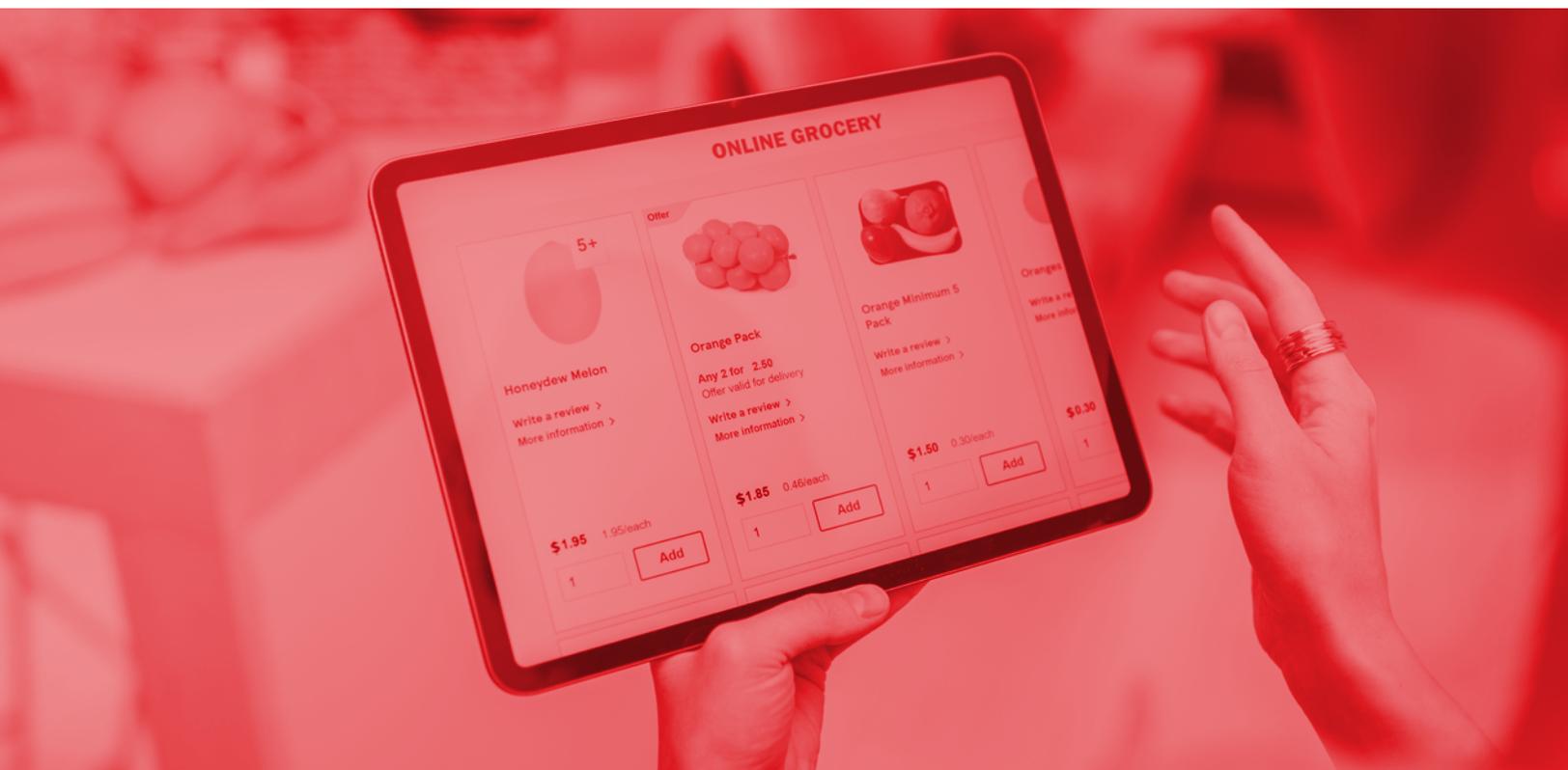




THE TIME HAS COME TO MAKE A CHOICE

IFDA MEMBER PERSPECTIVES ON ECOMMERCE

Pepper



HIGHLIGHTS

What Are My Options?

