

MODERNIZATION GUIDE for Wholesale Distributors



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HOW TO THRIVE IN THE CHANGING WHOLESALE DISTRIBUTION LANDSCAPE

The wholesale distribution business is changing. Brought about by online marketplaces, the digitization of the buyer journey, wide availability of real-time data and even a dash of artificial intelligence, wholesale distributors face an inflection point: Do they adjust to these rapid changes and modernize their operations, or slowly cede ground to distributors and new competitors that do embrace the wholesale distribution landscape today?

This inflection point isn't just a matter of survival, of course. It also is an opportunity for capturing a larger share of the market and adding new lines of revenue as the industry is shaken up by changes in technology and buying patterns. The best-run wholesale distributors will benefit from these changes, even if modernization is a matter of necessity.

Key Challenges Disrupting Wholesale Distributors Today

Three major trends are disrupting wholesale distributors today, according to a recent report by SAP, [Riding the Waves of Disruption in Wholesale Distribution](#)

Challenge #1: The End of Specialization

Narrow wholesale distribution is falling by the wayside as the lines between manufacturing, wholesale and retail blur. Online sales channels are reducing the role of wholesale distributors as manufacturers are selling directly to retailers and often directly to consumers.

At the same time, ecommerce giants such as Amazon are using their platforms and logistical expertise to expand from the business-to-consumer model to also include business-to-business offerings.

These shifts are forcing distributors to similarly expand. Specialized distribution is giving way to a broader portfolio of product and service offerings, such as moving from strict wholesale distribution of plumbing supplies to also include electrical and HVAC. Narrow product distribution is also being replaced by a basket of offerings that includes value-added services.

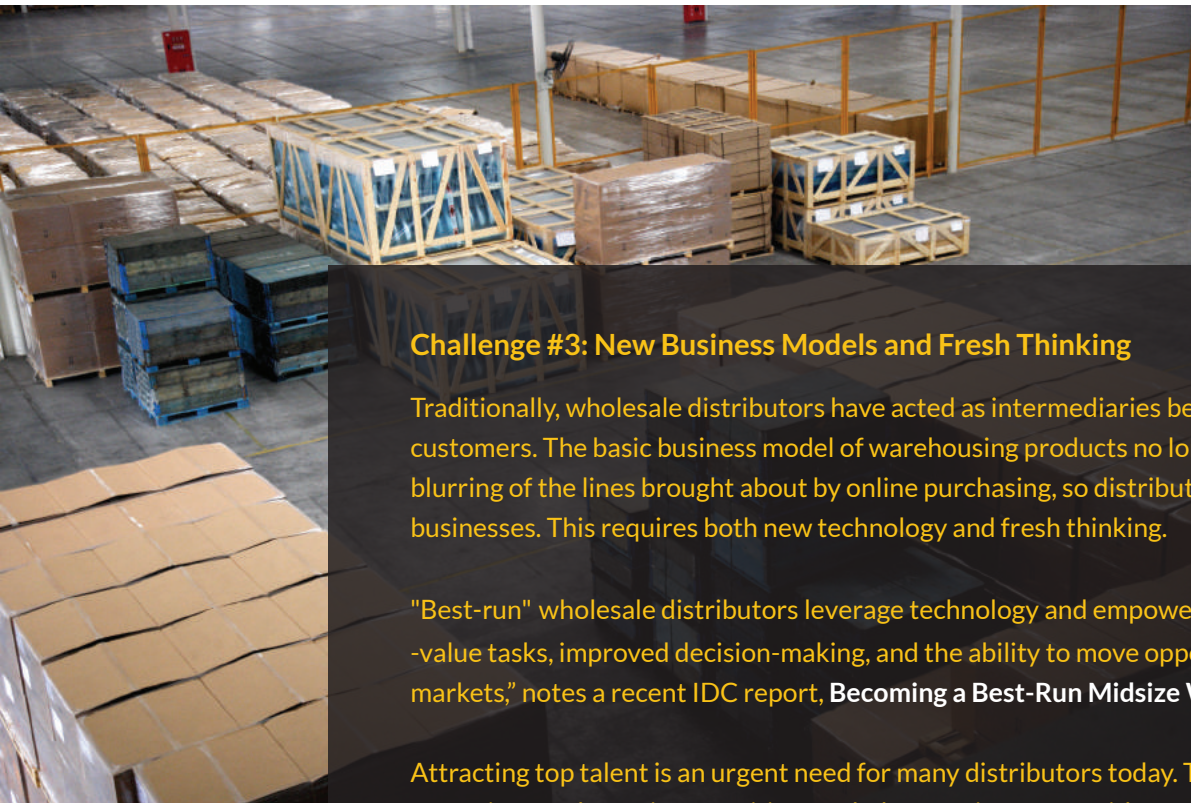
Challenge #2: Changing Customer Behavior

