

## Strategic Issues – e-Commerce for Manufacturers’ Dealer Network

**Introduction** – This white paper illustrates the business case for manufacturers taking a strong role in e-commerce enabling their dealer networks. It further makes the case that this enabling should be a key component of every manufacturer’s e-business strategy.

*Note: This paper assumes that the reader already has an appreciation of the manufacturer-dealer-customer relationships in the industry’s value chain.*

In order to appreciate the role that manufacturers should play in e-commerce enabling their dealers, it is necessary to understand the dealer’s current online capabilities. Our market research of manufacturers’ dealers shows that less than 50% have a web site and less than 2% have an e-commerce capability. Clearly, there must be reasons for this level of non-participation in one of most important technologies of our new economy:

- § Dealers are typically small-medium size businesses whose core skills are sales, service and maintenance, not software development and systems administration.
- § The expense of developing their own e-commerce solution, and integrating it with all of their vendors is prohibitive for most dealers.
- § It is difficult to attract leading e-commerce talent to businesses that do not maintain extensive IT departments.
- § It is impractical for dealers to produce and maintain current digital content for each vendor’s product line.

At the same time, dealers have shown a remarkable ability to retain their customer base in the face of competition from alternative online channels. This factor alone is sufficient justification for manufacturers to include dealers in their e-business strategy.

**1. Leadership** – Dealers need leadership from their manufacturer in two areas:

- § Implementing an e-business strategy
- § Choosing IT solutions

E-Business strategies include specialized merchandising, pricing and customer service. To implement a successful online strategy, dealers must have access to expertise in these fields. Manufacturers employ e-business staff members who are specialists in online marketing and advertising and are in an ideal position to coordinate nationwide, online merchandising campaigns for their dealers, provided the dealers are all part of the same e-commerce network.

When it comes to picking IT solutions, dealers typically lack the internal resources to sort through the countless e-commerce solutions on the market. But manufacturers do maintain IT staffs who are aware of the latest technology. This awareness, combined with expert knowledge of their own order management and fulfillment systems, puts them in the best position to guide the technical choices that must be made to select a single e-commerce technology for the entire dealer network.

- 2. Internal or Outsourced Solution-** Selecting a technology is only part of the solution. The question of whether the manufacturer should host the solution or to outsource it to a service provider is a critical one; and can only be made by the manufacturer in association with its dealers.

Developing, deploying and maintaining the solution internally requires an extensive ROI (return on investment) analysis to justify the huge investment in software licensing, infrastructure and personnel that e-commerce for hundreds, or thousands, of dealers will require. In addition, it will normally take a year or more to design, develop, test and deploy such a solution, perhaps losing the first mover opportunity to brand the dealers' sites (more about this later).

Alternatively, the manufacturer may arrange for their dealers to subscribe to a solution through a service provider, avoiding the risks inherent in building and deploying its own e-commerce solution for dealers. An outsourced solution provides the advantages of no up-front development costs, a fixed (and predictable) monthly fee, and reduced time to deploy. In addition, outsourced solutions do not involve building additional infrastructure and staff. And, it can protect the dealer network against technology obsolescence by building technology upgrades into the Service Level Agreements. Of course, if the dealer network requires functionality and capability that is not available, or affordable, through a service provider, then this alternative is not an alternative at all.

Ultimately, the decision whether to provide an internal solution or to outsource may be driven by whether or not the manufacturers' dealers insist on including competitive manufacturers' catalogs in the solution. If the dealers feel that they must have multiple manufacturers represented on their site, the only solution may be to outsource since it is unlikely that the other manufacturers will permit their product, pricing and transaction data to be reside inside the firewall of their competitor. An independent service provider can be confidently required to maintain the security and separation of each manufacturer's product data.

- 3. Solution Architecture** – Integrating a manufacturer's dealer network for e-commerce can create unimaginable architectural nightmares unless the manufacturer takes the lead.

