Crossover Businesses

Blurring of the Lines Between Manufacturers, Distributors, and Retailers ... Changes Everything in the Process

It is no secret that the old clear distinctions between manufacturers, distributors, and retailers have been obliterated. Manufacturers are increasingly selling direct to the end customer (consumers, businesses, or both) via the web, or in some cases with their own bricks and mortar stores (such as Apple, Nike, Goodyear, Ralph Lauren, Sony, Hugo Boss, Tesla, Kenneth Cole, and many more).

Wholesalers are also selling direct to end customers and as well broadening their services to include light assembly and manufacturing and in some cases offering their own branded product lines. Meanwhile, retailers are increasingly relying on private label products to generate margins and loyalty, essentially taking on the role of a brand owner, managing outsourced manufacturing. (For example, Target is launching 12 new private label brands this year).

This trend has been going on for many years, but has been gathering momentum with the accelerating adoption of ecommerce and omnichannel business models. In this paper, we explore what happens when a business crosses over to become a combination manufacturer, wholesaler, and retailer—how it impacts partnerships, services, revenue models, and the business’s system requirements.
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How Crossing Over Changes a Business

A lot changes when businesses cross over the traditional boundaries. It changes their basis of competitiveness (competing with their customer or supplier), business model, processes, services, and systems. We’ll explore some of the changes we’re seeing, using three companies as examples:

- **Ryonet**—This manufacturer and distributor of screen printing equipment and supplies was founded in 2004 by a musician who built his own screen printing press to make T-shirts for his punk rock band to sell while on tour. He discovered that he could make better money printing shirts than playing in a band, and eventually started selling supplies and manufacturing and selling the equipment. Ryonet sells direct and through traditional and online retailers. They sell or rent the presses, as well as all the supplies including inks, frames, squeegees, films, software ... everything needed to do screen printing on T-shirts, even starting a blank apparel division in 2017 under the brand Allmade. They manufacture their own products as well as distributing products made by others.

- **Blue Microphones**—Founded in 1995, California-based Blue Microphones started manufacturing and selling studio grade microphones priced in the $1,000 to $6,000 range. Then, about ten years ago, they started making consumer grade mics for things like blogging and Skyping. In addition to manufacturing, they sell direct to consumer (via ecommerce) as well as through retail channels.

- **RST Brands**—A designer and manufacturer of luxury outdoor furniture and flow walls, RST sells through major retailers, including Costco, Home Depot, and Lowes. They also sell online through Amazon, as well as direct to consumer through their own website.

Crossover Businesses Become All-Rounders

Crossover businesses and their employees need to become ‘polymaths of business,’ with multi-dimensional capabilities. This crossover phenomenon drives the need within a company for new kinds of expertise, processes, and systems, crossing traditional boundaries. A good example is Ryonet. They have their own manufacturing plants where they build manual screen printing presses, from inexpensive hobby units up to more sophisticated presses. They make about 5,000 units per year, sourcing metal from local suppliers, then fabricating and doing all the manufacturing processes inhouse (except the powder coat). They deliberately retained direct control of manufacturing so they can maintain quality and create unique products, backed with a very strong warranty. The life of a press is very long, so they use that initial sale to drive many years of wholesale distribution sales of ink, screen, squeegees, tape, and other supplies that their customers need every month. Being a crossover business enabled a ‘razor blade’ business model for them; that is, the initial sale of the presses drives significant recurring revenue from supplies they distribute.

Ryonet is a one-stop shop for anyone trying to own and operate their own T-shirt printing business. In addition to selling presses and supplies, Ryonet provides a broad array of other services: they conduct extensive education and training programs, provide financing programs and services, and have their own rewards programs. As the scope of their offerings and services has expanded over the years, Ryonet plays an increasingly diverse set of roles and has developed an amazingly wide range of capabilities for a relatively small company (about 100 employees).