Both the way that customers are buying and their expectations are changing as a result of technology. The typical business customer is more strapped for time than in the past and has come to expect a buying experience that resembles consumer purchasing. This has raised expectations around speed, simplicity, availability, reliability and personalization when it comes to purchasing from wholesale distributors.

The buying journey has increasingly become digital, too, with purchases taking place through mobile and web-based channels, as well as text messages, voice commands, chatbots, automated ordering through enterprise resource planning systems, and through a variety of online marketplaces. Wholesale distributors are faced with expanding their range of channels for sales and support and making the handoff seamless among these channels.

Buyers are also researching purchases online more before the sale, coming in with far greater knowledge, and requiring that product and service information be readily available online. Roughly 64 percent of B2B buyers now research at least half of their work purchases online, [according to Forrester Research](#).

Along with these changes comes the demand for a more robust customer experience, including seamless multi-channel communication, greater product information, and more communication among departments.



Challenge #3: New Business Models and Fresh Thinking

Traditionally, wholesale distributors have acted as intermediaries between suppliers and customers. The basic business model of warehousing products no longer is sufficient given the blurring of the lines brought about by online purchasing, so distributors now must reinvent their businesses. This requires both new technology and fresh thinking.

"Best-run" wholesale distributors leverage technology and empower employees to focus on -value tasks, improved decision-making, and the ability to move opportunistically into adjacent markets," notes a recent IDC report, **Becoming a Best-Run Midsize Wholesale Distributor**

Attracting top talent is an urgent need for many distributors today. This requires modernizing operations and creating a positive workplace environment with easy to use tools, employee collaboration, and a minimum of mindless tasks.

At the same time, developing innovating business models requires the best of current and future technology. Many wholesale distributors run their operations with aging or patched-together systems that served the industry in the past but now limit innovation and changing business models.

Specifically, legacy IT systems cage data in system silos that reduce informational use and overall operational visibility and hinder real-time operations. Aging IT systems also limit the opportunities for taking advantage of advanced automation and new technologies such as

artificial intelligence. They discourage the top talent needed for innovation from joining firms, too.

How Top Distributors are Handling Modernization

Wholesale distributors are addressing the changing distribution landscape in a variety of ways, but three clear priorities emerge for distributors that are considered the best run.

Improving productivity. Roughly 39 percent of the best-run wholesale distributors consider productivity improvements a key business priority, according to IDC research. Among all wholesale distributors, only 28 percent consider it important.

Adding new revenue streams. A second top priority right now for the most successful wholesale distributors is adding additional revenue streams to combat the chipping away of traditional lines of business. IDC research has found that 38 percent of the best-run wholesale distributors are focusing on the development of new revenue streams, compared with only 24 percent overall and 20 percent of the wholesale distributors that are lagging behind.

Transforming the business. The most significant difference between best-run wholesale distributors and the competition is a focus on overall business transformation. IDC found that 34 percent of wholesale distributors that are considered best-run believe business transformation a top priority, compared with only 23 percent of wholesale distributors overall and 10 percent among the businesses that are lagging behind.

