



Becoming a Best-Run Midsize Wholesale Distributor

Intelligent Capabilities Drive Differentiation

An IDC InfoBrief, Sponsored by SAP | June 2019



The Opportunity to Become an Intelligent Enterprise

As wholesale distributors continue to adapt to the digital economy, they are looking for new and more efficient ways to drive revenue, empower employees, and respond to customer needs.

Companies of all sizes are moving to become “intelligent enterprises,” and many midsize wholesale distributors are leveraging digital transformation to leap ahead of larger competitors.

Midsize businesses make up a more significant percentage of wholesale distribution than in any other industry, but the market is shifting from just selling volume to providing differentiation through value-added products and services, embracing new channels, and offering externally-focused solutions.

78% of wholesale distributors have a goal to create new business models and revenue streams.

Key Challenges for the Midsize Wholesale Distributor



The “End of Specialization”

Distributors are moving to a broader product and services portfolio—e.g., from plumbing to electrical to HVAC.



Appealing to a New Set of Customers by Building for the Future

Competition now comes from new sources, such as home improvement centers, direct from manufacturers, and, of course, from online sellers.



Investing in Talent and Capabilities by Making an “Old” Industry New Again

Distributors must find young bench strength for the future.

Best-run wholesale distributors leverage technology and empower employees to focus on higher-value tasks, improved decision-making, and the ability to move opportunistically into adjacent markets.

Changing Industry Landscape Shapes Business Priorities

Being best-run in the wholesale distribution industry means throwing off the burden of home-grown legacy technologies and being clear on appropriate strategic direction.

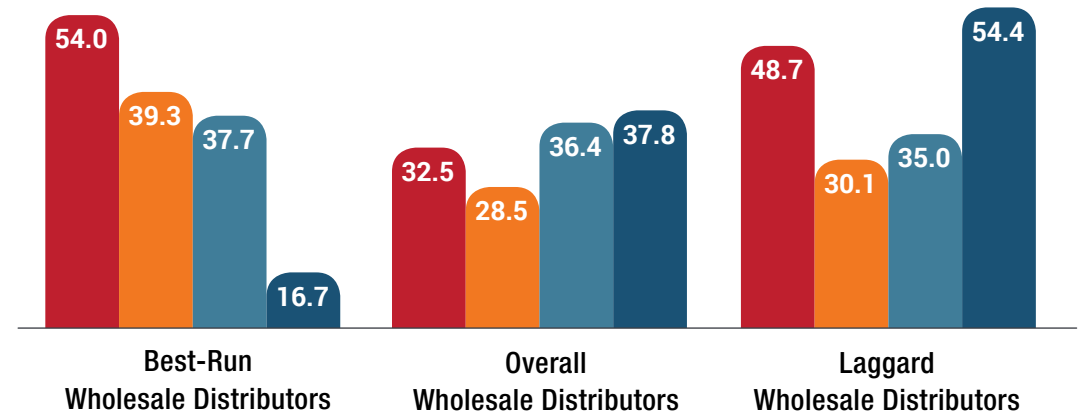
Best-run midsize wholesale distributors are generally good at taking advantage of risk by better managing their often-limited resources and clearly understanding both their current and future customers' needs.

Even for best-run companies, finding talent and people with the right skills is a problem—indeed, it is an industry-wide problem.

The most fundamental challenge is finding a way to differentiate themselves to customers in the face of new and varied competitors—both from within wholesale distribution and from adjacent industries.

Business Priority	Best-Run Wholesale Distributors	Overall Wholesale Distributors	Laggard Wholesale Distributors
Employee Productivity	39%	28%	29%
New Revenue Streams	38%	24%	20%
Business Transformation	34%	23%	10%

What Are the Current Pain Points Your Company Is Experiencing? (%)



- Lack of appropriate skills and talent (recruitment and retention)
- Inability to put appropriate financial controls and practices in place to adequately run the business
- Setting appropriate strategic direction and strategy
- Reducing business risk/meeting regulatory requirements

At the heart of these pain points is the need to redefine the role of the company in a turbulent industry landscape. The changing needs of customers and the expectations for new revenue streams are redefining business capabilities.

