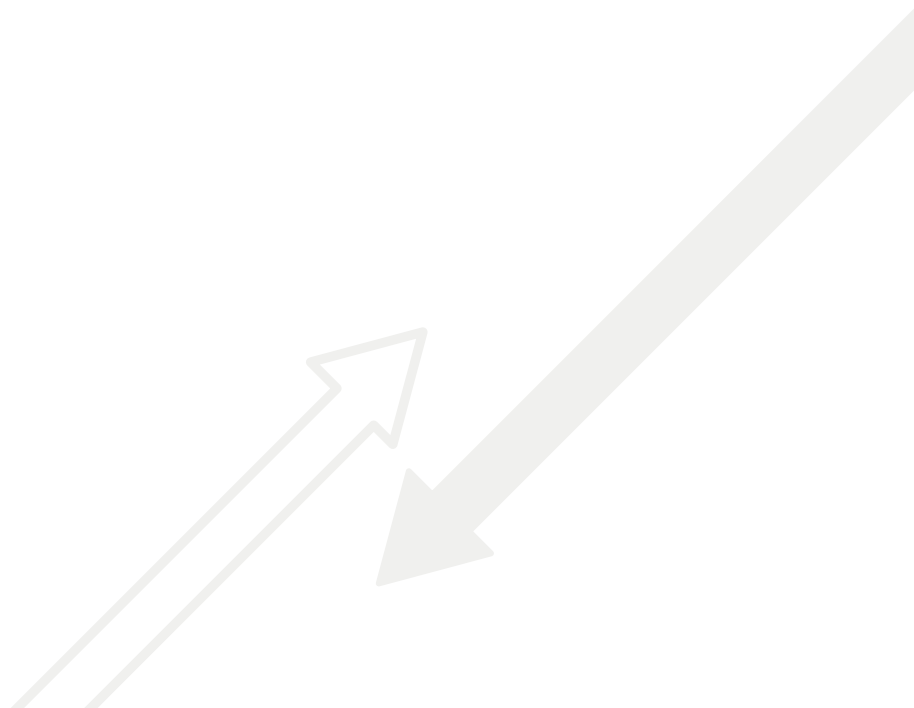
Challenge 3: Overcoming internal objections

One of the major barriers to embracing innovative new ways of working is the commonly-cited argument that "We've always done it this way". While, as mentioned above, taking the first step towards innovation can require a shake-up of established models and processes and may appear to be an ineffective use of budget, not doing so is even more risky.

Even if you're not thinking about how you can disrupt the industry, it's likely that your customers and suppliers will already be pushing for change - and if they are, there will almost certainly be other W&D organisations that will seek to respond to their demands. To take an example from another industry, established financial services providers have been significantly shaken up by innovations such as peer-to-peer lending and branchless banking, with large-scale branch and staff cuts from major players such as Lloyds showing the potential impact of being forced onto the back foot by these kinds of innovators.

Of course though, any innovation should be undertaken in a considered way, without introducing unnecessary risk. Consider, for example, the potential consequences of expanding into new regions and demographics, or taking control of additional elements of the supply chain - programmes of work that are increasingly accessible as digital technologies have made it easier for W&D organisations to forge a direct connection with customers.

There are a number of issues that may hinder this activity, such as strong competition from established players in new markets, and the cultural challenges associated with launching a product or service that differs greatly from any existing offerings, image, or established (even perceived) brand values. In these cases it is not just the monetary cost of failure that is off-putting but the potential damage to a reputation that may have taken decades or more to develop.

Assigning a distinct name, branding and hierarchy to the team undertaking your more innovative projects, on the other hand, facilitates diversification while diminishing the likelihood of untested initiatives being directly linked to your existing brand. These teams are, after all, specifically designed so that the bulk of business activity can remain focused on maintaining your core trajectory while trialling new ideas and projects around it - removing a great deal of the risk associated with innovation.

Challenge 4: Leading the charge in a slow-moving industry

Beyond organisational reasons for resisting innovation, as mentioned in the introduction there are significant issues that may be preventing the entire wholesale and distribution industry from responding effectively to change (or at least the perception of such). With a requirement to meet challenging quotas both when serving existing markets and growing an engaged customer base, for example, it's understandable that organisations may avoid new ideas for fear of losing ground to the competition, and instead stick with approaches that have been established as industry-standard for many years.

Another challenge lies in differentiating your offering in what is an increasingly crowded marketplace. In these cases the ideal approach would be to experiment with various options until a best-fit solution is found; however, as we've acknowledged, the cost and difficulty of rapidly adapting and evolving in this way is often prohibitive for the majority of large, established W&D organisations.

Additionally, this is an industry that has its root in offline channels and platforms, meaning that there may be an ingrained reluctance to make the leap to digital; a reluctance often compounded by the feeling that enterprise-level organisations such as those that dominate the W&D sector are protected from the effects of change by virtue of their scale. But as B2B audiences become used to the exceptional customer experiences delivered in other walks of life, W&D organisations have to take the lead from more digitally-savvy B2C organisations, and the new trends and techniques being embraced in this and other industries.

