

The Case Of Traditional Enterprise Transformation - ZKH Industrial Products Supermarket

Introduction:

In the past five years, Chinese economy has gradually entered a new normal, and the Internet has flourished in China. At the same time, with the Internet wave, traditional enterprises in different industries have begun to use the Internet to transform. However, "Internet + traditional industries" did not form a large-scale achievement, traditional enterprises may took a wait-and-see attitude, or stoped after getting a little knowledge. The reason is that the difficulties faced by traditional enterprises in transforming have made traditional enterprises discouraged.

Toby Research believes that the impact of industrial value chain, offline resource utilization, determination and courage to promote transformation, team formation, and differences in transformational thinking are the most likely "pit" to encounter in traditional enterprise's transformation. According to the case study, some enterprises have a relatively smooth transition, and some enterprises have relatively difficult transitions. Enterprises with relatively smooth transitions usually encounter these "pits" in the transition, but they have crossed the past smoothly; while companies with relatively difficult transitions have encountered some "pits" and are still difficult to get out of trouble in a short time. Comparatively speaking, the determination and courage about transformation of traditional enterprise decision-making, team formation are easy to meet challenges in two aspects, followed by traditional enterprise decision-making thinking differences, existing resources utilization. In general, under the general trend, enterprise transformation has risks; but if it does not, risk will still be risk.

In this regard, the Toby Research intercepts and pushes the case part of the report "Problems, Thoughts, Cases: China's Traditional Enterprise Transition Report (2017)" in the public number of Toby. It is hoped that their transformation experience can provide reference for the industry on the road of traditional enterprise transformation.

ZKH-- One stop MRO Industrial Products Supermarket

Value Point of the case: ZKH transformed from an original trader engaged in chemical products to an e-commerce service platform for industrial products. While operating the e-commerce platform, they found that the MRO market is a blank, thus focusing on one-stop MRO supermarket for industrial products, constantly exploring new business models. With the help of information technology and convenience of offline facilities, they provide a good service experience for customers. This case provides a detailed analysis of the business strategy adjustment brought by the change of the transformation path and the innovation of business model.

1.Apporoach to ZKH

ZKH industrial products supermarket (Shanghai) Co., Ltd. (hereinafter referred to as "ZHK") was founded in 1998. As the leader of the industrial products supermarket, ZKH is based on the

cooperative concept of "opening and sharing" to build a "one-stop MRO supermarket for industrial products" in service manufacturing industry. In the past 19 years, in the process of serving traditional industrial enterprises, ZKH has made use of the strategy of "plus internet" to achieve upgrading and transformation, and has made a new way in the intelligent procurement and management of industrial supplies. According to public data, by 2016, ZKH had more than 5,000 suppliers and 10,000 customers, and operated more than 300,000 SKU products.

2. Transition background

Founded in 1998, ZKH was originally a sales agent for chemical products such as adhesives and lubricants. Chen Long, the founder of the company, found in his exchanges with customers that manufacturers often fret about how to procure satisfactory industrial supplies. On the one hand, the raw materials, accessories and auxiliary production equipment used in the production process of enterprises are mostly consumable goods, purchasing many varieties and small batches, while the sellers of industrial products mostly focus on some kinds of products. Enterprises need to use multiple suppliers to complete the whole series of purchasing. On the other hand, sellers tend to have separate regimes. The prices of products are chaotic and the quality is uneven. Enterprises usually need to spend a lot of energy to research the market and control the quality. Even some kinds of industrial products need professional installation and commissioning service on the spot after ordering, while traditional vendors usually have difficulty in providing professional after-sales service.

In Chen Long's view, pain points mean opportunities for development. He began to think about two ways to seek breakthroughs: one is to solve customers' one-stop purchasing needs and achieve price transparency; the other is to solve customers' on-site technical services and personalized logistics needs. The idea opens a new door for ZKH to engage in sales of industrial products.

3. Transition path

In 2011, ZKH began its first attempt to transform from a traditional trade-oriented enterprise to an e-commerce platform. The focus is to solve the pain of one-stop shopping.

First, ZKH launched the online industrial products market--- ZKH Industrial Supermarket (www.zkh360.com), which sells all kinds of industrial consumables online. It gradually enriches the product category, expanding the long tail from the original industrial adhesives products to the whole industrial products. Their goal is to establish a full-class online industrial product supermarket, realizing low price and transparency with network sales mode. In this process, while expanding the product line, they can visualize the traditional sales information., analyze who the users are in the platform, track their clicks, classify them, analyze their preferences, and make a better interactive experience. Relying on customer service record, they promote technical reserves of ZKH team in reverse direction.