Technology as a Growth Enabler

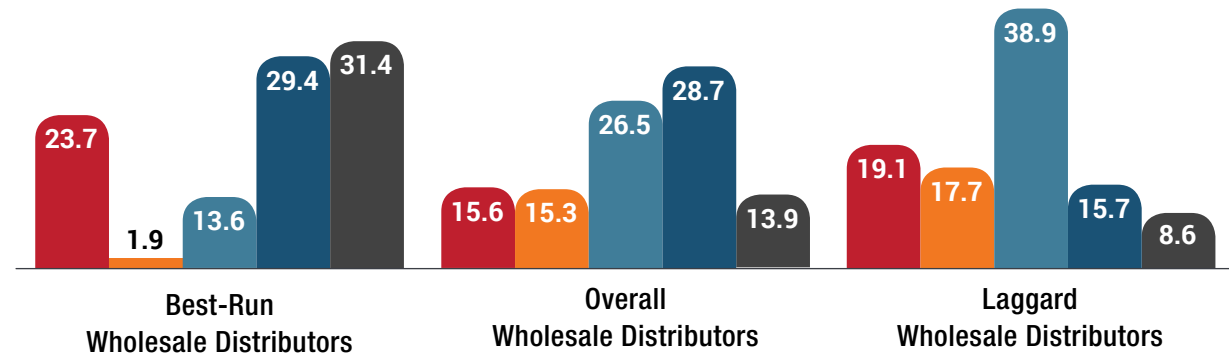
Wholesale distribution has historically lagged other industries in the adoption and use of technology. Digital transformation offers the industry the opportunity to change this paradigm. Early progress suggests that wholesale distributors are embracing transformation.

69% of wholesale distributors agree that the adoption of new, disruptive technologies can provide their business with a competitive advantage.

Digital transformation offers wholesale distributors the opportunity to change this paradigm; particularly for midsize companies to both leapfrog their larger competition and other industry segments.

Best-run wholesale distribution companies are dramatically ahead of the overall industry in their transformation efforts. They are therefore able to take advantage of new revenue opportunities that have only become possible with the development of modern technology.

Progress in Digital Transformation (%)



- We have done little to no work in applying technology to enable us to transform or capture new opportunities in today's environment
- We are beginning to automate different functions but not in a coordinated fashion
- We are at an early stage in coordinating and automating different activities within operating areas but have more work to do
- We are well underway in applying technology to connect people, devices and businesses in the way we conduct business in our markets
- We have gone beyond integration and now derive real-time insights to drive optimizations in processes and workflows

Technology Must Be Viewed Through the Lens of a Broader Customer Base

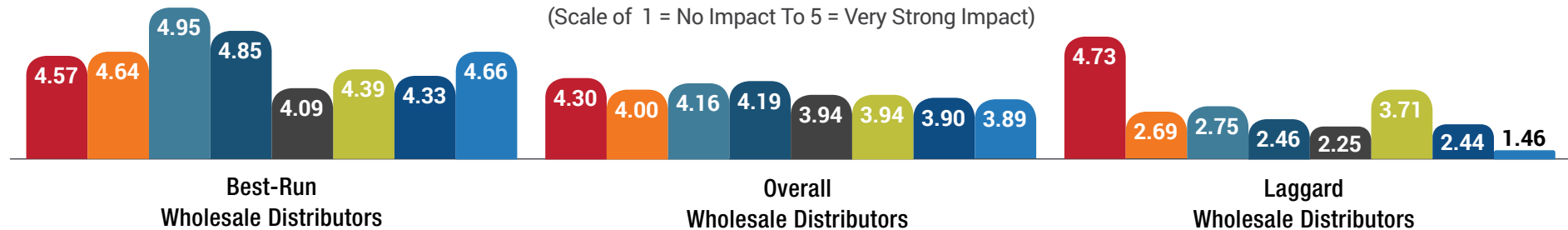
Best-run wholesale distributors consistently understand that technology enables employees to improve business performance—but also to transform business models and drive sustainable competitive advantage.

