

# Extend Bong Ljungdahl's current e-commerce

Encompass the B2C & SME market channel

Alexander Ekdahl & Johan von Stockenström

2010-05-07, Sweden

Lund University, Faculty of Engineering

Department of Industrial Management and Logistics

This article is an abstract of a master thesis written at Bong Ljungdahl AB in cooperation with the Department of Industrial Management and Logistics at Lund University, faculty of Engineering. The purpose is to deliver a solution for Bong Ljungdahl AB's e-commerce expansion towards private customers and Small Medium Enterprises.

Keywords: E-commerce, distribution channels, channel conflicts, framework

## Introduction

Since a few years back, e-commerce have taken greater market shares and in Sweden there has been a steady growth in that market segment. This is shown by the fact that the e-commerce in Sweden grew with 25% percent right before Christmas 2008 in contrast to the same period 2007. According to experts this positive development in e-commerce will continue.<sup>1</sup>

Bong Ljungdahl is a leading manufacturer in the European envelope industry, with a turnover of 2 BSEK annually and has a total volume in the range of 100 billion envelopes.<sup>2</sup> Today Bong Ljungdahl uses e-commerce on a *Business-to-Business* level and is looking to expand its reach to other customer segments

such as *Business-to-Consumer* and *Small Medium Enterprises* (SME). To be able to reach these new segments, Bong Ljungdahl needs to investigate the market possibilities and develop a new e-commerce strategy.

## Problem analysis

E-commerce continues to grow, which sets new requirements for companies to develop and supply solutions that are adapted for customers. Statistics shows that this market channel has a bright future and that its importance will be major.

Currently, Bong Ljungdahl only uses e-commerce on a *Business-to-Business* level. To reach larger market shares, Bong Ljungdahl desires to extend the company's already

<sup>1</sup> Hedlund, Monica. (2005). *Dagens Nyheter*

<sup>2</sup> Bong Ljungdahl (2009-10-20)

existing e-commerce with new market channels towards private customers and SME.

This thesis will focus on the following questions: *What measures and resources does Bong Ljungdahl need to successfully extend their current e-commerce solution in order to encompass Business-to-Consumer-and-SME? And how should Bong Ljungdahl develop key activities such as marketing and order management in order to meet the new markets needs and demands?*

## **Purpose of the thesis**

The main purpose of this master thesis is to deliver a solution for Bong Ljungdahl AB's e-commerce expansion towards private customers and SME. In addition to this, the thesis also aims to create an independent framework, which can be used by any company to seek guidance for expanding to a new market segment online such as *Business-to-Consumer*.

## **Method**

The authors conducted a framework based on three distribution channels, Business-to-Consumer via intermediaries (B2C via intermediaries), Business-to-Business & Large Enterprises (B2B & LE), and Business-to-Consumer & Small Medium Enterprise (B2C & SME), withholding different activities. In order to analyze the framework the authors used multiple case studies. The cases were conducted by gathering information through interviews, observations and from literature.

## **Findings**

When changing or extending the distribution channels from *B2C via intermediaries* to *B2B & LE* and *B2C & SME* the risk of channel conflict increase and the market for each new distribution channel narrows down to a more niche market. The competition in between the channels varies. In the *B2B & LE* channel, competitors are mainly producers and, to some extent, intermediaries. In the *B2C & SME*

channel, competitors are mainly intermediaries instead of producers. Since these two distribution channels sell direct to consumer, disintermediation occurs when changing or extending distribution channels from *B2C via Intermediaries*. In turn the disintermediation enables margin gains due to the producer no longer has to split the revenue with intermediaries.

The large order size in the B2B & LE channel, and the increased order frequency in the B2C & SME channel, will raise both storage cost and safety stock level in each of the corresponding distribution channels. The raise of storage cost is due to increased inventory level, increased tied up capital and a possible increase of inventory space. The change of safety stock is relative to the inventory level. Hence, it will also increase.

In the B2B & LE channel, the order management gets affected due to lower order frequency and larger order sizes. This is the opposite of the B2C & SME channel, where the order frequency is higher but the order size is smaller. Due to the order management, workload increases in the B2C & SME channel, but remains unchanged in the B2B & LE channel. Another difference between the two distribution channels is the order reception, which involves closer customer contact in the B2C & LE channel due to higher order values.

Regarding production, the main difference between the two channels is the range of products. In the B2C & LE channel, the product selection is more towards special products while the B2C & SME channel includes more standardized products.