Homegrown Solution

ERP Module

White Label Provider

Marketplace

How Do I Decide?

Evaluate your eCommerce needs based on your business strategy, internal capabilities and goals.

Carefully consider the pros and cons of each platform option.

Select a partner based on competence, commitment and customer references.

IT'S EVERYTHING, EVERYWHERE, ALL AT ONCE

Technology has permeated every aspect of our daily lives. Thanks to Shopify, Amazon, and Instacart, customers have grown accustomed to placing orders and engaging with brands via simple, robust mobile apps and websites. For the latest generation of operators, browsing catalogs on their phones feels more natural than browsing the aisles of a physical store.

The key question this poses for many IFDA members is how to develop their own eCommerce experience – one that meets current needs and will resonate with customers for years to come.

For more than a decade, executives at the largest national broadliners have cited eCommerce initiatives as sources of double digit revenue growth and efficiency improvements. Today, the normalization of mobile app-based eCommerce has heightened the impact and highlighted the need for an eCommerce strategy. The positive business outcomes that result from eCommerce investments are becoming increasingly clear, and impossible to ignore. According to Gartner, 8 in 10 B2B sales interactions will be digital by 2025.

It used to be that contracting a team of software developers to build a custom solution was the only option. However, new categories of software vendors have emerged to make high-quality eCommerce more accessible than ever, and distributors looking to invest in eCommerce now have several paths to choose from.

We gathered perspectives from IFDA members at various stages of their eCommerce journey and asked what considerations were top of mind when planning their strategies.

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In these conversations, we learned that for IFDA members, upgrading their eCommerce offering or launching one for the first time was a question of “when,” not “if.” Executives understand that a change in consumer behavior has occurred, so timing boils down to when the business is ready to embrace a change.

The next question is “how,” and that’s the focus of this report. When deciding on an implementation path for an eCommerce upgrade, we see IFDA decision-makers choosing from four potential paths:

- I. **Develop a homegrown eCommerce solution**
- II. **Purchase an eCommerce bolt-on module from your ERP provider**
- III. **Partner with a white label eCommerce provider**
- IV. **Enlist on an eCommerce marketplace**

The companies we spoke with each chose one of the above paths, and expected to remain committed to that path for a number of years. This makes sense given the lengthy lead time to get eCommerce up and running, and the fact that platform changes down the road can be disruptive to the customer experience.

In this report, we’ll break down key considerations, pros, and cons of these different approaches, based on the feedback we heard.

“ How can [eCommerce] not fit in? **If you aren’t doing it, you are going to go away.** Customers are looking to make buying decisions all throughout the day, not just when a sales rep is in their building. **We have to change to stay relevant.**”

JOSH SHERLIN,

Head of Sales, Henry’s Foods

'KNOW THYSELF' IS THE BEGINNING

Throughout our conversations, it became clear that choosing a preferred path for a company's e-commerce solution was really a question of business strategy, and dependent on their capabilities, goals, and beliefs about where the industry was headed.

For anyone faced with this decision, here are some introspective questions to consider that could impact how you move forward.

ANSWERING THESE QUESTIONS WILL HELP DETERMINE WHICH OF THE FOUR PATHS IS RIGHT FOR YOUR BUSINESS:



How large is our business, and what's an acceptable budget for a solution?



What's the capability level and capacity of our existing IT team?



Are we committed to our ERP system or do we value interoperability across multiple ERPs?



Will the benefits outweigh the risks of participating in a marketplace?



How open are we to sharing customer and transaction data with other industry stakeholders?



How much in-house experience do we have with e-commerce related ERP integrations?



How important is time and effort to go live?





PATH I: THE HOMEGROWN SOLUTION

Until just a few years ago, the only viable path to eCommerce for food distributors was contracting a team of developers to build and maintain a solution. Most executives we spoke with considered the investment required to develop a viable homegrown solution to be cost prohibitive, especially when factoring in implementation risk and long term maintenance costs.

