

The Transformation Mindset: How Distributors Are Rethinking Digitalization and Sustainability



When it comes to how midsize wholesale distributors measure, manage, and improve their business processes, there has been little change over the last decades. The usual factors are ever present on these distributors' agenda – particularly increasing efficiency, reducing cost, fending off competitors, and seeking new markets.

But a new survey from the SAP Insights research center shows that senior industry leaders are adjusting their approach to business transformation. In addition to growing revenue and efficiency, they are also operating more sustainably and adapting faster to mitigate emerging risks and seize new opportunities. More important, respondents revealed the priorities, opportunities, and threats that they're considering now and for the near future, as well as their transformation plans for elevating their profitability and competitiveness.

Setting sights on revenue

When asked to name their organizational priorities now and beyond the next 12 months, respondents reported both expanding to new market segments and increasing product and service sustainability as equally most important. Improving brand recognition and reputation and the customer experience are close behind (see Figure 1 for the top five priorities). And all these priorities are expected to remain relatively the same beyond the one-year horizon.

This finding suggests that sustainability is a key, albeit new, strategy for growing revenue among midsize distributors. In fact, it ranked among more traditional strategies, such as increasing sales from existing customers (32%), introducing new products and services (31%), and establishing new business partnerships (29%).

Sustainability in the wholesale distribution industry is based on trust. Distributors must serve their customers, as well as their customers' consumers, in ways that are consistently relevant and reliable. If the right products are not listed or services are not

offered, the distributor ends up offering a highly commoditized offering that can be purchased from another competitor, ultimately shifting demand elsewhere.

Fortunately, midsize distributors still have a considerable advantage over their larger-scale counterparts. They have a greater capacity to integrate with their local community and leverage connections and relationships that are more organic and trustworthy on the customer and supplier side of the business. As a result, brand recognition grows stronger, building a distributor's reputation as a go-to partner for products and services that no one else in the industry and adjacent markets can deliver.

Lower on the list are expanding geographically (28%), introducing new business models (23%), and acquiring existing businesses (16%). The lesser focus on these three topics is due to the recent shift from face-to-face, personal interactions to digital engagements, making acquisitions, mergers, and regional expansion less effective in driving growth. Customer loyalty is more challenging to acquire and maintain now that buyers can move to new distributors without penalties and with greater ease.

Figure 1
Top Three Priorities for Improving Revenue Growth

What are your organization's top three priorities to improve revenue growth?

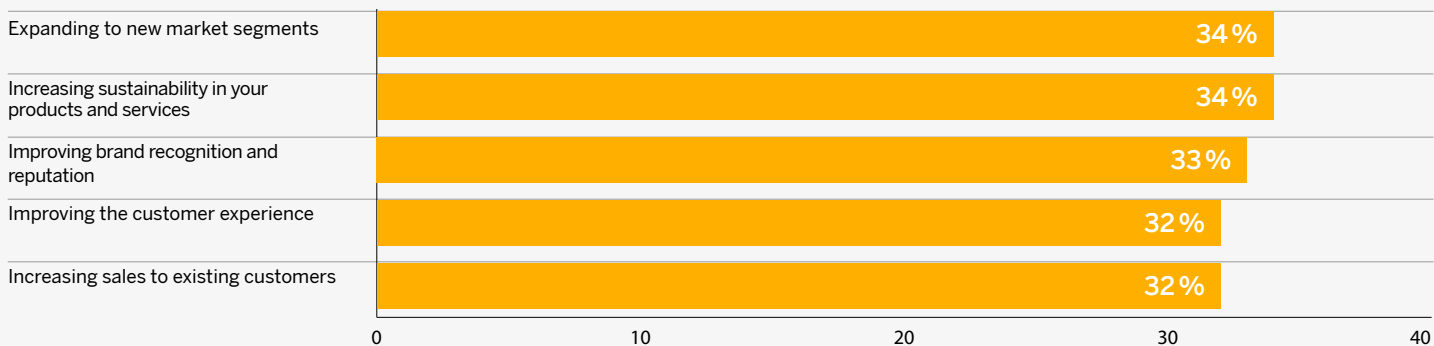
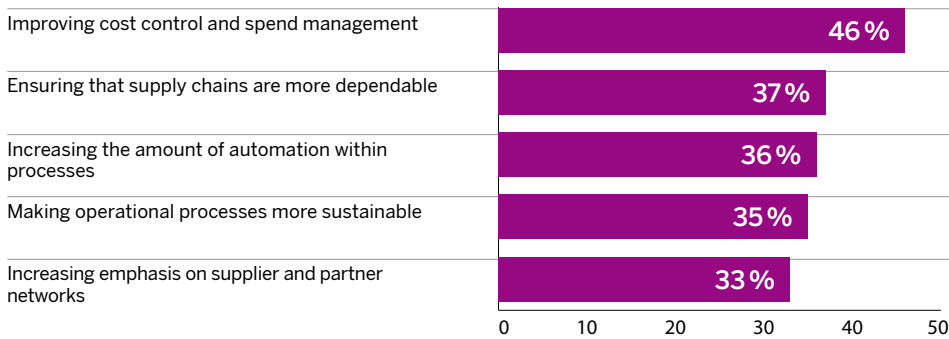


Figure 2
Top Three Priorities to Improve Efficiency

What are your organization's top three priorities to improve efficiency?