Wholesale distribution transformation is ultimately about the ability to meet the expectations of a broader customer base through either existing or new business offerings. For best-run companies, visibility and agility underpin this transformational effort. Automation is the largest gap for wholesale distribution companies aspiring to be best-run. Best-run midsize wholesale distributors are generally satisfied with their IT capabilities—no single or obvious gap is apparent. They are, in all cases, demonstrably superior to the industry laggards. Best-run firms’ ability to support business innovation positions them to better and more quickly exploit new business or market opportunities.

Foundational Principles	Best-Run Wholesale Distributors	Overall Wholesale Distributors	Laggard Wholesale Distributors
Adoption of new, disruptive technologies can provide our business with a competitive advantage	99%	69%	34%
We are striving to improve connectivity and engagement across the workforce	94%	81%	69%
Our goal is to create new business models and revenue streams	98%	78%	53%

Which Technologies Are You Using to Enable Innovation?

(Scale of 1 = No Impact To 5 = Very Strong Impact)



Differentiation Through Data Intelligence and Harmonization

Best-run midsize wholesale distributors are fully aligned in terms of both understanding and delivering the right metrics for business growth and performance versus laggards that are poorly aligned.

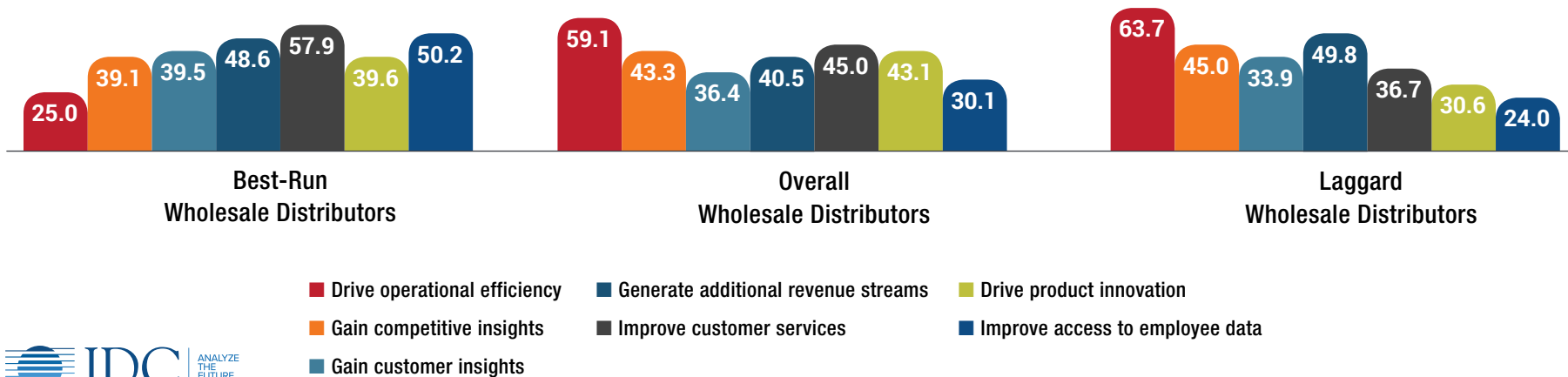
Although as an industry, wholesale distribution remains overly focused on operational needs rather than thinking strategically, best-run companies are breaking from this paradigm. Data intelligence for them is about driving customer services and new revenue streams.

This focus makes them more nimble and better balances the operational realities of cost and profit with the competitive and customer insight necessary to drive growth.

Process and data standardization and harmonization are top priorities for best-run wholesale distributors, which are working to eliminate data silos and share insights across the company.

59% of wholesale distributors say that data helps achieve company goals by driving operational efficiency.