Along with the deepening understanding , Chen long gradually realized that MRO field (Maintenance, Repair and Operation, they are not directly constituted products, only used for

Maintenance, Repair, Operation equipment, we can understand it as non-production material, They're industrial supplies) is blank in the market. Then, ZKH started to provide customers with one-stop procurement and services of MRO products.

After three years operation, the product categories of ZKH industry supermarket have become greatly enrich greatly enriching. It is time to solve the second sore point of industrial products procurement. Compared with developed countries, domestic industry field still lacks mature supply system of professional service factories. From 2013, ZKH started to establish a regional service center which is located in the industrial zone and close to the factories, and strengthen the offline technical support. At the same time, ZKH established warehouse logistics to meet the personalized delivery needs of customers. Their sales staff provides customers with a series of on-site services such as model selection, quotation, technology and after-sale service. ZKH also cooperate with professional technical teams in the industry to provide remote technical support for their customers.

In the past, industrial supplies were poorly managed, usually quantity purchase, but wasted. In the daily use of industrial supplies, they are often used as the following scenario: some small industrial supplies (tools, fasteners, etc.) need to be collected frequently, and the enterprise place them on the production site with large quantities, many problems, such as waste and stock shortage, are easily appeared. China's industrial enterprises are widely distributed, and it is difficult to achieve accurate management of industrial supplies purchased in a variety of small batches. How can service and management capabilities be extended to use scenarios for industrial supplies? Chen long hopes to learn from the concept of German industry 4.0 and Toyota's lean production mode, and use information technology to provide free intelligent management software and hardware for customers, so as to realize intelligent inventory management. Chan thinks that industrial supplies can also achieve lean management, with the rapid development of information system and logistics technology. He hopes that the company can provide customers with industrial supplies immediately, just as it provides convenient hydropower services.

Jackie chan first proposed that ZKH will make MRO industrial products ecosphere, which based on the the idea of "open-share" in public places in 2016

As the Intelligent supplier on the customer supply chain, AKH is committed to help more customers to realize online purchase and intelligent management, Considerably reduce the cost of purchasing and management, Build the service center which close to the customers, and realize " where factories are, there is ZKH".

4. Business model and operating strategy

Through continuous exploration and integration of various resources in the industry, ZKH has formed the following business model. The business model includes five major parts: operating system, network platform, intelligent warehouse facility, suppliers and customers. Customers

are the core of business model service. Online information processing system and offline service facilities are the key to provide convenient customer service, and the supplier system is the guarantee to serve customers.

The business model of ZKH can not innovate without their management strategy adjustment. It's business strategy adjustments are successively re-build the experiential strategy, doing the last mile, Internet + intelligent hardware + enterprise service platform, organization and culture adjustment.

4.1 Rebuild experiential strategy

In order to realize the transformation vision under the industry 4.0 concept, ZKH readjusted its strategy and adjusted each sub-strategy accordingly.

The combination of product strategy e-commerce and intelligent hardware, and the application of Internet to Internet of things, have formed a new business model of ZKH. Under the new business model, ZKH provides customers with one-stop industrial products with transparent prices, high quality and reasonable prices through online industrial supermarkets. For the positioning of industrial supermarkets, the company has two thoughts: one is to facilitate product trading, and the other is to improve customer experience. The former requires companies to continually diversify their product lines, but even companies like wal-mart have trouble meeting all of their customers' product needs.

After analysis, ZKH believed that, unlike consumer goods, the purchasing staff of industrial supplies have professional knowledge in related fields, and the procurement process is more rational, and more concern about the simplification of communication and management of product performance, price and standards. Therefore, ZKH needs to increase the width of products, to give the most competitive several products for each category. The company should focus more on optimizing product structure and improving service quality. For customers, simple products are more convenient to use and manage, while offline services provided by ZKH can help them better experience. Undoubtedly, the enterprise finally chose the positioning of the second kind of industrial supermarket.

Based on the positioning of "improving the customer experience", ZKH has set a benchmark for learning – the German AIDI Group, hoping to build a core competitiveness by optimizing the product structure and deepen the vertical market. . ZKH has made a more specific breakdown of MRO products: cola type, long tail type and AIDI type products. For the well-known Coke products in the market, we guarantee genuine low prices; long tail products are truly integrated and standardized to meet individual needs; AIDI products, SKU is simple, reliable, factory direct supply, cost-effective to ensure the optimization of quality and price. It is also one of the important measures for ZHK to continuously improve the efficiency of the supply chain and reduce the cost of manufacturing.