Still, we met with multiple IFDA members who believed a homegrown solution was the best solution for their business. These executives cited the desire for heavy customization and complex integrations across multiple other internal systems. They were generally larger than other distributors we spoke with in terms of annual revenue, number of employees, and number of distribution facilities.



HERE ARE THE KEY CONSIDERATIONS FOR COMPANIES CONSIDERING THE DIY ROUTE:

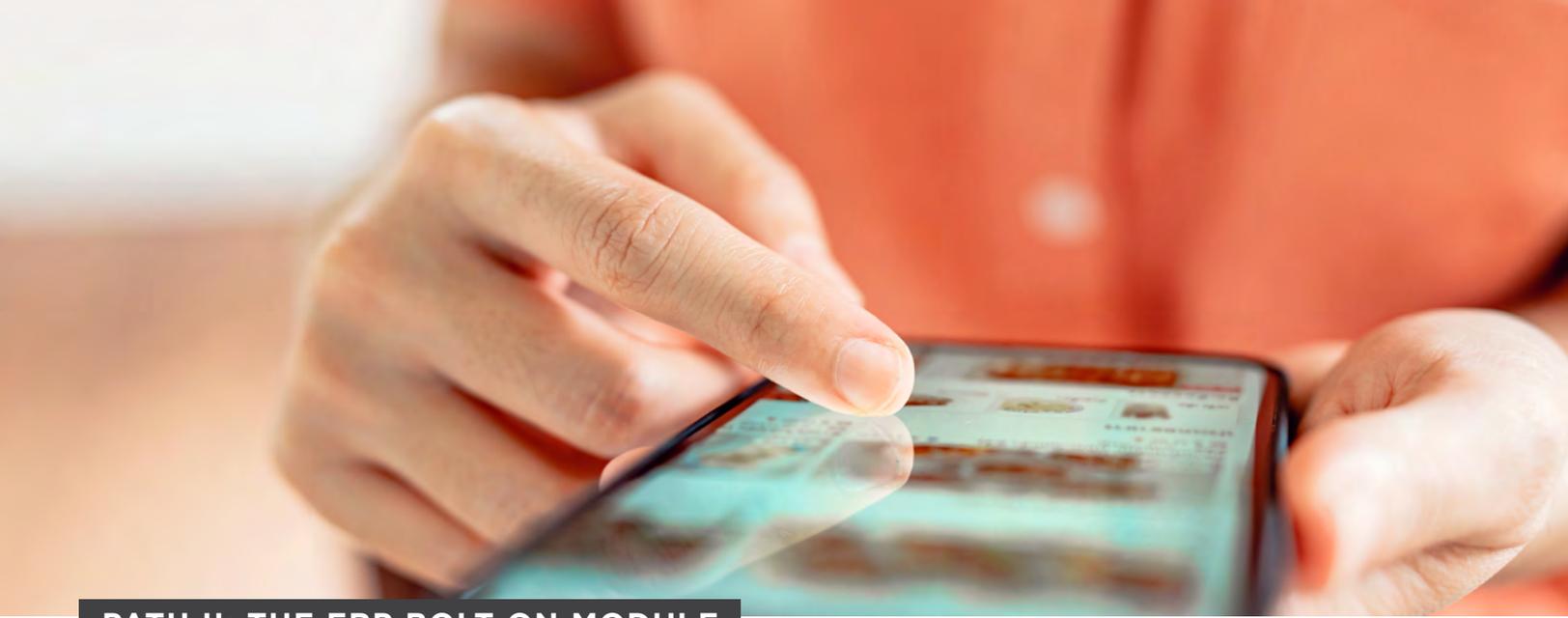
Need for heavy customization: A strong desire for a highly customized experience and future product roadmap is the primary reason to make the time and resource investments needed to build in-house. While partner solutions have become increasingly sophisticated and customizable, they simply can't offer the same degree of control as a homegrown, in-house maintained solution.

Mobile app coverage: Where in-house development teams often fall short is native mobile app development. Even teams with web development experience may find themselves needing to make additional key hires and learn new capabilities to develop and support apps developed for the Apple and Google Play stores.

