Heading text

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Yes it is Possible to Derisk Your Business.

Yes, It Is Possible
To ‘Derisk’ a Business

What is Reintermediation and Why it Matters

By Elias Amash, President, GRIP

The supply chain is often fraught with risk. All business is global these days, and doing business with companies via the Internet -- whether buying from or selling to -- can mean more sales but also increased uncertainty.

The supply chain is often called a “value chain,” and for good reason. Every step of the way in the process of manufacturing a product and delivering it to the consumer should deliver an additional benefit. From the parts suppliers, to the producer, and continuing through the channel to brokers, shippers, wholesalers, distributors, retailers, and even sales associates, incremental value is captured and added to the final product.

Disintermediation is defined in the field of economics as the removal of intermediaries in the supply chain. This amounts to cutting out the middlemen in a transaction or series of transactions so as to realize efficiencies for both the manufacturer and the consumer or end-user.

While disintermediation has been around for quite some time in the retail industry (‘factory direct’ or ‘direct from the factory’), it was the dot-com boom of the late 1990s that truly accelerated the idea of disintermediation in retail. Companies could simply create a website and sell and ship to consumers directly; consumers in turn enjoyed the convenience of not having to drive to the mall.

Yet this has not led to the end of the retail store as we know it. And consumers still end up buying from a retailer, not directly from the manufacturer. Think about it, you don’t go to the Samsung website to buy a TV and you don’t go to the Harley Davidson site to buy a motorcycle and you don’t go to the Chevy website to buy a car.

The Rise of Amazon
Amazon has certainly served as a leader in retail disintermediation. Founded in 1994 as "Earth's Biggest Bookstore," the company quickly diversified and in July 2015 surpassed Walmart as the most valuable retailer in the United States by market capitalization. In August 2016, Amazon became the fourth most valuable public company, and is currently valued at about $462 billion.

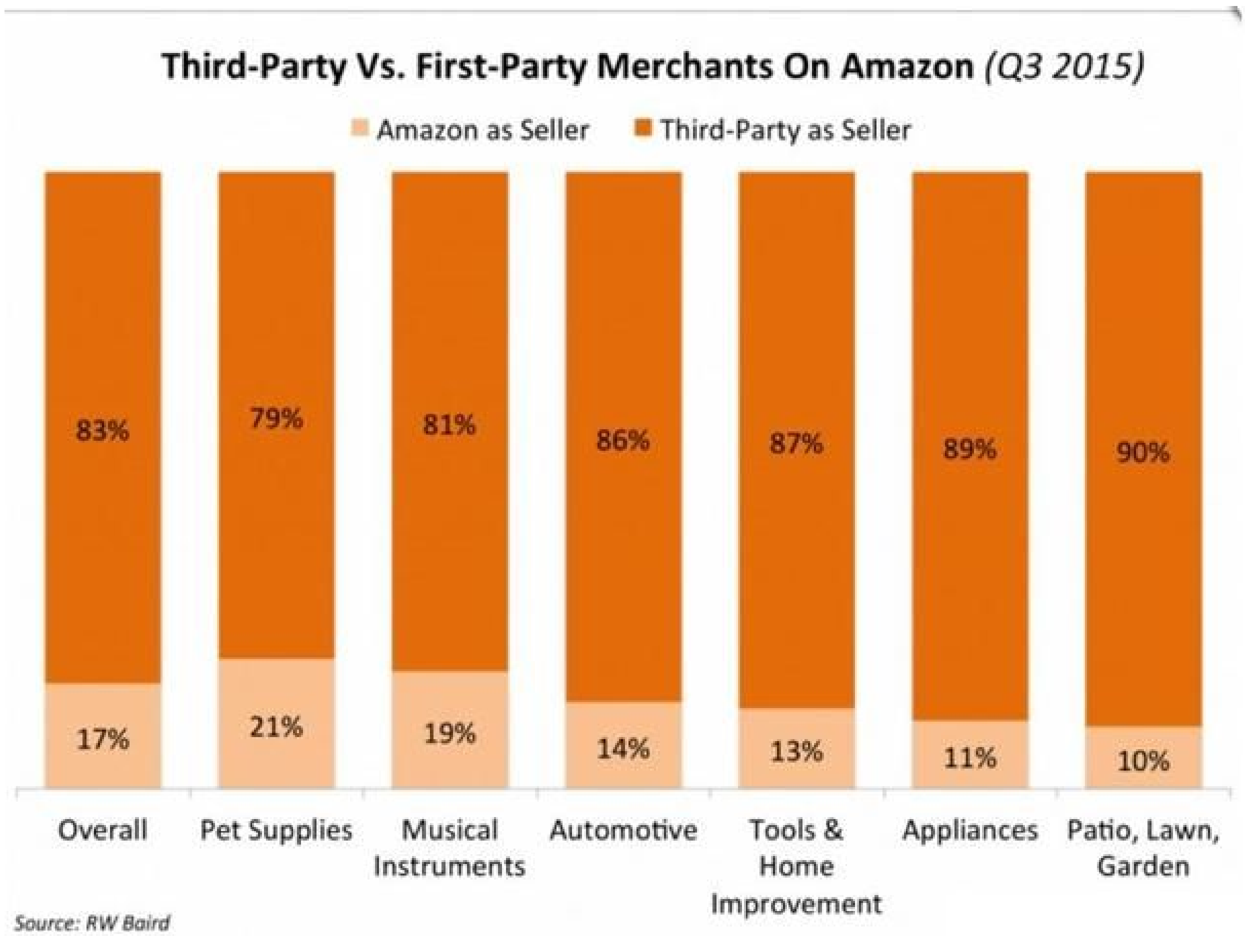
Though it has expanded into other businesses, notably Kindle (electronics), Amazon Prime (streaming content) and Amazon Web Services (cloud infrastructure services), a turning point for the entire retail industry both online and off occurred in late 2000 when Amazon quietly launched Amazon Marketplace, which enables third-party sellers to sell new and used offerings on Amazon alongside Amazon's regular offerings.