Transforming Your Wholesale Distribution Business

Adapting to the changing market for wholesale distribution and thriving in this new environment requires several deep adjustments within the typical business. The best wholesale distribution companies are undergoing these adjustments and staying competitive.

While there is no one right approach for meeting the modernization challenge, five key strategic priorities consistently emerge among the best-run wholesale distribution businesses right now.

Key #1: Focusing on Strategy Over Operations

The wholesale distribution industry, partially owing to its foundation in bridging the gap between manufacturers and customers, has historically focused on operational needs. The best-run wholesale distributors are shifting instead to a more strategic focus that aligns operations with the larger goals of business growth and better serving customers.

Establishing strategic metrics and monitoring these metrics through data intelligence is a big part of addressing industry change for the most successful wholesale distributors. These wholesale distributors are shifting to analyzing data as a central part of their business.

While the typical wholesale distributor primarily uses data for increased operational efficiency, according to IDC research, top distributors focus less on data for operational efficiency and use it instead for a wider range of business goals. These uses include:

- Improving customer service
- Gaining customer insights
- Improving access to employee data
- Generating additional revenue streams
- Gaining competitive insights
- Driving product innovation

Of course, the best wholesale distributors also use data for operational efficiency.

This focus on data and strategic priorities makes wholesale distributors more agile and able to balance operational realities with insights to drive growth.

Key #2: Fostering Innovation

Innovation has not traditionally been an emphasis for wholesale distributors, which focus primarily on logistics within their ecosystem. As the industry looks for new sources of growth, however, top wholesale distributors are using innovation for additional revenue streams and novel business models.

This is a key difference between wholesale distributors that are modernizing and those that are falling behind. While nearly all of the best-run wholesale distributors say they use innovation well or very well, according to IDC research, only 8 percent of distributors that are struggling say the same thing.

Wholesale distributors are using a range of new technologies to foster this innovation, including:

- Mobile devices that can execute all core business functions
- Advanced data analytics and dashboards for easy access
- Enterprise collaboration tools
- Cloud computing
- Internet-connected devices (Internet of Things)
- Cognitive computing
- Machine learning
- Blockchain

They also are encouraging innovation in a variety of ways, including actively looking outside their company and industry, having programs that reward innovation, launching internal innovation teams, and designating time during the workweek for employees to explore and play around with innovative ideas.

Key #3: Exceeding Customer Expectations

With heightened competition, wholesale distributors are under significant pressure to differentiate their businesses and cultivate loyal customers. This is leading the top distributors to double-down on customer service, and to focus on exceeding buyer expectations.

Wholesale distributors are doing this in two primary ways.

First, they are supporting a wider range of customer channels such as chat and text messaging, and unifying these channels on the backend so all customer interactions are centrally stored and accessible. This creates a more unified customer experience and more continuity between interactions.

Second, wholesale distributors are breaking down operational silos and using enterprise resource planning software that serves as a single source of truth instead of data being spread across multiple databases. This enables analytics and a much clearer picture of the customer, which in turn is being used for an improved customer experience.

Key #4: Cultivating Talented Employees

Meeting the challenges that wholesale distributors face today requires employees that can develop innovation, think creatively, and better support customers. This requires that wholesale distributors attract and retain top talent, a struggle for many firms.

Wholesale distributors that are modernizing and meeting the challenges of the industry are therefore stressing an improved employee experience. Some of the methods that top wholesale distributors are using:

- Process automation
- Talent management software
- User-friendly computer systems
- Enhanced employee needs awareness
- Programs for employee development
- Increased collaboration
- Mobile-enabled operations

Roughly 73 percent of the best-run wholesale distributors are currently using talent management software, according to IDC research, and 82 percent of wholesale distributors strive to empower employees with process automation.

Key #5: Centralizing IT Systems

A central component of modernizing wholesale distribution among top distributors is breaking down operational silos and improving automation through the use of a centralized enterprise resource planning system (ERP) that serves as a single source of truth.