The delivery service should be consistent in all channels, which demands good transportation. The transportation cost is relative to the shipment size and will decrease with larger shipping volumes. The B2C & SME channel present large shipping volumes, which lower

the transportation cost per unit. Opposite to the B2C & LE channel, the B2C & SME channel will suffer higher shipping cost per unit since the shipping size is likely to decrease.

Cost and functions related to the e-commerce platform will be affected when extending to the *B2C & SME* channel. The required new functions in this channel are, for example; automation, payment, order management and customization. The cost related to this channel extension is development of the new e-commerce platform and online store.

Marketing has different target groups for each distribution channels. In the B2C & LE channel, the target group consists of larger enterprises, while the target group is small and medium enterprises in the B2C & SME channel. How to reach the customers through online marketing will change in the B2C & SME channel, where SEO and SEM should be the main marketing methods.

## Conclusions

An encompassment to the *B2C & SME* market leads to higher order frequency and smaller order size. To make it more cost-effective, the range of products needs to be more standardized and products that are suited for overprinting, need to be in the inventory of finished goods. Since Bong Ljungdahls digital press is suited for smaller quantities and the utilization rate on the machine is rather low, all smaller orders regarding overprinting could be performed in this machine. This would be both cost- and time-effective, not only due to the efficiency of the machine, but also due to decreased workload for the prepress personnel. The digital press also has the ability to print different variables on each envelope, for example every envelope can get a unique address printed on it no matter the batch volume. This can be useful in the future development, especially if customers want to personalize their envelopes, and since it is no extra cost for Bong Ljungdahl it is only an advantage. The products that cannot be printed

in the digital machine, especially the thicker ProPac products, should be printed in the overprinting department's older machine. Since this machine also has a relatively low utilization rate and the technique is quite unique in the printing business, the machine is well suited to make smaller orders.

Inventory levels, and thereby tied up capital, will increase when a new distribution channel is introduced. This will carry an increased storage cost and the safety stock level will rise. In order to successfully encompass the *B2C & SME* distribution channel, the inventory of finished goods should be in level with the forecasted demand.

To handle the order management more effectively and to prevent the increased workload that occurs due to the higher order frequency, the order management needs to be connected to the e-commerce platform, which in turn is connected to Bong Ljungdahls ERP system. This will make the order management process more automated, which in turn simplifies the work for customer support. Both the order reception and the order administration process will be more automated resulting in less manual order administration.

To efficiently encompass the *B2C & SME* market, disintermediation should occur to cut those intermediaries that do not add sufficient customer value. This will increase the risk of channel conflict, which in Bong Ljungdahls case is not relevant since they heavily rely on them for most of their sales. Instead Bong Ljungdahl should extend the market reach by starting a new company with a name that does not invoke mistrust from intermediaries. A new company and a differentiated range of products, or market approach, will lower the sensitivity towards intermediaries and thereby decrease the risk of channel conflict. This will simultaneously give Bong Ljungdahl an alternative source to forward incoming small orders to, if the existing intermediaries do not offer good enough margins.

Direct sales will increase the demand of delivery service and transportation. In the *B2C & SME* channel, the shipping frequency has to be high to meet the customers' expectations of the delivery service. High shipping frequency combined with small shipping volumes will increase the transportation cost. To maintain the delivery service Bong Ljungdahl should continue to deliver through third party logistics. However, a new agreement may be necessary.

The *B2C & SME* market channel presents a good potential with margin gains of at least 186 percent compared to the *B2C via intermediaries* market. Such potential cannot be neglected. For Bong Ljungdahl, it is both about gaining market shares and to gain higher revenue on existing market shares through higher margins. For ProPac, it is mainly about doing everything possible to acquire market shares on a rapidly increasing market. The competitive analysis shows that Bong Ljungdahl is not far behind the top competitors. Improving their online visibility, marketing and e-commerce platform should give them a top competitive position.

The *B2C & SME* market targets a niche group of customers. To attract these customers, Bong Ljungdahl needs to outperform the competition regarding online visibility and accessibility. Marketing should, at least, contain search engine optimization along with Adwords or other search engine marketing to gain Internet visibility. There should also be a strategic decision to include this in all aspects of the new company to assure proper usage and to create acceptance for the methods.

## References

**Bong Ljungdahl Sweden** (2009-10-20)

<http://www.bongljungdahl.se>

**Hedlund, Monica** (2005). *Dagens Nyheter*