

PIM for Long Tail

Sales Success with “Long Tail” for Increased Margins in Wholesale and Mail Order

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Modern Product Information Management used to Sell High-Margin Niche Products

Fall in sales, lines shut down. As well as industry, the wholesale and mail order business is also affected by the economic crisis. On the other hand, customers expect their suppliers to provide an increasingly large and broad assortment in their online business. The so-called “Long Tail” theory promises high sales from the sale of niche products in volumes not previously achieved. Although maintaining this kind of assortment initially appears complex and costly, it opens up high profit margins. Many companies are already achieving two thirds of their profit in Long Tail. Product Information Management (PIM) solutions provide an ideal solution.

Management of large data volumes is becoming increasingly crucial in wholesale and mail order—particularly in relation to developments in ecommerce. What are the key challenges? Selling through multiple channels is gaining in importance—for companies specializing in both B2C and B2B. Targeted selling through different channels, such as online shops, print catalogs and point of sale, opens up new target groups and increases awareness in the market. In future, the majority of international companies will be investing in multi-channel sales.

Assortment Policy as a Success Factor

Alongside these marketing-based issues, the actual products offered for sale represent a key focus for retailers/distributors/wholesalers positioning. Assortment policy in distribution is undergoing major changes.

In the past, category management meant always having limited space in the warehouse. Only a certain number of pages were available in the printed catalog. There were also restrictions in logistics – warehousing in particular restricted opportunities so much that most retailers/distributors/wholesalers attempted to find the ideal catalog assortment with the largest possible number of top sellers.

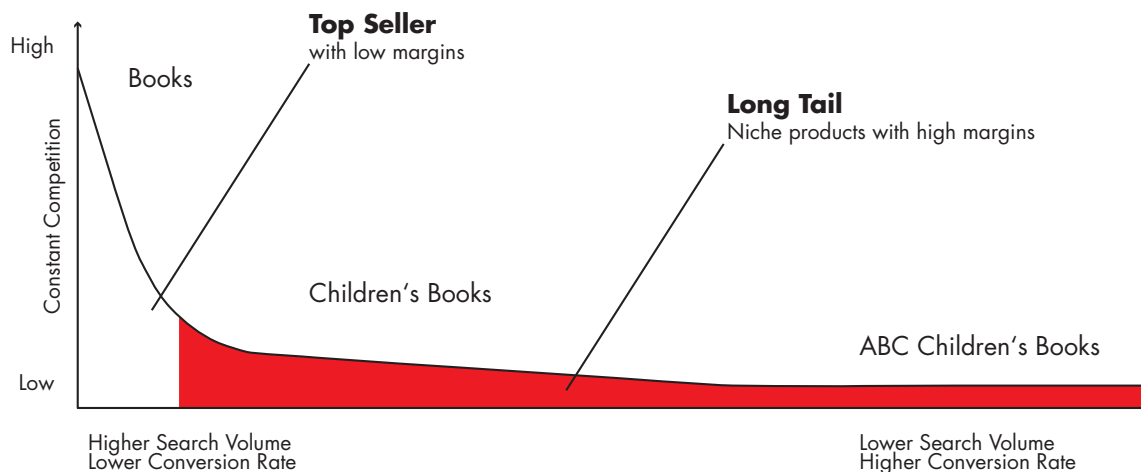
As a technical wholesaler, ERIKS supplies more than 100,000 customers worldwide with an assortment of 600,000 industrial components. They include seals, hydraulics and components for drive technology. “We deal in industrial components, but our customers primarily expect detailed product descriptions and technical details”, explains Roger van Son, Product Data Management Director at ERIKS. As a result, ERIKS is increasingly developing into an information broker. This means they deal with product information. The ERIKS Group is meeting this challenge with a Product Information Management (PIM) system from Informatica (former Heiler Software AG). The company, based in Stuttgart and Detroit (USA), has been involved in product data management for a decade.

“In the past, many companies had to severely restrict their assortments”, explains Rolf J. Heiler, founder and CEO of Heiler Software. For example, most only dealt with certain brands, or carried out segmentation of product groups and target groups. In a printed catalog, there are few alternatives, but online shops do not have this limitation. Hahn+Kolb, the tool wholesaler in the Würth Group, is also looking to make use of this advantage. “We maintain an assortment of more than 40,000 items. However, our e-business customers expect tools to be available in several million versions”, says General Manager Gerhard Heilemann.

Long Tail—Profit from numerous niche products

In a stationary distribution business, the range has to be closely linked to demand due to the limited sales area available. Therefore, the main focus is on mass market demand, while everything that is not profitable enough is excluded. This means that a relatively large number of products are not sold – this is what is meant by the “Long Tail”. The diagram based on the work of Chris Anderson shows a long demand curve tailing off towards the X-axis.

