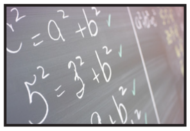
eSysco Innovation

How eSysco creates a significant competitive advantage by adding online alcoholic beverage ordering

Strategy White paper

innovation



strategy

execution

Good things come from Sysco™

Presented by:
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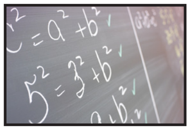
innovation


strategy


execution

"eSysco is an integrated suite of applications designed to support the sales process of the supply chain allowing Sysco customers to order, report, track, and control inventory in a secure, real-time Internet system. Whether you are a multi-unit account, a power user, or a traditional user, eSysco provides the necessary tools!"
Sysco Website

EXECUTIVE SUMMARY

eSysco is a terrific example of how the internet allowed established companies to communicate with customers in new and exciting ways. What was once a process dominated by paper, pens and ordering forms, has largely become a string of 1's and 0's hurdling over the internet. The eSysco online ordering system continues to be a tremendous benefit for it's users by making them more efficient at running their business.

eSysco is an industry leading customer interaction platform that has obvious benefits to it's users, but is it possible to leverage it in different ways? Is it possible to add a dynamic new feature to the system to attract new customers and prompt the exiting customers to visit eSysco more often? If a customer visits the system more often what benefit would that provide to Sysco? If customers stay on the site longer, would they eventually order more? These questions are just a few of many that could be pursued when thinking about innovation and the eSysco platform. The following are a few more key questions:

- *The system is clearly beneficial to existing customers, but can it be leveraged in a different industry to attract new customers?*
- *If it was clear that extending eSysco outside of the food industry attracted new customers, could Sysco turn that into a strategic advantage?*
- *If you could extend the platform and create a strategic advantage could that turn into a defendable operational advantage with measurable results?*

The purpose of this White Paper is to explore the possibility of Sysco creating the necessary partnerships to allow it's existing customers the capability of ordering alcoholic beverages and other non-Sysco products through the eSysco platform. This paper will also explore the strategy of allowing users who do not currently order from Sysco, access to the online ordering system with the goal of converting them to Sysco customers in the future.

BEVERAGE INDUSTRY STRUCTURE

With the repeal of prohibition in 1933, the modern day structure of alcoholic beverage distribution was created. With the exception of a few states, the current distribution chain consists of three tiers in the distribution chain: manufacturers, distributors and retailers. State law describes strict relationships between these three industry participants and outlines rules regarding ownership structure, financial support and operational controls. The following generally describes the role of each of the three tiers:

- *Manufacturing* - Companies whose primary business is the manufacturing of beer, wine or distilled alcoholic beverages. Examples would include Bacardi, Jose Cuervo and SAB Miller. These can be foreign or domestic companies.

- *Distributors* - Organizations that distribute the manufacturers products to licensed retailers. These companies include Southern Wine & Spirits, Republic National and Silver Eagle of Houston, TX.

- *Retailers* - Companies that sell beer, wine or distilled alcoholic beverages directly to consumers. Retailers are generally classified as on or off-premise consumption locations. These retailers include Specs Liquors, Applebees and Reliant Stadium.

In general, companies are prohibited from directly owning companies in more than one of the distribution tiers. For example, SAB Miller can not directly own a neighborhood bar. Some small wineries and brewhouses are allowed to manufacture as well as sell to customers for on-premise consumption. There are very strict rules regarding the nature of the relationship between the three tiers. The three tier system was created to restrict manufacturers from exerting too much control over alcoholic beverage retailing.

The three tier system, though noble in it's intent, creates significant inefficiencies for the industry. Either by state law or industry relationships, manufacturers will give a single distributor exclusive rights to market their product within a defined geographical area with the result being no two distributors sell the same products. This structure holds true for alcoholic beverages, beer and wine.

Inefficiencies are created because natural market dynamics of competition are eliminated with the exclusive distribution system. Since no two distributors in the same market sell the same thing, price competition and service differentiation are not seen at the same levels as in other industries. This is not to say every distributor uses this situation as a reason to offer poor service, many distributors offer outstanding service despite this structure.

The other major inefficiency that is created and which is important to the concept of this white paper is the burden that is placed on retailers. Retailers are required to prepare an order for each of the distributors serving their respective market. In some states, retailers have to order from seven distributors per week resulting in seven invoices, seven payments and seven deliveries. In addition, often the only way a small retailer can learn of any trade promotions is to talk to a distributors sales representative which adds even more time to the ordering process. If a retailer is a low volume account, they are often relegated to "second class citizen" status and not regularly visited by a sales representative. Often, the distributor is in a neighboring city, and not easily accessible to the retailers.