How Does Data Support Your Business Goals? (%)



Improving Innovation: Central to Future Industry Success

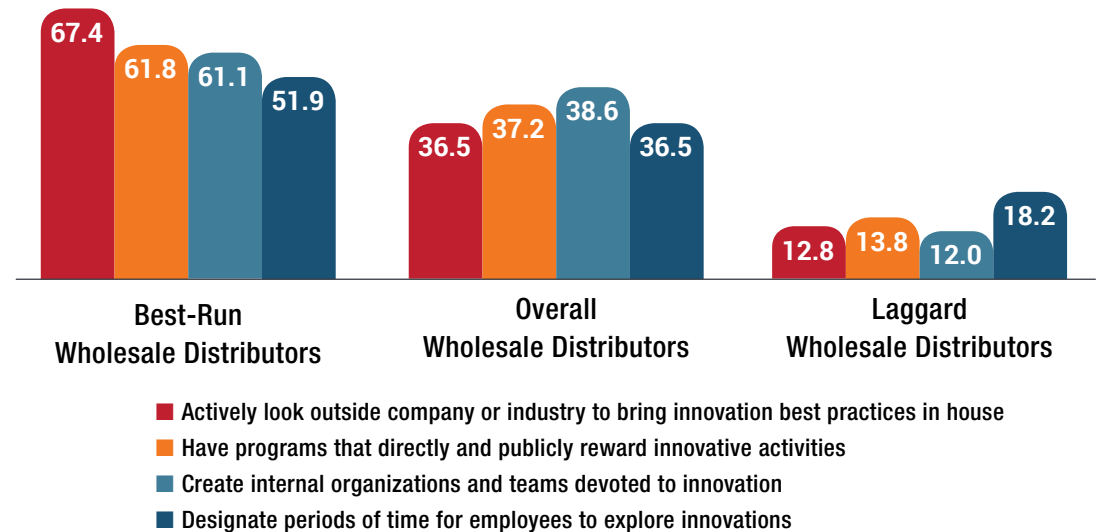
Wholesale distributors have not traditionally been a source of innovation in the ecosystem in which they operate. But as the industry looks for ways to derive new sources of growth, they must be able to offer innovative products, services, or new business models.

100% of the best-run wholesale distributors say they use innovation either well or very well to meet their organizational strategy and objectives. Less than 8% of lagging companies in wholesale distribution say the same thing.

Midsize wholesale distributors must focus broadly to raise their game on innovation. Best-run companies are more focused on ensuring that employees feel empowered and rewarded for their ideas and efforts.

Best-run wholesale distributors are superior to laggards in product and services innovation, particularly in areas likely to be the most fertile sources for new ideas—i.e., looking outside the immediate company or empowering customers and employees.

How Does Your Company Enable Or Promote Innovation? (%)



Best-run midsize wholesale distributors outperform their lagging counterparts and distributors overall across the most important dimensions of innovation. There is an organizational and cultural focus on incubating the innovation process.

Investing in Talent and Capabilities by Making an “Old” Industry Interesting Again

Best-run midsize wholesale distributors are more likely to focus time and resources on retaining existing talent and attracting new bench strength for the future.

- Wholesale distributors designate periods of time for employees to explore innovations (best-run **52%**; overall industry **37%**).
- Skills and talent shortages are an industry problem.
- **73%** of best-run wholesale distributors actively use talent management software, versus **57%** for the overall industry.
- **82%** of wholesale distributors are striving to empower employees with process automation.
- Only **1-in-5** best-run companies cite a lack of insight into customer/employee behaviors and preferences, versus **33%** for laggards
- Being best-run improves the employee experience – **70%** of all wholesale distributors believe this.

Foundational Principles	Best-Run Wholesale Distributors	Overall Wholesale Distributors	Laggard Wholesale Distributors
We are striving to empower our employees with process automation	4.6	4.2	3.2
We are striving to improve connectivity and engagement across the workforce	4.9	4.3	3.7
We are working to eliminate data silos and share insights across the company	4.8	3.9	3.1

(scale of 1=strongly disagree and 5=strongly agree)

Delivering/supporting resources anytime, anywhere to enhance worker productivity and effectiveness is 60% for the best-run companies, overall 39%.

