



The Long Tail and Why Distributors Need to Understand the Value

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First, let's define The Long Tail. In marketing the term is used to refer to the large number of products that sell in small quantities, as contrasted with the small number of best-selling products. Many have discovered there are big dollars in the long tail of relatively obscure products. Let's look at why that's the case.

Going after the less popular products, in terms of units sold, puts the seller into a zone where the competition is less robust and the customer less price sensitive. The phenomenon pushes the seller into new and often unexplored niches.

The book, *The Long Tail: Why the Future of Business Is Selling Less of More* by Chris Anderson, explores how companies use massive catalogs of products to attract new and profitable businesses. Using online music provider Rhapsody as an example, he outlines how the addition of an obscure album from the 1950s could differentiate the e-commerce provider from even the largest local "record" store. At the time of publishing (2006), the e-commerce business was limited to Amazon for books, Rhapsody for music and a handful of others, but the author extrapolated into the future for many other industries.

Distributors don't sell the long tail

Knowledge-based distributors don't sell the long tail as it is humanly impossible with their current business model. Let's take a moment to examine why.

- Customer interaction is person-to-person. While the catalogs of your supply-partners contains well over 250,000 SKUs, your salespeople are probably only aware of a couple thousand. Stories from supplier sales teams are full of examples of salespeople having only a cursory knowledge of their full product line.
- Suppliers tend to train on high visibility products. Since many of our vendors are allotted only a couple 45 minute training slots per year, they tend to maximize the value of their time by focusing in on the crème de la crème of their product offerings. Should they track off the main product categories, they are often accused of wasting the sales group's time.
- Solution selling tends to be focused on the needs of just a few customers. With the typical seller deeply engaging in the issues faced by (perhaps) 20 customers, the need for niche product exploration is minimal.
- Distributors are known for developing only a narrow slice of technology expertise. These distributor brands of solution selling might be exemplified by distributors who are experts in motion control, communications or machine vision with ancillary products for sale.

Over the years distributors have improved the number of products sold by the use of product specialists. These specialists provide deeper product knowledge on a subset of the distributor's complete offerings. By extension, they add more SKUs to the selling process. We are big fans of the specialist model, but being human, they too only bring a limited number of new products to the customer interaction.

Past financial limitations of selling the long tail

The business model for the knowledge-based distributor has limited the profitability of selling the long tail in years gone by. Knowledge-based distributors have enormous costs associated with their deep product expertise, value-add engineering and customer care.

Looking into past Profit Analysis Reports (PAR) of the associations serving knowledge-based distribution indicates the cost of entering and processing orders is quite high. The costs associated with receiving, entering and handling an order can reach as high as \$60 dollars. Making the outlandish assumption the distributor is making 33 percent gross margin, any order under \$180 sends profit dollars down a dark hole. Using this information, a good order is one in the thousands of dollars with hundreds of dollars of margin attached to cover the costs.

Looking backwards, it made no sense for a distributor to explore niche products unless they were part of a bigger solution package which offset the costs of the people researching the product and processing the order. Certainly, customers placing an order for a single product were never a target.

E-commerce is a game changer

Circling back to Mr. Anderson's book on the long tail phenomenon, the book was exploring business trends which were cutting edge at the time and touched only a couple of industries. Amazon was still largely a book and CD related site. Grainger's annual report talks about e-commerce and the internet as tools to more cheaply get their catalogs into the hands of customers. Certainly, a credible webstore was well outside the reach of all but a few of the mega-distributors. Further, the mega-distributors were mostly selling commodity oriented products. Only a few very forward thinkers imagined a day when highly technical products could be sold via the web.

Done properly, web-based e-commerce allows a knowledge-based distributor to break out into the long tail. But, in order for the whole thing to work, our kind of distributor must have "long tail" content.

Let's look at what this entails:

1. High quality content with product specifications, drawings, application information and comparisons. Old industry standards of part numbers and 25 character descriptions don't work.
2. Lots of part numbers (SKUs) loaded into the system. While many distributors sell 15-20,000 SKUs, they actually represent and have the potential to sell hundreds of thousands (perhaps even a half million) SKUs.
3. Up to date information is a must. It's not a "create and forget" situation. Every SKU and all the associated data must be constantly monitored for revision changes, specification adjustments and other relatively minor shifts in product content.
4. The information must be easy for customers to find. "Build a better mousetrap and the world will beat a path to your door" doesn't apply to the internet. Google, who currently dominates customer searches, must be able to find your information and lead customers to your site.

Looking past the content, the webstore must be able to automate much of the customer interaction. Here are a few processes automated by a good website:

1. The webstore must be capable of providing the customer with the right price. Taking a "call for pricing" attitude on your webstore still drags human intervention into the process. Human interaction is expensive.
2. Customers must be able to select the right product without making a phone call; the human part we are working to avoid.

3. Payment terms must be interactive and automated.
4. Orders should flow directly from the webstore to your ERP with minimal human intervention.
5. Acknowledgements of the order need be automatic.
6. Billing should also be handled with little to no human interaction.

All of the points listed above are necessary to drive human cost from the distributor's on-line sales process. With long tail types of orders one might expect a smaller order size and automation equals profitable business.

KYKLO helps distributors grab the long tail

Quality content? KYKLO's product descriptions are world class and available in seven languages – just in case one of your customer's feels more comfortable in French than English. It happens, just ask anyone doing business in Quebec. If you haven't seen a demonstration of the search features, the product comparisons, the pictures and all the deep product data, call us. We'll take you for a test drive.

Long Tail? Right now, KYKLO has over 705,000 SKUs in their product library, and new SKUs are being added at a rate of 10-15,000 per week. Allow a brief story. When we thought about coming to the US Market we spoke to Distribution Expert Frank Hurtte and asked him to help us prioritize some of the common automation lines. Frank looked over our offering and gave us a short list of companies KYKLO didn't have covered. He started off with sensor manufacturers – Banner, Turck and SICK.

Our current library for those three product lines now exceeds 81,000 SKUs. We know of no other organization that comes close to this coverage. And, that is what long tail is all about.