All-Rounder Businesses Require All-Rounder Systems

Being all-rounders, crossover businesses need systems that can take on ‘multiple personalities’—enabling a firm to simultaneously manage its manufacturing, distribution, and retail operations, with omnichannel capabilities, all in one system. Historically, systems have been designed for only one of
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these types of businesses, since they have such differing needs. Retailers need merchandising and assortment planning systems, allocation and replenishment, promotion management, consumer-level demand management, store operations, and so forth. Manufacturers need a very different type of forecasting systems, design tools, commodity and supply management, manufacturing planning, scheduling, and plant operations, service and warranty management, and other manufacturer-specific tools. Wholesale distributors need catalog management, multi-level pricing, trade fund and rebate management, complex customer management, installation and service tools, and other capabilities.

Most ERP companies focus on only one of these types of businesses, or they offer a different separate, unintegrated system for each type of business. That works when a business only does retail, or only does wholesale, or only manufacturing. But when a business crosses those boundaries, and tries to use separate (unintegrated) systems to run each part of the business, it becomes very difficult for them to understand and manage aggregate demand, or realize the benefits of aggregated spend, or keep different operations in synch, or get a single view of inventory to do reliable order promising. In short, it become nearly impossible to run their business in any kind of coordinated, optimized fashion. System-to-system integration is one approach to trying to bridge the different parts of the business, but it is expensive, makes implementation much longer, often introduces significant latency (lag time) in transferring information between systems, sometimes results in loss of data, and needs to be continually maintained (at great cost) or the integrations start failing and falling apart as the various systems being connected evolve.

That’s not to say there is never a role for best-of-breed systems. As a company grows in size, complexity, and specialized needs, there will invariably be a need for some best-of-breed systems and these will require integration. However, trying to run a crossover company on three different ERP systems—one for their manufacturing business, one for their distribution business, and one for their retail business—creates major problems, inaccuracies, and inefficiencies. Synchronizing master data about customers, suppliers, products, parts, and so forth can be a big challenge. The same is true about synchronizing transactional data. Or trying to consolidate spend. These things happen automatically and are much easier when there is a single system with a single database, providing a single-version-of-truth across the firm. To support a crossover business, the single core system needs to support key required functionality across all three types of businesses (retail, wholesale, and manufacturing).

Supporting the Multi-Partner Outsourced Model

When we say crossover businesses do it all, it doesn’t mean it is necessarily all done inhouse. Most businesses rely on many outsourced partners to get the job done, whether it is outsourced manufacturing, packaging, logistics, service and support, or other key functions. Thereby it is important that the core system supports rich, tightly coupled outsourced relationships; providing the outsourced partner access to key functions in the core system, to enable them to become an integral part of the extended enterprise. One example, in the area of fulfillment outsourcing, is Blue Microphones, who implemented a portal in their NetSuite system that their 3PL (Third Party Logistics) providers use to pull and fulfill orders, and to post and track invoices. Blue Microphones is in the process of connecting those 3PLs via EDI as well, allowing their system to get automatically notified when freight is picked up and delivered. The ability for outsourced partners to participate intimately in core processes is key to a crossover business’s success.

Upping Your Service Game

Service is becoming increasingly important across manufacturing, wholesale distribution, and retail. It is often the primary source of differentiation and profit. Companies are doing more installation,
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professional services, service and repair, longer, richer warranties, provide financing, and more. Offering a rich pallet of services requires a system with functionality such as project management, time tracking and billing, call center, incident tracking, resource planning and optimization, service dispatching, service parts management, knowledgebase, highly flexible services billing, and so forth. Ideally this functionality is part of the core ERP, making it easy to integrate service with the rest of the business, such as logistics (materials and transport), marketing (single view of all customer touch points), finance (single consolidated invoice), development (data on product failures, improvements needed), and so forth.