IDC research has shown that there is a large discrepancy between the IT capabilities of the best-run wholesale distributors and those that are struggling today.

The use of a centralized, cloud-based ERP system is a key component of the strategy for meeting the challenges of the wholesale distribution industry because it helps with the collection and analysis of operational data, drives automation, enables innovative business models and generally serves as the foundation for digital transformation.

The Need for Digital Transformation

At the center of all five of these strategic priorities is digital transformation, the process of modernizing a business by reconfiguring the operations and strategy of the organization around the latest digital technologies.

Almost all—99 percent—of best-run wholesale distributors surveyed by IDC said that adoption of new, disruptive technologies would provide their business with a competitive advantage, compared with only 69 percent of wholesale distributors overall and 34 percent of lagging wholesale distributors.

The best-run wholesale distributors are focusing on digital transformation because the latest digital systems streamline operations through visibility, analytics, automation and areas such as process standardization, all of which improve productivity. Most of the new opportunities in the market revolve around advancements in technology such as artificial intelligence and the blockchain, too.

Digital transformation also is at the center of overall business transformation because technology is the key driver behind most of the changes and innovations in business today. Businesses that are modernizing are doing it through digital transformation.

For wholesale distributors, digital transformation encompasses five key dimensions.

1. Customer centricity. Using digital technology to move the customer closer to the center of every business decision through more complete, holistic feedback and real-time analytics.

Roughly 70 percent of business leaders surveyed by the [SAP Center for Business Excellence and Oxford Economics](#) said that they have seen significant or transformational value in customer satisfaction and engagement from digital transformation, compared with only 22 percent of businesses that had not undergone digital transformation.

2. Employee empowerment. Improving productivity, teamwork and overall job satisfaction through a digital work environment that is tightly connected, enables mobility and collaboration, and provides real-time information for a culture of data-driven insight.

SAP and Oxford Economics have found that 64 percent of business leaders say that their employees are more engaged thanks to digital transformation, and 94 percent of best-run wholesale distributors are striving to improve connectivity and engagement across their workforce, according to IDC.

3. Digital supply chain. Connecting systems at every link in the supply chain for better efficiency and real-time responsiveness.

The heart of a wholesale distribution business is its network of supplier and customer relationships, and digital transformation helps connect this network more completely and efficiently.

4. Smart technology. Innovating through the use of new technologies such as machine learning, internet-connected devices and blockchain distributed ledger technology.

Half of digital business leaders are investing in machine learning right now, according to SAP and Oxford Economics, compared with just 7 percent of leaders less focused on digital transformation.



5. New monetization models. Taking advantage of analytics and cloud technologies for developing product packages and subscription opportunities.

Roughly 98 percent of best-run wholesale distributors are looking to create new business models and revenue streams, according to IDC, compared with only 78 percent of wholesale distributors overall and a little more than half of distributors that are falling behind.

Top Distributors Are Leading Transformation

While many wholesale distribution businesses are just now starting to grapple with the changing marketplace and the need for digital transformation, the best run wholesale distributors as a whole are clearly leading the pack.

More than 60.8 percent of the best-run wholesale distributors have reached the point of digital transformation where they are either deriving real-time insights to achieve their business goals or are well underway with the process of connecting employees, devices and business partners, according to IDC. This is in stark contrast to the 42.6 percent of overall wholesale distributors who have reached the same level, and the less than a quarter of lagging distributors that have done the same.

While the majority of the best-run wholesale distributors have achieved or are nearing completion of their digital transformation, most of the industry is still at an early stage of using technology to transform its business.

The Central Role of ERP in Digital Transformation

One of the single most important steps in modernizing a wholesale distribution business to meet the changing demands of the market today is putting a modern enterprise resource planning system (ERP) in place. If digital transformation is at the heart of business transformation for wholesale distributors, ERP is at the heart of digital transformation.