A brilliant move, no doubt, as third-party sellers can gain access to Amazon's massive customer base, and Amazon expands the offerings on its site -- and can capture many more customers -- without having to invest in additional inventory.

Items purchased on Amazon from third-party sellers are either Fulfilled By Merchant (FBM) or Fulfilled By Amazon (FBA). FBM goods are kept in the third-party seller's inventory, and shipping and customer service are handled by the third-party merchant. FBA goods on the other hand are stored in Amazon's fulfillment centers, and shipping and customer service are handled by Amazon. Amazon charges its third-party merchants a referral fee for each sale which is a percentage of the sales price, usually 15 percent.

Proof is in the numbers: Over [47 percent of units that are shipped are actually sold by a third-party seller on Amazon], representing $23 billion in revenue in 2016.

Not just for mom and pop stores, but some very large companies are selling via Amazon Marketplace. In some categories, 80 to 90 percent of the product selection is actually derived from third-party sellers.



Most consumers are blissfully unaware of the status of the item they wish to buy on Amazon or of that item's supplier relationship with Amazon, which has certainly worked to Amazon's benefit.

As such, Amazon has become both a formidable partner and enemy to traditional retailers. A retailer can create a store on the Amazon Marketplace, yet also fall victim to consumers finding similar or competing products on Amazon's vast platform.

Worse, Amazon also has access to the sales data, and can re-market to that same customer, including pushing similar or competing products to drive future sales.

Factories as Competitors
Undaunted, many companies, especially in categories like automotive, tools, appliances, and outdoors, are investing heavily to sell directly to consumers via Amazon Marketplace.

But rather than a traditional or online retailer feeling like they would be cannibalizing sales by joining Amazon Marketplace, the same retailer should recognize another threat: factories bypassing the retailer altogether and selling directly through Amazon.

Take for example a factory in China that manufactures LED lights. Rather than selling primarily through Home Depot, Lowe's, or traditional retailers, that factory can now sell directly to consumers either through trading partners or via an equity stake in an operation in the U.S. that acts as the seller on Amazon Marketplace.

Completely upending the market, lights that traditionally have an FOB (freight on board) cost of $50 or higher can actually be found for sale on Amazon for $25.

"It is a pretty precarious situation for people like us," cautions a senior-level buyer at a large tool and hardware retailer. "Make sure you know the factory's intentions in this regard or you won't be competitive."

As such, retailers are now competing with their own suppliers to sell directly to consumers. This is not good.

Reintermediation and Bringing Back the Middleman
Yet companies are fighting back, and for good reason.