For example, when scheduling and executing onsite service calls, one key to success is maintaining comprehensive communications with the customer, from the beginning through to the end of the process. RST offers white glove delivery and installation of the furniture they sell. When an order ships from RST, their NetSuite system automatically notifies the customer and tells them exactly what to expect: the time slot, the nature of the white glove service they will receive, procedures for reporting any damages immediately, and so on. The messages can be customized according to the type of product and service, such as prominently pointing out for certain couches that the cushions are found under the frames (thereby eliminating one of their most common calls from customers; ‘where’s my cushions?’). Other communications that can be automated for white glove services including automatically calling the day before to confirm the appointment (typically via an interactive voice response, touch-tone or voice-recognition system) saving a lot of expensive no-shows, and a very simple post-delivery customer satisfaction (‘how did we do, how can we improve?’) survey, sent shortly after the delivery, while it is still fresh in the customer’s mind, enabling continuous improvement.

Business and Revenue Models Evolving

The Need for ‘Universal’ Invoicing and Revenue Recognition

All-rounder cross-over businesses sell a broad mix of goods, services, subscriptions, and as-a-service offerings. For example, some progressive retailers have changed their business model to get paid by manufacturers according to the amount of exposure they provide (as measured by sensors and cameras) and the number of demos they do; essentially offering ‘showroom-as-a-service.’ A number of manufacturers offer their products as-a-service, such as selling lumens-as-a-service instead of selling light bulbs, or selling scans-as-a-service instead of selling MRI machines. Companies like Ryonet and RST Brands offer financing options to the customers to help individuals and small firms buy their equipment (printing presses from Ryonet and luxury furniture from RST).

As a company’s mix of products, services, delivery, and payment models becomes more diverse, it requires a much more flexible and unified financial system that can support a single invoice and revenue recognition across all the goods, services, subscriptions, as-a-service, financing payments, and everything the company bills for. Nobody wants to receive several different invoices from the same company; one for products bought, another for subscriptions, and different ones for various services. That makes things messy and difficult for everyone. Customers want a single invoice, a single portal where they can check status or drill into the components of their bill to better understand what they owe and why, and a single way to pay everything at once. A good example of this is NetSuite’s unified billing and revenue recognition.

Fulfillment and Order Management—Flexible, Integrated Approach Required

A crossover business needs increased flexibility in their fulfillment capabilities. Traditionally, a manufacturer’s warehouse and transportation operations are optimized for bulk shipments of pallets in
full or partial truckloads. Similarly, a retailer’s pre-eCommerce DCs were optimized for bulk shipments to replenish store stocks. Once manufacturers and retailers started doing ecommerce directly to the end consumer, they had to pick, pack, and ship much higher quantities of much smaller orders, typically consisting of one or a few items, primarily shipped via parcel carrier. These are radically different kinds of operations, from order management, to pick and pack, to transportation planning, to shipment execution, and tracking.

In many cases, manufacturers, distributors, or retailers start off with an ecommerce operation that is completely separate from their traditional bulk shipping operation. They hold separate inventory, use a separate labor force, and even use a separate facility, in order to isolate and more easily deal with the radically different operational requirements. But, increasingly companies have been realizing economies of scale by combing bulk and ecommerce fulfillment operations. That enables them to dynamically allocate inventory, space, and labor to whichever channel needs it the most (within constraints of course, such as ensuring minimum required stock is always available for store replenishment). This is a pretty sophisticated practice and requires a system that integrates demand, inventory, and operations across the different channels.

Building Synergies, Integration Across Channels and Across Retail, Wholesale, Manufacturing

In all these cases, integration is needed between the ecommerce front end, the store’s POS, and backend fulfillment and inventory management to ensure accuracy, efficiency, and timeliness. When ecommerce, store, warehouse, inventory management, and fulfillment are all on the same system, the required integration happens automatically, in an integral way.

