IBM Global Business Services

IBM Institute for Business Value

Wholesale

Break out or get boxed in

Leading strategies for today's food distributors

As grocers and restaurant chains handle more of their own distribution and turn to increasingly capable mega-distributors and third-party logistics providers, food distributors are under attack like never before. They're also being squeezed by unprecedented cost pressures, product proliferation and distribution complexity. To remain relevant and avoid getting boxed in, we believe food distributors need an expanded value proposition, data-driven operations and an adaptable business model.

Historically, food distributors have provided value primarily through the efficient storage and transportation of goods. But this classic value proposition is no longer sufficient. A top tier of mega-distributors is rising, outstripping competitors with economies of scale and scope, and, in some cases, swallowing rivals to grow. In addition, third-party logistics providers (3PLs) are blurring traditional industry lines and marketing offerings tailored to food distributors' customers.

Meanwhile, food distributors must contend with record-breaking volumes of complex and custom products moving in a food supply chain that is ever-more global, intricate and broadly scrutinized. Perhaps most ominous, some of distributors' largest customers are shipping their own products, while many smaller customers are being forced out of business.

These stark realities demand a dramatically different type of distribution business. To remain competitive, food distributors must:

- Execute an expanded value proposition
- Become data-driven
- Increase business model agility.

Execute an expanded value proposition: Unfocused distributors that try to be "all things to all customers" risk under-serving their most valued customers, and may well find their brands undifferentiated as competition intensifies. Choices – such as which customers to serve, which suppliers to represent and which services to offer – are growing more complex and critical. Food distributors need a systematic method for evaluating their options and optimizing their portfolios. An expanded value proposition is required to address these challenges head on.

Become data-driven: Leading food distributors place a premium on data. It's as integral to running their businesses as trucks, warehouses and forklifts. Distributors can no longer afford to act on intuition; they need facts. Their success depends on capturing, storing and communicating the right data and analyzing it to manage all aspects of the business (see Figure 1). If distributors cannot catch up to their suppliers and customers in this vital area, they'll continue to lose business to more progressive competitors.

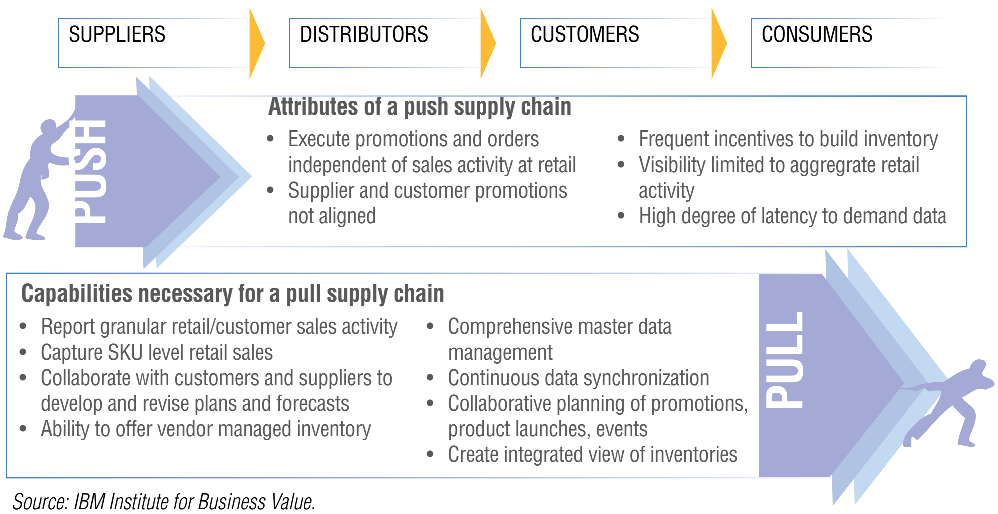
Increase business model agility: Business is changing more quickly than ever, and the traditional "own everything" approach is no longer sustainable. Managing the business as a collection of capabilities can highlight where collaborating or outsourcing may offer strategic benefits. This approach allows distributors to rethink investment and resource allocations, focusing on differentiating areas and creating value, while reducing investment in commodity capabilities. Finally, an agile business model depends on a culture that welcomes change, and leading distributors support this goal through employee training, tools and incentives.

To stake out their positions food distributors must break out of their traditional roles.

We believe winners will be those that execute an expanded value proposition, drive their businesses based on realtime, contextual data and transition to flexible business models.

FIGURE 1.

Being data-driven accelerates a distributor's evolution from a push to a pull supply chain.



Source: IBM Institute for Business Value.

How can IBM help?

- ***Strategy and Change:*** Help to define your strategy and manage change
- ***Component Business Modeling (CBM) tools and Service-Oriented Architecture (SOA):*** Help with selecting where to focus your organization and building flexible IT infrastructures
- ***Selected CP Industry Solutions:*** Consumer-driven Supply Chain, Integrated Market Management, Information On Demand and SAP Innovation powered by IBM Software

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