Identifying and Addressing Key Challenges

The ability to meet and exceed the expectations of a broadening customer base is the hallmark of a best-run midsize wholesale distributor. If you don't satisfy the customer with experiences in a way that differentiates you from your competition, you are not going to be successful. The best-run businesses recognize this.

Best-run companies also recognize the critical importance of clear organizational roles and the processes and procedures that support those roles. They also better appreciate the drag that legacy systems can have on both process innovation and the ability to support new business models.

For most midsize wholesale distributors, the lack of a unified database across all constituents is a problem—something the best-run companies have largely solved. A unified database means a “single version of the truth” for critical customer, supplier, and employee information.

The most important ways wholesale distributors can support the journey to be a best-run enterprise:

- Broadly validated (customer, supplier, employee) strategic direction – 45%
- Ensure IT and lines of business are working together to put the right technology infrastructure and application tools in place – 39%
- Empower staff to do whatever is necessary to ensure customer satisfaction – 33%

Best-run wholesale distribution companies continue to leverage intelligent technologies to identify and adapt to challenges. By reviewing and adjusting their business models, they are able to grow revenue and differentiate themselves in the market.

Foundational Principles	Best-Run Wholesale Distributors	Overall Wholesale Distributors	Laggard Wholesale Distributors
Lack of insight into organizational processes and procedures	57%	33%	28%
Legacy systems and processes that are not modernized	47%	30%	28%
Lack of clarity over organizational roles	31%	28%	20%
Siloed organization and business units inhibit creation of a unified, consistent customer experience	30%	31%	26%
Lack of clear ownership over key aspects of the customer/employee experience	29%	25%	22%

To midsize wholesale distributors, being best-run means:

- Having improved workflows and efficiency while freeing our organization to focus on higher value-added activities.
- Having engaged and empowered employees who can provide a better experience to our customers.
- Being better positioned for success in the digital economy from both a technology and business process perspective.
- All these things will correlate highly with future success.

Methodology

IDC conducted a worldwide survey of 1,957 midsize companies with 100-1,000 employees (among them, 330 respondents from wholesale distribution companies) to identify key factors associated with business success and progress towards becoming a best-run, digitally-engaged company.

For each respondent, IDC collected business KPIs including revenue growth, profitability, customer satisfaction, and employee productivity. IDC analyzed the correlations between these business success metrics and respondents' IT policies and behaviors to determine best practices for IT digital transformation, which provided the basis for determining the four intelligent-enterprise maturity categories.

The respondents were categorized into four groups based on their performance: laggards, survivors, strivers, and best-run. Best-run midsize companies are achieving:

- 8x greater revenue growth than that of laggards
- 7x customer satisfaction improvement compared to laggards
- 8x greater profit growth than that of laggards
- 4x greater employee productivity than that of laggards

Sponsor Statement

As a market leader in enterprise application software, SAP is at the center of today's business and technology revolution. SAP helps streamline your business processes, giving you the ability to use real-time data to predict customer trends across your entire business.

SAP applications and services enable more than 250,000 small and midsize companies to operate profitably, adapt continuously, and grow sustainably. SAP provides pre-integrated software components with embedded intelligence, enabling companies to stay lean, automate, optimize, and become a best-run business. Our solutions are designed to deliver value right away and to scale for future growth. And offer deep industry expertise – with built-in best practices for 25 different industries.

SAP solutions help you take complexity out of running your business, so you can focus on growing your company. No matter where your business takes you, SAP is an innovative, trusted provider partner you'll never outgrow.





Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-insights-community.com
www.idc.com

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Copyright Notice

External Publication of IDC Information and Data — Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Vice President or Country Manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason.

Copyright 2019 IDC. Reproduction without written permission is completely forbidden.