After the operation of the online industrial supermarket was activated, the company's sales

strategy was also adjusted accordingly. ZHK will grant more authority to the first-line sales staff, aiming at the customer's needs and improving the customer experience. Sales staff have the right to decide whether to order and adjust the product price. In order to encourage sales personnel to have more Internet thinking, the company has adjusted the performance appraisal of sales personnel and implemented a one-vote veto system for customer experience. Always adhere to the customer-centric, and go all out for the benefit of customers.

In order to achieve the common development of the MRO industry, ZKH started the distribution partner program in 2017. In areas where the business is temporarily not available, the local MRO small traders and individuals are combined to carry out distribution empowerment. Through the six services (brand licensing, product and technical support, IT system support, intelligent warehouse management and authorized operation), ZKH has cooperated with more MRO companies to build a nationwide regional sales network to achieve common optimization of the entire industry.

4.2 Optimize the last mile service

Taobao and JD.com have achieved dazzling success in the field of C2C and B2C, focusing on the construction of online sales platforms, and becoming a model for industrial product sales companies to follow. However, unlike ordinary consumer goods, factory customers have special requirements for the professional and technical sales of industrial products. If the seller is only responsible for sales and neglects after-sales service, it is a great harm to the customer experience. The "last mile" of industrial supplies sales is a common pain point in the industry. In the process of the transformation of ZKH to the online industrial supermarket, Chen Long always insisted on making this last mile.

The sales manager of ZKH is fully responsible for product sales and after-sales, and self-built logistics strictly guarantees product supply time. In the past, there were fewer product categories, and sales people had a deeper understanding of product knowledge and could serve customers in depth. Now that the company's products have more than 300,000 SKUs, the company has segmented sales and tried the group-based operating model. In order to help sales personnel adapt to the sales needs of mass products, in addition to regular business knowledge training, the company also connects technical teams and sales personnel.

In order to solve the "last mile" problem, the company insisted on self-built warehousing and logistics. The customers of industrial products are mainly various types of factories. Due to the continuity and professionalism of the factory production, customers have high requirements for the delivery of products on time and accurately. The use of third-party logistics is often costly and difficult to ensure. ZKH equip exclusive vehicles for each sales manager to provide delivery and on-site commissioning services. At the same time, the company also has the qualification to store and transport chemical dangerous goods, even if the customer needs dangerous goods, it can be delivered safely and timely.

ZKH has set up its headquarters and warehouse in Shanghai, and established regional service centers in 30 provinces and cities including Suzhou, Nanjing, Wuxi, Qingdao, Wuhan, Shenzhen,

Tianjin, Beijing, etc., constantly deepening and cultivating to solve the “last mile” of industrial supplies problem.

4.3 Internet + intelligent hardware + enterprise service platform

ZKH's intelligent warehousing can solve the management problems after customers purchasing products. After the customer receives the goods, the goods are distributed to each workshop , and the manual distribution is very labor-intensive. Some customers' production lines are operated 24 hours a day, and distribution of products on the production line requires people to be on duty, which adds a lot of cost. In addition, manual counting of small products is very difficult, and extensive management is easy to waste. The intelligent warehousing system is dedicated to solving these problems. The system consists of two parts: the background management software and the management hardware placed on the production site. The intelligent small warehouse is placed at the factory production site to place industrial supplies commonly used in factory production. On-site production personnel can use materials through smart cards. Managers can automatically aggregate and analyze each of the used data to eliminate waste and reduce the cost of the shift. In the background of the system, when the product is out of stock, the ZKH Service Center will be notified in time for replenishment. Intelligent warehousing also reduces the customer's capital occupation, confirms the purchase after the goods are used, and does not need to pay for the inventory of the products in the small warehouse, which greatly saves the procurement cost.

As product categories and orders continue to increase, supporting sales and service work requires a vast information system. Therefore, ZKH Industrial Supply Co., Ltd. (ZKH company) unifies customer management system (CRM), enterprise management system (ERP), order management system (OMS), and warehouse management system (WMS), and integrates the information of suppliers and customers seamlessly.

Through the customer and market research, ZKH company officially launched the ESP (Enterprise Service Platform) in 2017. This set of enterprise service system integrating process approval and procurement management is truly an electronic purchase of industrial products. ESP system provides customers with transparent product price system through customized protocol products; multi-role management, customized enterprise client relationship, account assignment and setting authority; online inquiry, providing customers with convenient quotation function of non-protocol products; Standardize processes and reduce enterprise operation risk.

A series of systems such as ESP and cloud procurement use SAAS, open to customers, suppliers and sub-terminals, and continuously open up and down the supply and demand, forming a closed loop of the MRO industry IT system ecosphere closure.