Reintermediation -- yet another economics term -- can be defined as the reintroduction of an intermediary between consumers and a manufacturer or producer. (Of course, disintermediation has to occur first, in order for reintermediation to take place.)

This has been occurring more and more, not so much as a backlash against Amazon and e-commerce companies in general, but rather for two reasons:

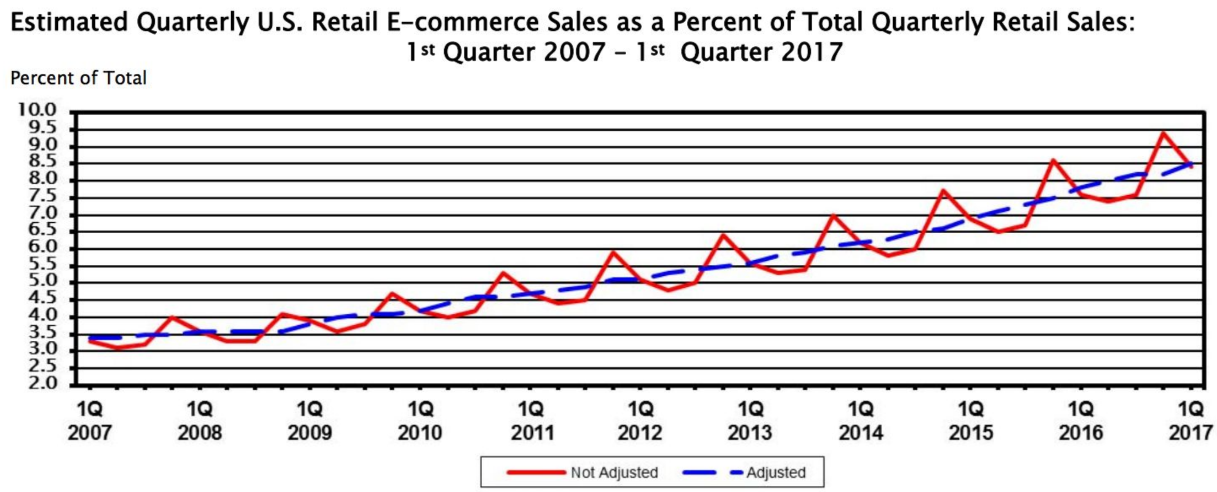
1. The desire to capture additional sales that they normally could not obtain by selling completely online

2. Removing a layer of risk inherent in transacting solely online

Let's have a closer look at how this is playing out.

Going Offline
Despite [U.S. retail e-commerce sales for the first quarter of 2017 topping $105.7 billion], up 4.1 percent from one year ago, according to the Census Bureau of the U.S. Department of

Commerce, people have not completely given up the thought of shopping offline. There may be items that are impossible to truly examine or evaluate online, or perhaps there are items that are needed right now, and they'd prefer to just grab and go.



Or, some people still like the retail store experience.

As such, several online retailers have made expensive moves into the offline world. Online-first retailers Warby Parker and Bonobos have moved aggressively into opening additional physical retail locations to drive their respective brands. Even Amazon now operates four physical Amazon Books bookstores (with six more on the way).

Ironic, no doubt, but offline retail will never go away. Retailers who primarily sell online can certainly harness their massive troves of shopping data to determine the perfect mix of products to stock physical store shelves -- delivering an enhanced in-store shopping experience. The best retailers of the future will understand the need for in-store shopping, and will deliver a healthy mix of both online and offline/brick and mortar businesses.

Derisking the Business

As there are huge risks associated with importing directly from the manufacturer, especially one located 7,000 miles away, retailers are finding themselves in need of guidance. Companies like GRIP are increasingly serving in a capacity that act as an agent or middleman between retailers and manufacturers.

These middlemen serve an important function and assist in navigating a complex, matrixed world of offline suppliers and both online and offline retailers.

Some benefits, include, but are not limited to:

1. Financing

GRIP can offer payment terms, giving retailers flexibility. Often times, manufacturers do not offer financing, which can put a retailer's cash flow in a bind.