Capacity to support an ongoing tech team: Building an eCommerce solution from scratch requires a team of developers and designers to create the website and mobile app, implement payment gateways, and integrate with other systems. Access to technical talent is highly competitive to recruit and retain. For most technology workers, there is also a significant learning curve to understand the nuances of food distribution systems and operations.

Long term planning horizon: Developing a homegrown eCommerce experience that's competitive with other solutions on the market is typically a multi-year effort. The best approach is: just to go live. Once the solution is live, the team's focus will turn to maintenance and improvements to keep up with the industry. To do this right, you'll need to remain committed for the long run.

Customer support: Customers and employees will frequently ask for technical support for your eCommerce offering. Companies that are committed to successful eCommerce roll out and ongoing support must budget for in-house support resources that will work alongside the technical team.



PATH II: THE ERP BOLT-ON MODULE

A relatively quick and convenient route to eCommerce is to activate a bolt-on module from your ERP provider. Today, most ERPs designed for the foodservice industry offer a basic online ordering component that can be activated for an additional cost, and almost all the executives we spoke to had either evaluated or previously used their ERP provider's bolt-on module for eCommerce. Over half of these executives had plans to upgrade to a more feature-rich eCommerce solution in the near future. The rest were content to stick with their ERP's solution, citing low costs and the convenience of working with a single vendor as the primary reasons for doing so.

The underlying tradeoff here seems to be convenience – select the bolt-on – versus a higher quality customer experience – select a specialist.



HERE ARE THE KEY CONSIDERATIONS FOR COMPANIES CONSIDERING THEIR ERP'S BOLT-ON MODULE:

One stop shop: *With a one-stop-shop software solution provider, you can simplify communication and coordination as you work with only one point of contact for all of your software needs. This can reduce the risk of miscommunication and ensure that your requirements are clearly understood and met, especially during the integration setup process.*

Time savings: *Selecting and getting familiar with the services of a new software vendor can take months to get right. By going with an existing vendor that you know and trust, you bypass the need to go through that process with a new vendor.*

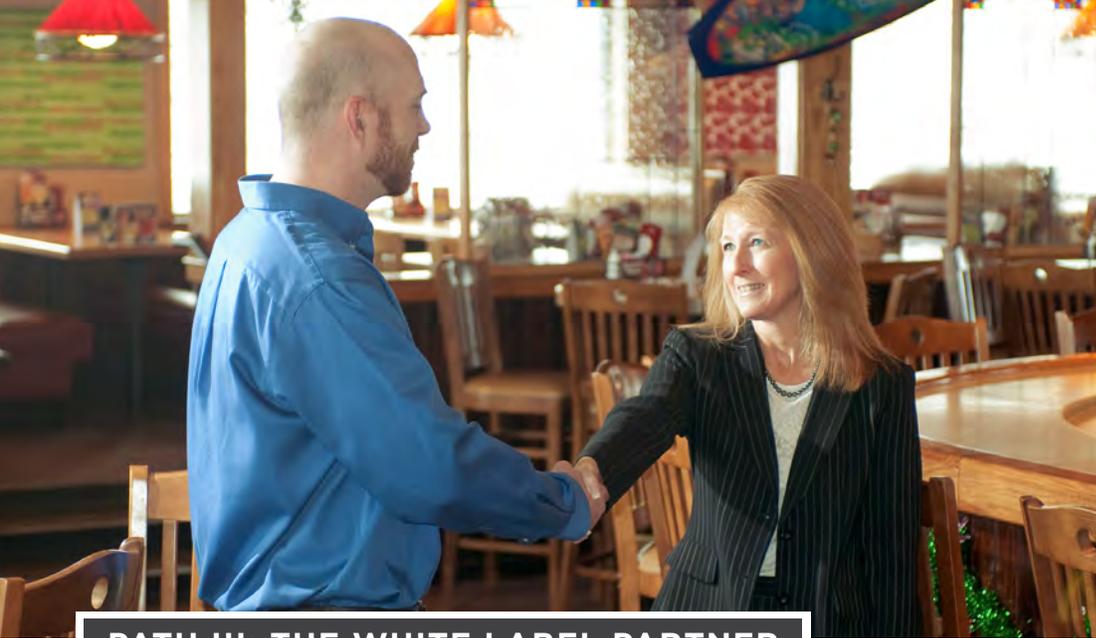
All the basic functions without the bells and whistles: *This option offers customers a solid, no frills online ordering channel. In comparison to eCommerce specialists, the trade off with ERP bolt-ons is typically a less modern look and feel, and less advanced feature sets (e.g., marketing and growth tools). ERPs naturally have more software modules competing for support and development resources, so slower to ship improvements and upgrades is an unsurprising trade off.*