ONLINE ORDERING SYSTEMS

Most of the major distributors have created an online ordering interface for their customers. The introduction of online ordering systems by alcoholic beverage distributors has somewhat helped retailers manage their businesses better, but mostly moved existing structural problems to the internet.

Existing online ordering systems are either offered by the distributors themselves or by outside companies that have attempted to create a unified alcoholic beverage ordering system with differing levels of industry support. Online ordering systems created by the distributors were not very sophisticated and lacked many of the current innovations of internet commerce. Tools that could be added to greatly aid in the efficiency of retailers are lacking. It appears the distributors have not understood how this platform could be a way to increase revenue and customer satisfaction and drive cost from operations.

If the distributors properly implemented a web-based ordering application it could handle many of the back office tasks in order processing such as: complex pricing and discount management, verifying minimum order criteria, trade promotions and out of stock solutions. Removing these tasks from the outside sales reps would allow them to focus on value added services such as new product introductions, developing leads and visiting retailers.

During the internet bubble, a few third party companies tried to create a unified web ordering system. Two of these companies, eSkye and BevAccess had some early success in signing distributors and creating ordering platforms, they eventually merged in 2001.

Ultimately eSkye and Bevaccess split and pursued different strategies. eSkye decided to concentrate on consulting and creating technology to manage the relationship between the manufacturer and distributor. BevAccess merged with the Beverage Media Group and still offers online ordering for retailers in NY, NJ, CT & RI, but is really focused on publishing beverage industry journals.

WHY EARLY ATTEMPTS FAILED

eSkye and BevAccess never achieved the online ordering success they sought for several reasons. Neither company had an established base of users that could be migrated to their systems. They also failed to fully convince some distributors of the advantages the system could provide. The companies also created huge systems problems by trying to incorporate existing platforms from various distributors into a single system. In addition, both companies had a one-product revenue model and pressure from early investors to generate revenues. Distributors also balked at company plans to sell consolidated demand data to other distributors.

Overall, the reason both companies largely failed was the lack of an established user base to generate demand and the inability to bring sufficient resources to solve technical problems. These companies were not the right partners for the distribution industry. The distribution industry needs a partner who's interests are aligned, has sufficient technical capability and resources and can bring a significant number of users to the platform.

THE SYSCO OPPORTUNITY

The previous paragraph of this White Paper outlined the type of organization that could be successful at creating a truly *nation-wide* online ordering interface. eSysco is uniquely positioned to leverage the eSysco ordering platform to create a unified, multi-vendor alcoholic beverage ordering system that could be embraced by the distributors and retailers.

One reason why Sysco is uniquely positioned is that it can extract other benefits from this proposed system other than generating revenues like the previous companies had to.

- Sysco could have a measurable benefit by getting new customers who will switch their current food provider to Sysco to utilize a unified system.
- Higher switching costs could be created for your 400,000 existing customers by becoming more deeply ingrained in their ordering process.
- As users begin to log on to process beverage orders, their is an opportunity to present Sysco sales and promotional messaging, increasing the reach of these programs. The more often a users views your system, the greater ability you have to present sales and promotional information for Sysco products.
- Sales representatives could use this as a major tool when visiting new prospects.
- Sysco could position itself as the innovation leader in the industry.
- The distribution industry would believe that Sysco could be successful. Sysco has industry credibility.

CONCLUSION

At minimum, this strategy White Paper is a good thought exercise on how the eSysco system could be further leveraged to create an atmosphere of increased opportunity and innovation for Sysco. At best, it is a real and strategically viable opportunity that has clear benefits for the organization and potential partners and is worth considering further.

The top 5 companies on Fast Company's list of "most innovative" got there not by being a start-up, but by being an accomplished company extending already successful products and services to new users. Innovation seems to be the exclusive domain of high tech and consumer products companies, but it doesn't have to be. Food distribution is not an area that wins innovation citations regularly, but it is certainly an industry in which truly innovative ideas can develop.

It was mentioned before there are not many companies that have the credibility, resources and capabilities to successfully pursue this opportunity but inevitably, one of them will.

In 1969, John Baugh saw his vision of a national foodservice distribution network become a reality. Ever since, Sysco has been the pacesetter for the industry in both value and Innovation.

Sysco 2010 Annual report