A modern ERP is an all-in-one, cloud-based business system that handles all aspects of an organization's operations, including:

- Supply chain
- Logistics
- Purchasing and inventory control
- Customer management
- Financials
- Accounting
- Planning and reporting
- Human resources
- Sales



All large enterprises and most manufacturers and retailers manage their operations with ERP. With the need for digital transformation, wholesale distributors also now are adopting ERP systems.

How ERP Supports Digital Transformation

ERP is crucial for all five dimensions of the digital transformation needed by wholesale distributors.

Increases Customer Centricity

Because ERP systems house all of a wholesale distributor's data, from financial and supplier information to customer records, distributors are better able to align operations and strategic planning with customer interactions.

Advanced analytics tease out customer trends, and having a unified IT system for all interactions helps sales and customer support agents better understand the needs and past interactions with the customer.

Supports Employee Empowerment

Advanced automations can be easily set up for every business function within an ERP system, helping employees focus on high-level work instead of routine repetitive tasks like data entry, payment processing and report reconciliation.

With business data and all the software in the cloud, employees can access and perform all business functions from their mobile device or laptop, increasing the flexibility to work from any device in any location at any time. Easy-to-use and constantly updated, cloud-based ERP also improves morale by acting similar to the consumer web services that employees have grown familiar with.

By using a complete, all-in-one system, silos between departments are reduced and collaboration and employee management also are improved. Self-service analytics and dashboards further empower employees to access and creatively explore data for new ideas and data-driven decision-making.

Enables Digital Supply Chains

ERP is built for connecting with other business systems. Wholesale distributors can connect their ERP directly with suppliers, customers and online marketplaces for real-time data exchange. ERP supports a completely digital, automated supply chain where stock levels can be checked, and reorders made with suppliers automatically when orders are placed.

One of the biggest advantages of ERP for wholesale distributors is increased visibility along the full length of the supply chain combined with end-to-end order automation. This alone makes ERP essential for distributors.

Drives Innovation Through Smart Technologies

Wholesale distributors can take advantage of smart technologies such as machine learning, internet-connected devices and blockchain technology through integration with their ERP system.

A distributor could track stock in real-time through internet-connected devices, prove the authenticity of goods with the blockchain or use artificial intelligence to forecast complex cyclical demand, for instance. All the latest smart technologies connect with ERP, opening the door for expanded business models.

Creates New Monetization Opportunities

With advanced analytics and all of a business's data in one place, ERP can help wholesale distributors uncover new market opportunities and discover deeper trends in the market. New offerings and services also can be uncovered through the increased visibility that comes from having all company data in a single system.

ERP systems also support subscriptions, ecommerce portals, cloud services and data-sharing that can be creatively used for new monetization opportunities. Operational efficiencies also can be more easily uncovered with ERP systems, helping a business cut costs in addition to creating new revenue streams.

Disruptions are Business Opportunities

The changes in the wholesale distribution business present new challenges, but they also represent opportunities for revenue growth and increased marketshare. Distributors that embrace the shakeup and seize the opportunity for modernizing operations and expanding into new lines of business will emerge stronger and more competitive.

The best-run wholesale distribution businesses know this, and are embarking on a wide-ranging business transformation that starts with a new ERP system and complete digital transformation. Distributors that haven't yet started on this change still have time, but the window is closing fast.

About Navigator Business Solutions

Navigator Business Solutions is an SAP Gold Partner with more than 25 years' experience helping small and medium-sized businesses with digital transformation. As a leading cloud ERP implementation partner, Navigator has assisted businesses with more than 500 ERP implementations worldwide, and it offers a range of turnkey industry solutions for distributors and other industries such as manufacturing, retail and Life Sciences.

For more information about ERP system implementation or digital transformation, contact Navigator at (877) 395-4727 or info@nbs-us.com

Referenced Resources:

Riding the Waves of Disruption in Wholesale Distribution

<https://www.nbs-us.com/hubfs/NBS/Assets/Wholesale%20Manufacturing/Riding%20the%20Waves%20of%20Disruption%20in%20Wholesale%20Distribution.pdf>

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