2. Smaller purchases

When dealing with overseas manufacturers directly, the retailer often needs to buy an entire container load or more. That is how the supplier can justify their lower pricing. This is a huge risk -- in addition to having to tie up funds in inventory sitting idle. By using GRIP's service, retailers can buy much smaller lots, for example, 200 instead of 20,000 units. Cash is king, as is often said, and is something we strongly believe in at GRIP.

3. Customer service

It's critically important to be able to speak to someone live, in your language and on your time zone. GRIP can get samples quickly and handle domestic returns for retailers -- in English. GRIP can also handle all customs and duties which in and of itself are expensive and time consuming.

4. Quality control

GRIP can vet the supplier and manage quality control. GRIP's decades of experience in working directly with manufacturers can assure retailers that they would be buying from reputable companies that your customers can trust.

In this way, GRIP 'derisks' a retail business by removing layers of uncertainty. The benefits are numerous and result in fewer headaches, delays, or returns. And dealing with an experienced partner that provides outstanding service never gets old, even today.

Everyone's Place in the Value Chain

As more and more business moves online, there is not necessarily an accompanying increase in trust or transparency.

Retailers are aware of the need to move swiftly to rectify any customer service issues. In a ratings and reviews driven world, one negative comment by a consumer can mean immediate damage to a company's reputation -- and a swift reduction in sales. The reverse is also true, as stronger ratings can have a direct positive impact on revenue. Research from Dr. Michael Luca of Harvard Business School determined that a one-star increase in a Yelp rating leads to a 5-9 percent increase in revenue.

However, for a retailer curious about doing business with a Chinese or Korean or Japanese or Taiwanese or other supplier who sends them an unsolicited email, what should they do? Or for a retailer who was disappointed by an overseas supplier thousands of miles away, what recourse do they have? Fly to the foreign country and hire an interpreter and an attorney and make your case. Apart from niche sites and blogs like Supplier Blacklist, retailers are at a loss for finding and sharing information on suppliers and would have to rely on word of mouth from trusted sources.

Wholesalers, agents, brokers, and other middlemen provide essential functions and are needed now more than ever. Whether these services include the extension of credit, aggregation of products from different suppliers, and processing of returns, retailers both online and off can benefit from the added layer of assistance and protection.

Some manufacturers themselves have been seeing the benefit of going through middlemen first, in efforts to sell direct to consumers. The high cost of shipping thousands of tiny orders, dealing with massive customer service issues (even when selling through Amazon Marketplace), and confronting the wrath of retailers to whom they also do business are all real -- and often expensive -- operational pain points.

Most companies assume that all it takes to sell to consumers is a store on Amazon Marketplace, your own website with an ecommerce plugin like Shopify, and a Google AdWords budget. But it's obviously more complicated than that.

As such, manufacturers or producers can stick to doing what they do best, which is manufacturing products people love. They can harness market data from retailers via their wholesalers or channel suppliers to improve their products or processes, and to roll out newer products that consumers demand.

By partnering with GRIP, retailers can derisk their business and achieve additional value and profitability in their operations, both online and off.

About the Author

Elias Amash, President of GRIP, is an industry veteran with more than 20 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology, and operations. He is a trusted partner to hundreds of retailers and has "leveled up" the industry with GRIP's undying commitment to offering only the highest levels of service to its customers. Amash has recently published his third business book, The Future of Retail which is available on Amazon. He is also the author of *Importing from China: The Good, The Bad, and The Ugly*, and *101 Bright Ideas: Winning Tactics to Increase Retail Sales*.

GRAND RAPIDS INDUSTRIAL PRODUCTS

ABOUT GRIP

GRIP was incorporated by Charles Amash in 1980 and has grown into one of the nation's top suppliers of innovative products to the retail industry. Located just south of Grand Rapids, Michigan, GRIP features a 200,000 sq ft state of the art warehouse facility including a 2,000 sq ft product showroom. GRIP carries a product line of over 1,000 specialty hand tools, automotive, cargo control, Goodyear Air hose, LED lighting, Magnetics, outdoors, household items, and general merchandise. GRIP has a proven track record of excellence in supplying retail clients with innovative products, timely fulfillment, and world-class customer support.

At GRIP, everything is about earning your business…one customer at a time. It's about building relationships and fostering business partnerships that will last long into the future. Our goal is to have

Customers for Life. The future at GRIP is exciting and we're hoping that you can be a part of it as one of our many Customers for Life. Learn more at www.whygrip.com .