However, by testing a variety of potential solutions with a relatively small initial investment, you can pause projects that aren't generating results without vast resources having been committed - while if an idea does receive positive feedback or perform well in early testing it can be brought into your main production space. This approach also facilities the rapid ideation and iteration needed for teams to become increasingly flexible, rapid and therefore innovative; qualities that can significantly reduce the cost of vital first-mover status in a market with highly entrenched ways of doing things.

# Challenge 5: Aligning activity with business goals

Despite a clear need for innovation, the metrics that matter most to your organisation are still likely to be productivity, revenue and margin; after all, these are the measures by which you'll judge overall business performance. Within the constraints of a working day this can easily lead to the prioritisation of activities that will most immediately deliver a positive impact against these metrics; reducing your capacity to fine-tune the small, yet still crucially important, tactical elements of your strategy.

One of the advantages of installing a team dedicated to the pursuit of innovation though is that they can take a tight focus on achieving a specific objective - but in order for this to be effective it's important to first identify your core business goals and ensure they are aligned across the organisation. Whether this attracting more new customers, reducing cost to serve, increasing reach, improving process efficiency or supporting the integration of new services, being able to provide your team with a clearly-defined brief will allow them to concentrate on optimising every element of a project with your specific goals in mind. Additionally, by minimising demand for immediately revenue-generating outputs you'll encourage more free thinking around innovation and disruption, allowing these initiatives to actually drive improved business performance rather than being considered alongside it.

This way of working also integrates well with Agile methodologies, taking as it does an often unwieldy, complex strategy and breaking it down into smaller individual and incremental points - making it ideal for supporting the launch of innovative new initiatives. Regular periods of review and iteration are built into the
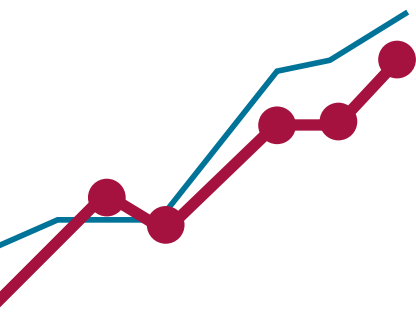
fabric of this framework, enabling you to gather feedback, learn from what's gone before and adjust your approach accordingly - helping minimise waste, risk and, ultimately, cost. (For more information on how Agile can be applied outside of software development, take a look at our **white paper** on the subject.)
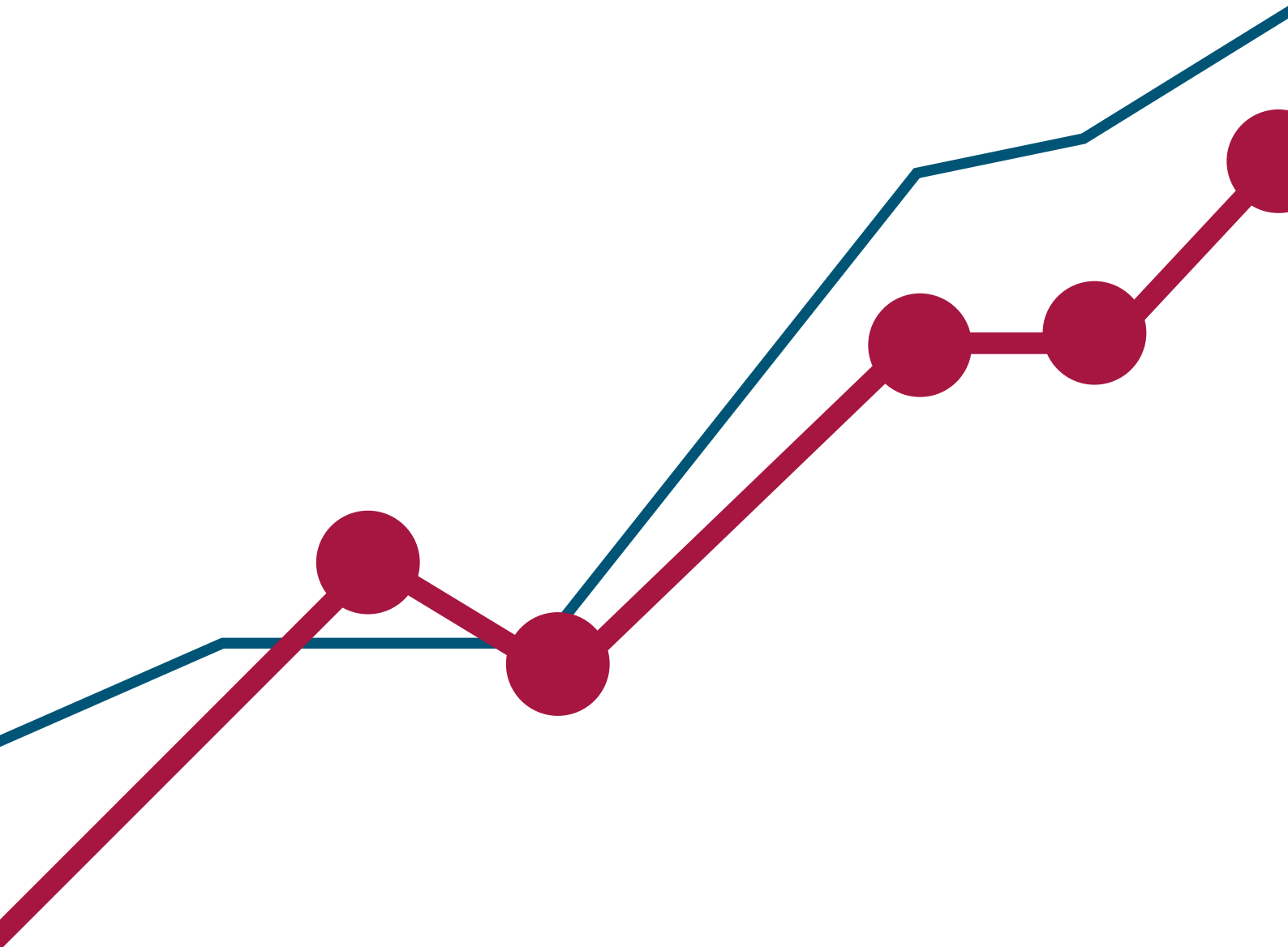
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Challenge 6: Managing fear of failure