4.4 Organization and cultural adjustment

In order to ensure the strategic implementation of the layout industry 4.0, ZKH company also

carried out organizational capacity building from three aspects: employee thinking mode, employee ability and employee governance mode according to the organizational capacity "Yang triangle" theory. In Chen Long's view, the type of corporate culture of a company depends on the cultural genes of the founder. Because of which, he initiated a top-down corporate culture building to encourage employees to innovate and take risks and transform into a market-oriented culture. Focusing on customer needs, we will strengthen our all-out, results-oriented entrepreneurial spirit.

ZKH company has formed a mature system in talent training. Since 2011, it has been recruiting campuses in major universities across the country every year and the freshmen team will be the reserve cadres. In terms of organizational structure, the company organizes culture with the core of "no lying, no cheating, doing everything for the benefit of customers, simple and practical, rigorous and efficient", and adopts small team self-organization and completely flat composition. The platform-based intensification of the headquarters of the company, the first-line distributed service model, the headquarters makes IT, finance, operations, market and other platform support, and the first line is fully authorized, customer-centric and customers' demand-oriented. They always adhere to the common mission of "improving supply chain efficiency and reducing manufacturing costs" and continue to do the best for the interests of customers.

The innovation of business model, supplemented by the adjustment of business strategy, guarantees that ZKH company can provide customers with a good customer experience

5. Development status

The performance of the company has continued to grow for more than ten years. The regional service center covers 30 key manufacturing areas of China. The transcripts issued by ZKH company in 2016 are eye-catching. As a "blue chip" in the MRO industry, ZKH company has completed many breakthroughs in the past year, with overall sales increasing by 135% year-on-year; the company's overall product line has developed rapidly, and now has 25 product lines with more than 300,000 products; online intelligence warehousing system has gained good reputation from customers, and the number of users has increased exponentially. It has deep cooperation with Alibaba, Jingdong, UFI and other industry predators; the company's operating system has been continuously optimized and upgraded to complete more cross-platform docking.

Looking forward to the future, ZKH will build the MRO industrial product industry ecosystem based on the concept of "open, sharing". ZKH Industrial Supermarket has adopted the one-stop MRO industrial supplies procurement platform and online intelligent warehousing management, as well as the offline regional service center, independent warehousing logistics and professional products, sales and customer service teams as the core circle. Around this core circle, upstream joint product suppliers and service providers provide customers with products and related services through the core circle to collect terminal information; downstream through Unicom regional service centers for self-sales sales, regional partners to join authorization,

platform cooperation, etc. Large coverage, reaching the first line of manufacturing, improving service depth and precision, and serving the advanced manufacturing industry

This is the first time that ZKH has released its own eco-sphere plan to the public and the industry. It is also the first system in the entire MRO field to illustrate the future development of the industry with the concept of ecological circle.

Chen Long concluded that the essence of the MRO industry is actually centered on “services”. Industrial supermarkets aim to achieve a balance between scale and service. ZKH adopts platform-based intensive, first-line distributed service model, and the platform adopts A series of support, such as IT, operation and market, continuously promote the improvement of supply chain efficiency and manufacturing cost reduction; the first-line full authorization, professional products and services for customers, distributed to meet customer's personalized needs and services, always customer-centric, Continuously improve customer satisfaction

6. Case revelation

Looking back at the transformation, Chen Long has a deep understanding. He said: "To achieve successful transformation, traditional enterprises cannot be based on their own needs, but must better meet the needs of customers. To achieve '+Internet', the first thing is '+Internet Talent' allows professional people to do professional things."

Comprehensive analysis, the transformation of ZKH is inseparable from the company's precipitation in the industrial supplies industry for more than ten years. With the e-commerce platform, the upstream and downstream resources of the supply chain are gathered to complete the offline business, and through the establishment of regional service centers and self-built logistics. And storage facilities, through information technology, improve the intelligent management of inventory, improve supply chain efficiency, and reduce manufacturing costs. Enhance customer stickiness with logistics, warehousing and technology, and use Internet thinking to expand your ecosystem.

For the industry, the transformation of ZKH is only a mirror of the “+Internet” of the manufacturing industry. It cannot represent that the Chinese manufacturing industry has fully integrated into the connected era from the ideological and substantive aspects. However, by studying the three stages of the development of ZKH, we can clearly see that manufacturing-oriented enterprises understand users and get close to users, and find out the transformation entry points. Through reasonable and scientific layout and management, combined with "small step running, step by step trial and error. The way is to form a moderate and gradual, manufacturing-oriented enterprise reform. Chen Long hopes that this upgrade model will be able to move through the transformation and upgrading of the manufacturing industry and is willing to share it with peers. The experience that Zhen Kun has gained on this road, and this is not a benign attempt and new enlightenment for Chinese manufacturing.

www.erui.com