ERP stickiness: *Doing eCommerce with your ERP's bolt-on module makes you a stickier customer for them. Changing ERPs is already a daunting endeavor. If your company has plans to make a change in the coming years, then that change will be felt by your customers if they're using the current ERP's bolt-on eCommerce module.*

“ We still use the web ordering module from our ERP provider even though it's not slick because it gets the job done. It's already paid for and we're not ready to take on the implementation risk of a new system with everything else we've got going on in the company right now.

HEAD OF I.T.

Regional Produce Distributor



“ As we look for ways to improve our business, the ability for us to have a dedicated in-house team with the capability to develop and continually advance as quickly as a third party eCommerce focused team is unrealistic.

JACK PEARCE

Director of IT, Ginsberg's Foods, Inc.

PATH III: THE WHITE LABEL PARTNER

Recently, we've seen a rise in the popularity of white label eCommerce solutions, especially for independent regional distributors. The software vendors who are partnering with food distributors to power the white label experience tend to be newer to the industry.

Executives we spoke with who favored this option cited the feature richness and “look and feel” of the customer experience as a key strength. They also said the cost was much more digestible than the in-house approach. Most companies that went with a white label partner actually did so as a means of upgrading their eCommerce from an ERP bolt-on or in-house solution that they felt was no longer meeting their needs.



HERE ARE THE KEY CONSIDERATIONS FOR COMPANIES EVALUATING A WHITE LABEL PARTNER:

Look and feel: An important part of the value proposition for white label providers is enabling food distributors to offer eCommerce that has a premium “look and feel” to their customers. This is important to executives who believe a highly intuitive experience – similar to what they'd expect from a reputable consumer brand – can be a meaningful competitive advantage for their business.

Expertise in food distribution: Focus matters when it comes to product development and implementation experience. Software companies supporting product roadmaps across multiple industry verticals (e.g. consumer electronics or sporting goods) will have a tougher time allocating their development resources towards nuanced requirements that are specific to the food industry, such as support for products with varying lead times or preparation methods.

Data policies: In 2017 the Economist published a story titled “The world's most valuable resource is no longer oil, but data.” When working with an eCommerce partner, executives are becoming increasingly judicious about data ownership. Questions about an eCommerce provider's business model, and how distributor data plays a role in it, are increasingly part of the vendor selection conversation.

Integrations expertise: Properly functioning data integration between your ERP and eCommerce system is a must. Otherwise, your customers will see order guides and prices that are outdated, or plainly incorrect. The chance of error and time-to-market go down significantly if you're able to find a partner with deep experience doing systems integrations with foodservice distributors, and it's even better if they've worked with the specific ERP that your company uses.

Track record: Expertise in ERP integrations and category operations, e.g., produce, convenience, etc., is a key predictor of how smoothly the implementation process is likely to go. Experienced eCommerce providers will expect you to ask for 2-3 references of customers they have already taken live. Ideally, those references would be customers on a similar ERP and/or distributing products in similar categories.



PATH IV: THE MARKETPLACE PLATFORM

Marketplaces are the new kids on the block. Despite the massive impact of companies like Amazon and Instacart, marketplaces have only started to emerge in the past few years in the food distribution industry. Like their consumer counterparts, food distribution marketplaces offer a one-stop-shop for foodservice and retail operators – a single website or mobile app for them to purchase and shop across all of their distributors.

The food distribution marketplaces we've seen are still in their infancy. Many executives at food distributors, redistributors, and manufacturers are observing from the sidelines, waiting to see if these platforms will gain traction and how their business will be affected. Our colleagues at Applico published a previous [whitepaper](#) on this topic.