By its very nature, investing in radical innovation introduces uncertainty, and with it an element of risk that makes many organisations fearful of not seeing adequate returns from the time and energy they commit to these projects. However if you accept at the outset that it's impossible for every one of your ideas to be a success, and put structures in place to learn from your initiatives at an early stage, you'll open yourself up to an even more diverse range of opportunities, while safeguarding against failures occurring further down the line when they may have a much more significant impact.

It's important to trial new ideas quickly and inexpensively; for example by releasing deliverables 'into the wild' to be first tested with a limited number of users or in a particular area of your organisation. These projects act as proof of concepts, which can then be cloned and rolled out only when they've been proven to deliver tangible value.

An example of this process in action can be seen in a search project we worked on for RS Components; a large, international distributor of electronic products. The client wanted to make it easier for users to locate products ideally suited to their purpose, and were interested in finding innovative new solutions to this challenge. To minimise the impact of any potential failure the project was initially focused around a small range of products and released on a limited private beta, where we tested an improved search tool; this didn't mean, though, that our solution was going to instantly and automatically replace all RS Components' existing search mechanisms.

Through this approach, the client has been able to take on board what's been learned and build proven elements of the project into their main platform. However, if during the test people had not responded well to the new application, it wouldn't have been carried through into production and instead would have been re-iterated, tested and the new results assessed accordingly. Importantly, any failure would have been identified with significantly less expense than if it had been rolled out across the whole organisation first, when it may have cost many hundreds of thousands of pounds to reverse.

Next steps

If you're committed to introducing innovation into your organisation and challenging your competitors with new ways of doing business, hopefully this white paper has shown you that size shouldn't be a barrier to achieving your goals. In fact, there are a number of models you can employ to support innovation, such as creating a new innovation division from your existing workforce, bringing in a new dedicated team, or outsourcing to a third party.

Whatever approach you take, though, it's vital that you understand exactly where you stand in the market before you embark on any initiatives. You'll therefore want to conduct a review of your organisation as it stands, identifying potential strengths that can be exploited and weaknesses to be addressed - but for a truly holistic picture, consider also a Peers, Innovators and Competitors (PIC) analysis, which can reveal established best practices alongside lucrative opportunities that you may be able to take advantage of. Important considerations to bear in mind when conducting this include:

- What you'll compare your current offering against. It's a good idea to include a diverse range of organisations in your comparison, from market-leaders through to any brands you particularly aspire to emulate, as this will give you a more comprehensive understanding of what 'good' looks like.
- The elements of your digital products, services and strategy that you'll focus on. You'll want to keep your scope fairly narrow to enable the level of in-depth analysis needed to drive actionable insight (although you can of course run this exercise more than once to explore different areas).
- Where value can be added by looking outside your industry. As the impact of advancing digital technologies is felt at an increasingly fundamental level many organisations are looking beyond their borders

and seeking to adopt best practices from digital leaders across all industries, so think about how innovations that might not seem immediately relevant may be applied to your situation.

It's also crucial to maintain a focus on your suppliers and customers throughout the entire process - either through a formal "voice of the customer programme", usability testing activities, or even simply soliciting feedback through your online and offline touchpoints. Their input will be vital in ensuring you're able to respond to changing behaviours, requirements and preferences, and can deliver enough value through your customer experience to justify buying from your organisation rather than via other channels.

At Box UK we're passionate about helping our clients make the most of technological advancements to better serve customers and deliver substantial competitive advantage. To find out more, **get in touch** with a member of our team, and see how we can help support innovation within your organisation.

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wholesale@boxuk.com • +44 (0)20 7439 1900