Taking on efficiency drivers

To respond to competitors, the business leaders in our survey are focused on efforts that directly impact their bottom line and business value. For example, respondents saw improving cost control and spend management (46%) as their top priority to improve operational efficiency.

Ensuring supply chains are more dependable was cited as a second priority (37%). This approach helps distributors remain relevant by securing supply for their customers. Doing so creates a brand reputation based on a foundation of product and service reliability, supplier and partner networks, and supply chains that are closer to customers.

They also look to increase the degree of automation (36%) to grow without hiring additional staff. By leveraging robotic process automation, organizations can transform request-for-quotation processes

with unstructured data to quickly turn around quotes that help ensure an increase in cart conversion.

Respondents also cited obstacles that prevent them from optimizing their efficiency through business transformation. Among these obstacles is the inability to increase the flexibility necessary to adapt better to change. Furthermore, it was reported that process improvements are hindered by inflexibility and lack of internal and external collaboration. At the same time, line-of-business leaders in all areas indicated concern over deficits in their interconnectivity with other departments, such as customer service, sales and marketing, supply chain, and procurement.

Sustainability Viewed as a Key to Revenue Growth

Our survey shows that sustainability has risen to the top ranks of the business-priority lineup. Across the board, midsize distributors are incorporating sustainability directly into the strategies they create. And sustainability has also been identified as a major factor in the decisions they make to drive revenue growth and increase efficiency. This represents a significant shift in priorities.

Survey respondents viewed sustainability as a core revenue generator equal to traditional drivers such as introducing new products and services and improving customer experiences. But leaders are also prioritizing sustainability in their efforts to run more efficiently, as well as leveraging conventional methods such as cost control improvements and process automation. In addition, business leaders are connecting sustainability to their overall innovation strategy – with product, service, and technological innovation ranked as top priorities.

Another driver of sustainability is regulatory compliance. With margins averaging between 0.5% and 1.5% industry-wide, and as distributors seek to adhere to regulations, they must track the possible negative impact on cash flow of sustainability-related investments.

The bottom line: Sustainability is now an essential element of the bedrock activities of growing revenue, increasing efficiency, and sparking innovation. Increasingly, customers request a “green” catalog of products and services that help them lower their carbon and emissions footprint. For example, food distributors are expected to include local products that impact the environment as little as possible, while industrial distributors are asked to offer safe and compliant disposal services for items containing dangerous chemicals or hazardous substances.

Focusing on risk from a more contemporary view

It's no longer enough for midsize distributors to think about traditional risk areas, such as thwarting existing competitors or protecting against new market entrants. Instead, these factors have been pushed aside by threats rooted in current emergencies, such as cyberattacks, resource shortages, and climate crises.

In the near term, leaders are focused on strengthening their supply chains against fragility (46%), protecting against cybersecurity attacks (40%), and avoiding damage to their brand's reputation (39%). But more telling of the times is the range of contemporary risks included in their list that have become more pressing in recent

years (see Figure 3). Survey respondents reported focusing on mitigating talent shortages, reducing their reliance on finite resources, and addressing burdens posed by data regulations, new market entrants, and traditional competition.

By increasing their focus on more recent risks, distributors are acknowledging that their business is changing far more rapidly than in the past. Supply chain fragility, cybersecurity breaches, and poor brand reputation can force companies to close their doors forever, sometimes with little to no notice that a problem existed in the first place. As a result, businesses must be vigilant, taking an active and proactive

approach to those risks, as well as focusing on sustainability, talent development and retention, and ensuring a continuous flow of the right supply levels.

In terms of longer-term global risks, distributors put fear of economic stagnation well ahead of cybersecurity breakdown and employment crises. Executives expect their business operations to be impacted by the ripple effects of an expanding landscape of economic and societal concerns, including global shortages of natural resources, climate change, and infectious disease outbreaks (see Figure 4).

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Figure 3
Top Priorities for Reducing Risks

What are your organization's top priorities to reduce risk?