Many of the food distribution executives we spoke with were concerned about the risks associated with their longtime customers communicating with them via a marketplace, which might enlist direct competitors. A few executives were more open to the idea and willing to bear those risks in exchange for exposure to new customers or a low-cost means of offering online ordering to their existing customers. The costs are so low because some of the early marketplaces are not yet attempting to monetize or doing so in other ways, such as selling data to the manufacturing community.

As it stands, marketplaces are a novel concept and may present interesting new expansion opportunities for distributors, but we're far from a consensus among industry executives on whether those potential benefits outweigh the risks.



HERE ARE SOME OF THE KEY CONSIDERATIONS FOR COMPANIES EVALUATING WHETHER TO ENLIST ON A MARKETPLACE PLATFORM:

Potential for greater customer reach: Marketplaces aim to expose participating food distributors to a larger audience, creating an opportunity to do business with new customers.

Exposure to competition: There is no such thing as a free lunch. If your company is getting exposure to new customers, then it's a good bet that the marketplace is also providing other distributors with exposure to your customers. If you're going to enlist, you'd better be prepared for heightened competition.

Convenience for your customers: Some customers who aren't already on an inventory management platform (e.g., Marketman, Crunchtime, Birchstreet) might enjoy the ability to shop and compare across multiple distributors in a marketplace's mobile app or website.

Your branding takes a back seat: Customers reach you on a marketplace by downloading the marketplace's app or visiting their website. It's the marketplace's brand that's front and center of this experience. It's also the marketplace that directs the overall user experience. You might be a key actor in the play, but the marketplace itself is the headliner.

Data privacy: Some marketplaces may package and resell transaction data to food manufacturers or other organizations as a source of revenue. It's the adage made famous by Facebook – if you're not paying for the product, then you probably are the product. That proposition might be fine for your company, but it's wise to be aware of.

HERE'S WHAT ELSE YOU NEED TO KNOW

Speak with any executive who's run multiple enterprise IT projects and they'll be quick to tell you that partner quality is paramount. You need a partner that checks each of the 3 Cs:

3 C'S

Competence in the relevant domains – eCommerce for food distributors.

Commitment to seeing the project through – ask what resources will be dedicated to your engagement and speak to them before committing yourself. Consider if a portion of the fees is tied to outcomes of the engagement.

Customer references – request to speak to customers who have completed onboarding and have gone live with the vendor; request to speak to customers who have the same ERP as your company.

We've noticed that the most successful projects are the ones where the due diligence team asked the most thoughtful questions at the start. They leveraged the vetting process to find the partner with the competencies, personnel, and implementation plan that was best aligned with their specific situation.



HERE ARE SOME QUESTIONS WE'D RECOMMEND ASKING A PROSPECTIVE PARTNER TO GAIN CONFIDENCE ABOUT THEIR FIT WITH YOUR SPECIFIC ENGAGEMENT:

Product and data –

1. What's outstanding on your **product roadmap** over the next 3 quarters?
2. What's the **product update cycle** and what does it cost to remain on the latest version?
3. What steps are you taking to ensure that our **data is confidential and secure**?

Delivery capabilities and support –

1. Have you successfully completed **integrations with our ERP** previously? What parts went smoothly and what were the challenges?
2. How long is your **implementation process**? How often do timelines beat or take longer than the original plan? How might an extended implementation process affect our billing?
3. What type of **operational support and troubleshooting** is provided for sales training, launch planning, and future customer issues? What are key risks and best practices?
4. What's your team's availability for **technical support and troubleshooting**? Are there US based technical resources that are able to be onsite if needed?