*For instance, consider a manufacturer with 2000 dealers, many of whom have grown tired of waiting for their manufacturer and have selected their own e-commerce solutions. Without a set of specifications, they will have chosen their solution from hundreds of different possibilities. Eventually they will want to integrate their solution with the content and legacy systems of their several manufacturers. The prospect of a dealer having to integrate their solution with several different manufacturers' legacy systems is bad enough. But think of the burden manufacturers face in integrating hundreds of different dealer solutions (multiple technologies, databases and protocols) with their legacy systems.*

The only way to avoid this dilemma is to approach the problem from the top before dealers begin to implement a bottom – up solution. If a manufacturer takes the lead, it can coordinate and guide a solution for its dealer network that can be integrated to its legacy business

systems one-time, use a common product content repository and observe a common set of network and database standards. If done early, this process can be relatively painless since, as previously noted, less than 2% of manufacturers' dealers in the U.S. have made a commitment to an e-commerce solution of their own, so far. A top-down approach will permit development costs to be amortized over a base of many dealers, permitting the e-commerce solution to be customized to match the manufacturer/dealer's business model. This customizing can increase its chances of success with the dealers and their customers.

It will enable the manufacturer's digital product content to be used by the dealers, insuring the dealers have the most current product content for their sites.

And, with a centrally managed e-commerce solution, a manufacturer can build and direct coordinated marketing and merchandising efforts for the entire dealer network. This should create many opportunities for collective increases in efficiency and effectiveness.

This approach also has several positive side effects. With a single, integrated solution, it will be easier to extend the solution technology (wireless, online customer service, etc.) as the dealers need it to fend off competition.

**4. First Mover** – If the architectural arguments for a manufacturer's self-preservation are not enough, consider the business alternatives:

At the present time, less than 2% of manufacturers' dealers have an e-commerce site (and no e-commerce revenue). However, nearly half of them have web sites that contain links to their manufacturers' web sites for purposes of researching products or placing online orders for parts, accessories or supplies. Typically, there are no means for the manufacturer to reimburse the dealers for the referred business. This means, simply, that the manufacturers have put themselves in competition with their dealers and are drawing revenue away from their dealers, removing the incentive for the dealers to drive e-commerce traffic to the web.

Conversely, on their own web sites, manufacturers have provided nothing more than contact information about their dealers. Furthermore, many manufacturers have refused to financially assist dealers with their web sites because of the enormous variations in cost and quality (and lack of control). Clearly, this has not been a program that could be expected to improve the manufacturers' dealer relations.

In their defense, manufacturers' e-commerce activities have been undertaken mainly for self-protection. They took portions of their business online because there were no good, affordable solutions for enabling their dealer networks and their customers were threatening to go elsewhere. Now, however, solutions are emerging (such as those available through WebStack Corp) and some manufacturers are moving to grab the "first-mover" advantage. As these "first-mover" manufacturers begin e-commerce enabling their dealer networks, thousands of dealers will be given the opportunity to co-brand themselves online as a "brand-name" dealer in exchange for an this capability. This initiative will expand the manufacturer's online presence by thousands of high-quality sites, at the same time restricting the opportunity for other manufacturers to brand these dealers. While the dealers undoubtedly will still want catalogs of their other vendors available on their e-commerce site, the catalogs will be likely relegated to a "branded button" presence on the

Home Page since it is impractical for dealers to support e-commerce sites for each of their manufacturers.

- 5. Quality Control** – Many manufacturers have issues with the quality of many of their dealers' web site's content, branding and performance. The reasons for the variations are simple – lack of funding, expertise and content. The consequences are a confusing interface, broken links, poor product photography, out of date product information and pricing and a myriad of other marketing missteps.

These conditions offer still more compelling reasons for manufacturers to take charge of the way in which their dealer network represents their merchandise to an online consumer. By taking a top-down approach, manufacturers can provide and maintain current, high-quality product content, co-branding and a sound infrastructure that delivers the e-commerce capabilities that dealers need and appreciate.

- 6. Manufacturer's Role** – The case for manufacturers' leadership in e-commerce is persuasive and consistent with their role in other business areas. It does not mean, however, that manufacturers must necessarily bear the expense of deploying the dealers' e-commerce network themselves (high-quality solutions are available that fit comfortably within each dealer's marketing budget). Manufacturers can provide the technical leadership, e-commerce mentoring, facilitation and sponsorship that is equally important to a mutually successful, e-business strategy.