Integration across systems and channels is a critical enabler of growth. Without it, labor and inventory is used inefficiently (due to lack of pooling of resources and time spent on unproductive activities, such as rekeying data between different systems), more mistakes are made (due to rekeying errors and systems being out of synch), and the business is just slower, requiring more people to do the same volumes. An example of how a unified system can enable growth is Blue Microphones. Before they implemented NetSuite about two years ago, they had isolated pockets of data all over the company. Now, they run all of their ecommerce operations and logistics (and soon automated marketing as well) on one system. Having all their processes and data consolidated into one system has been their vision from the start and has helped them grow—Blue Microphones expects to double or triple over the next five years.

RST Brands sells their furniture and flow walls through major retailers (such as Costco, Home Depot, and Lowes) and online through Amazon, as well as their own website. They run all of their channels and major functions on a single system. This includes their core financials, ecommerce, inventory management, warehouse management, marketing campaign management, and more. This enables RST to see exactly what inventory they have all in one place, more reliably promise against orders, accurately set customer expectations, and deliver personalized customer experiences across multiple channels.

Laying a Foundation for Growth

The goal for most companies is to grow. In today’s world, even small companies need many of the system and operational capabilities of their larger competitors. When selecting a system, companies should look for one that provides a full breadth of capabilities that can start in a small footprint and expand as the company grows. For example, Ryonet started by just printing T-shirt for others. Then they started selling supplies for others doing T-shirt printing. Then they started building and selling simple manual presses to hobbyists. They expanded further to selling larger, high-volume printers to major
companies, such as Nike and the NFL, that may run a dozen, highly automated million-dollar presses, producing thousands of T-shirts a week. As part of this growth, they offer an increasingly complete suite of services to their customers, including installation and customization of the equipment, remote monitoring and diagnostics of printing presses, financing and capital leases for the equipment, education and training (they do a lot of this), helping customers set up websites, and generally helping their customers grow from a hobby, to a startup in the garage, to becoming much larger businesses.

In this journey, they created their own manufacturing plants, established many different channel relationships, developed their own rewards program, and built up an international network of suppliers and customers. How is a company with just over 100 employees able to do all this, becoming such an all-rounder, crossover business? Part of the answer is that they use a single system (NetSuite) for virtually everything—doing their core financials, manufacturing, order management, inventory management, ecommerce, logistics, customer relationships and support, and rewards program, all on one integrated platform. Whenever NetSuite doesn’t have the functionality they need, they are able to extend the system using SuiteFlow and other SuiteCloud developer tools. Using these tools, they built their own rewards program system, supplies reordering system, and supplies subscription system.

The founder and CEO of Ryonet, Ryan Moor, told me “If we see a need, we don’t have to wait. We automate it with SuiteFlow.” He added, “We have nothing core outside of NetSuite. The biggest key was moving our ecommerce onto SCA (SuiteCommerce Advanced). We used to have a significant lag time synchronizing our ecommerce inventory and the inventory shown in NetSuite, which led to promising orders with inventory that was already sold. Having a single system has revolutionized the way we deal with our customers. It helps us get products to them as quickly as possible, so we can compete better with brick and mortar stores. We can promise orders with much greater confidence in when customers will receive it. We are seeing a lot of traction on our website.”

The Crossover Phenomena is Here to Stay and Will Change Business Forever

Ecommerce, omnichannel, private label products—these are some of the trends driving businesses to crossover into manufacturing, distribution, and retailing. Ecommerce has made it much easier for manufacturers and wholesale distributors to sell direct to the end customer. They don’t need to open physical stores. Retailers are all becoming increasingly omnichannel. As well, they are realizing an increasing share of their revenue and profit from manufacturing and selling private label products. These trends are only growing in importance and scope. These trends ensure that the lines between manufacturers, wholesalers, and retailers will increasingly disappear as more and more businesses span all three. This can enable businesses to do inspiring things. Ryan Moor (CEO of Ryonet) told me, “It is an amazing business we are in. T-shirts are a very expressive media. They are a statement about yourself, the flags of our generation. We’re delighted that we help people express themselves and get to be a part of them making a living doing that every day.” That is a great example of the potential that can be realized by a crossover business.
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