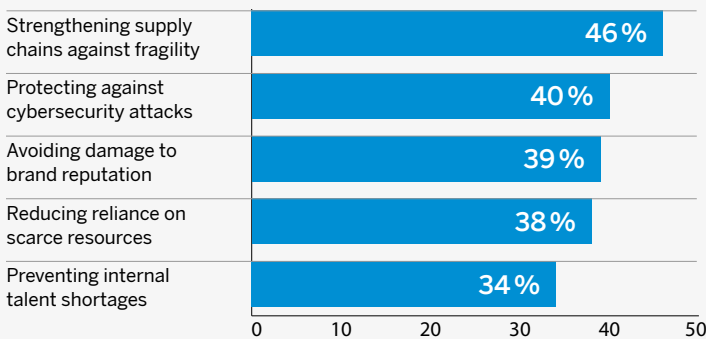
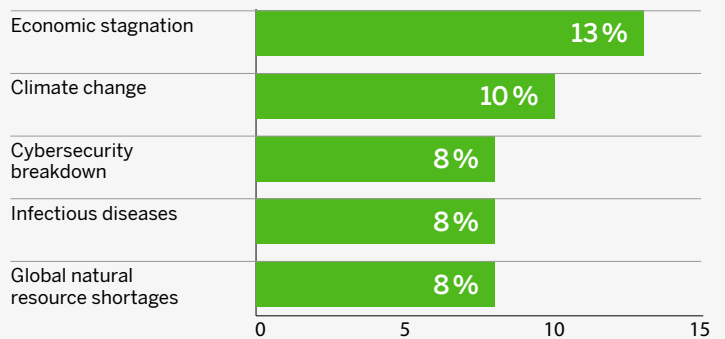


Figure 4
Future Global Risks for Which Organizations Must Prepare

Which of these future global risks will your organization need to prepare for?



Signaling a need for process improvement

Surveyed distribution leaders recognize that their organization's digital transformation is critical to help increase business performance today, better respond to future risks, and remain competitive. In fact, nearly 90% see a positive relationship between their own performance and their organization's transformation.

Nearly half of respondents claim to have made progress, achieving digital transformation in certain areas, as planned. However, the constant introduction of new industry risks and expectations is compelling almost 80% to consider their journey as not ending anytime soon. The survey findings also do not portend good things for companies that haven't already started transforming – most of them expect to make very little progress two years from now.

Looking ahead, participating leaders view technological innovation (80%) as their top priority in the next three to five years. Innovation

around products, services, sustainability, and digital experience also made the list. This forward-looking trend indicates that distributors are seeking critical process improvements. Such improvements include matching supply needs with market demand and supplier capacity, growing expectations for supply chain transparency, and gaining real-time access to tracking information, tracing of material flow, and product availability.

The technologies most sought by businesses reflect the recent hardships of the pandemic, rising competition, and cybersecurity incidents. To transform their processes, these businesses are investing in a range of technologies, including cloud computing (84%), cybersecurity infrastructure (76%), and collaboration tools (71%). Automated business intelligence dashboards, robotic process automation, and business process intelligence also rank highly.

Recommendations

In a turbulent period of increased global risk, respondents from the wholesale distribution industry emphasize the importance of boosting revenue and efficiencies while continuing to enhance innovation. To make more progress on transformation, which they see as critically linked to their business performance, senior leaders need to further improve business processes, flexibility, and interconnectedness.

Senior executives from midsize wholesale distributors understand that sustainability is a core business priority that helps grow revenue, increase efficiency, and lead to new innovations. But to counteract future risks

and remain competitive, they also need to focus on processes that are flexible, collaborative, and interconnected.

Unfortunately, most firms still struggle with the immediate challenges of supporting employees who need to work remotely and securely, as well as preparing more effectively for cybersecurity threats. Distributors that transform themselves proactively meet such challenges confidently and become well positioned for future growth opportunities and risk mitigation.

While many evolutionary changes may seem cost-prohibitive, failing to embrace them quickly and profitably is extremely

risky. Midsize distributors should consider investing in their digital foundation – including data harmonization, integration, standardization, business process documentation, and architecture clean-up – to lay the groundwork for managing disruptive changes with greater ease.

Since midsize distributors operate with a smaller risk buffer than their larger competitors, they need to also closely monitor the technologies their market leaders deploy, the partners they employ, and the practices they keep, adjust, and innovate. Doing so will result in better business performance today and allow them to remain competitive in the future.

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About This Research

The SAP Insights Midmarket Senior Executive Priority study collected data from 10,507 executives from companies with annual revenues of less than US\$1 billion across 41 markets and 28 industries. Respondents possessed the highest level of line-of-business responsibility and oversight, with titles ranging from director to chief officer. The surveys were conducted from September 2021 through December 2021, with a 10-minute online survey used to collect the data.