Track record with similar customers –

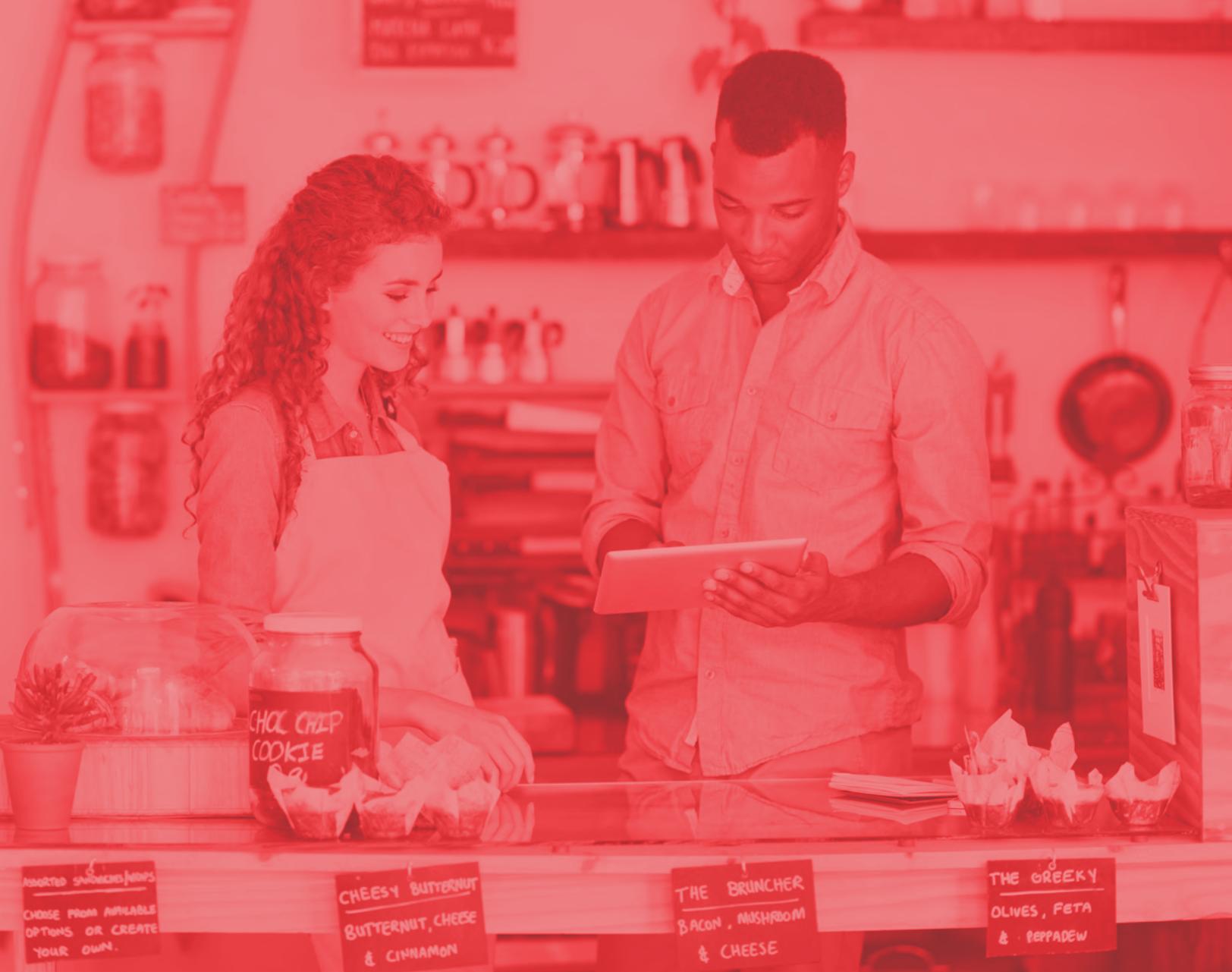
5. What **measurable business impact** do your clients typically see post implementation?
6. Can you provide **concrete examples and references** for all of the above?



The best advice that I can offer to anyone looking to make eCommerce a part of their business would be to REALLY explore every option before making a decision. Any developer or company that is working to earn your business should be able to show you how hard they are willing to work to support you and the things that your business needs. They should be able to present a working prototype, answer any questions that you have, and most importantly adapt to your needs, not the other way around.

JASON GRACA

Ace Endico



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For more information on Pepper, visit www.usepepper.com

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For questions, email IFDA's Director of Research & Innovation at astensson@ifdaonline.org.