On the left are the fast moving items, which have frequent demand – the curve is high and narrow. On the right, the long, increasingly thin “Long Tail” covers the many items with less frequent demand. If we look at the margins, this distribution has an interesting significance. Niche products often achieve considerably higher margins than top sellers. Therefore, this means that retailers/distributors/wholesalers have to neglect the many high-margin products due solely to limited storage space, limited numbers of pages in printed catalogs or limited IT systems.



The Internet provides significant cost advantages. A digital department store is made up of servers that can easily be expanded at any time. Adding a new product involves little more than a few additional entries in a database. And where necessary some space in an efficiently operated logistics warehouse. But in the case of purely digital products not even this.

Optional Sales

The American academic Erik Brynjolfsson researched the Long Tail phenomenon using the example of the book market. A typical bookshop constantly stocks between 50,000 and around 100,000 titles, for which there is an appropriate demand in the marketplace. However, these books are also available from Amazon, but their range includes a further 2.9 million titles. Brynjolfsson and his team analyzed sales and came to the conclusion that Amazon achieves up to 40 percent of its turnover from those books that cannot normally be found in a traditional bookshop.

PIM as a Basis for Large Assortments in e-Commerce

The question now is why shop operators have not been hugely expanding their assortments for years. Why do we find that typical B2C mail order companies have 300,000 items and not 3 million? Unfortunately, it is often a problem of IT infrastructure. Servers, shop systems and search catalogs cannot deal with the provision of mass data and millions of item links. Before products can be presented in the shop, the supplier must obtain and prepare the relevant data.

“Assortments are often restricted by the fact that the product data cannot be efficiently maintained. A Product Information Management (PIM) system enables retailers/distributors/wholesalers to set up and manage extremely large assortments, without rising costs for expanding their assortment”, says Rolf J. Heiler. “The right e-commerce strategy can reach new customer groups and bring significantly higher margins”, Heiler explains. The Long Tail theory has become a reality. Rolf J. Heiler is sure that suppliers with the largest assortments will come to dominate the markets.

For the first time, PIM gives retailers/distributors/wholesalers an integrated process. Suppliers provide their assortments electronically, and this data is then checked and stored centrally. It is then structured and prepared for presentation in online business. Wholesalers and mail order companies can arrive at the largest perfect assortments by involving their customers in the process.

Retailers/distributors/wholesalers are often unaware of the niche items that are in demand. They are sometimes obtained and delivered when requested by a customer but rarely become part of the assortment. Reviews, evaluations and inquiries from customers can contribute to an optimum expansion of assortments. The PIM then allows new items to be immediately added to the online shop. Links to product groups, spare parts and accessories enable retailers/distributors/wholesalers to make better use of up-selling and cross-selling potential. Information such as “Customers who bought this product also bought...” help to optimize e-business in niche products and multiply the sales figures.

Customers can get everything they need from their retailer/distributor/wholesaler and thus become regular customers. They feel that the service and support they receive are tailored exactly to their needs and preferences. When they log in or enter particular search terms, every customer is provided with product recommendations tailored to their taste or requirements. In a dmc survey in September 2008, 44.8 percent of respondents stated that they view the quality of the product data as a motivating factor for success of an online shop. “Good e-commerce needs good product data - this simple formula sums up the critical success factor in e-commerce. Users expect their preferred online shop to provide high quality and extensive product data”, Rolf J. Heiler concludes.

Requirements and Advantages for Long Tail Sales Success with Product Information Management:

Requirements:

- Perfect product data management
- Self service features for customers
- Data maintenance optimized based on customer requirements
- Ratings, reviews and shopping cart links (Customers who bought this product also bought...

Advantages for retailers/distributors/wholesalers:

- Regular customers can be offered a far greater assortment
- Customer retention is hugely strengthened
- Optimum use of cross-selling and up-selling
- Higher sales and significantly higher margins in e-business

*The Long Tail concept

The Long Tail is a theory developed by Chris Anderson. In 2004, the American journalist and Editor in Chief of *Wired Magazine* presented the concept of how a supplier on the Internet can increase profits by offering a large number of niche products. The name comes from the demand graph's similarity to a long tail.

About Informatica

Informatica Corporation (Nasdaq:INFA) is the world's number one independent provider of data integration software. Organizations around the world rely on Informatica to realize their information potential and drive top business imperatives. Informatica Vibe, the industry's first and only embeddable virtual data machine (VDM), powers the unique "Map Once. Deploy Anywhere." capabilities of the Informatica Platform. Worldwide, over 5,000 enterprises depend on Informatica to fully leverage their information assets from devices to mobile to social to big data residing on-premise, in the Cloud and across social networks.



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