

Survey Analysis

Sales channels being used in the distribution industry are undergoing a change. Less than 8 percent of managers and executives responding to the survey report that they expect any growth in the “hands-on” aspect of the business, that is, where a customer deals with a salesperson directly. The rest of the growth is expected to be in areas where technology is key.

Despite this identified need and the threat of disruption by outside participants, the distribution community does not seem to be aggressively embracing digital strategies. The proportion of respondents (just over 30 percent) who cite the adoption of a comprehensive technology strategy by their firm is the same as in a previous survey conducted by MDM in 2015. There appears to be a general approach of technology upgrades or tweaks, with a small amount of innovation.

Of concern is the lack of planned investment in technology beyond a 12-month window. The survey shows that less than 20 percent of companies plan to invest in key technology areas in the future, including ERP, WMS, CMS and mobile. We would classify most of these as established technology, i.e., those that have existed for some time and whose value, and cost, to businesses are generally well known.

In the area of innovative technology there is even less appetite for investment, with limited interest in GPS, artificial intelligence and mobile and virtually no interest in blockchain, drones, sensors on products or 3D printing.

The primary goal of current investments is customer focused, with 36 percent of respondents saying they seek to improve overall customer satisfaction and another 25 percent looking to provide additional value to customers. A further 25 percent say they are looking to improve operational efficiencies or profitability.

Companies report that they expect their touchpoints with customers to radically change in the next three years from the current focus on e-mail, telephone and website support; they expect a reduction in e-mail and significant increases in self-service support, including mobile access to inventory and order status.

Companies also recognize that the sales channels they are currently using are not the ones experiencing the most growth. “Online, self-service or on a computer” is identified as the largest expected area of sales channel growth.

Methodology

The results presented in this white paper are based on an online survey of industry participants conducted by MDM (www.mdm.com) in November 2018. This is a follow-on to a related MDM survey conducted in September 2015. MDM intends to continue doing these surveys on a periodic basis to help track changes in adoption of technology within the industry. MDM is the only specialized information business that provides high-level in-depth resources to executives who are in or serve the wholesale distribution industry.

The survey was completed in conjunction with Infor (www.infor.com), which builds complete industry software products in the cloud. These products offer last-mile functionality and scientific insights for select industries, including distribution.

Most survey respondents (65 percent) identified as wholesale distributors; 21 percent were manufacturers (this compares with 63 percent and 17 percent for the 2015 survey). The remainder identified as hybrid models or as Other, including service providers to distribution and manufacturing.

Most distribution sectors were represented, including Industrial (26 percent), Building Materials & Construction (12 percent), Electrical (10 percent), and HVAC (9 percent). JanSan, Electronics, Fasteners and Fluid Power each had 5 percent.

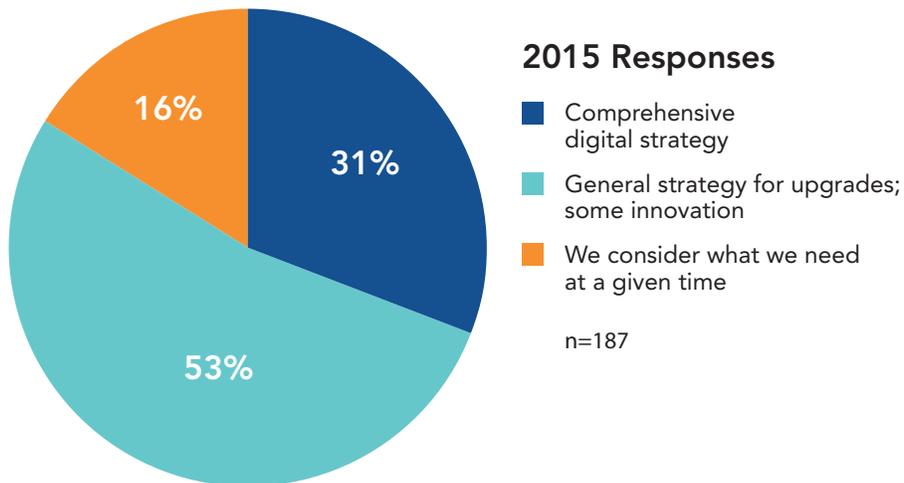
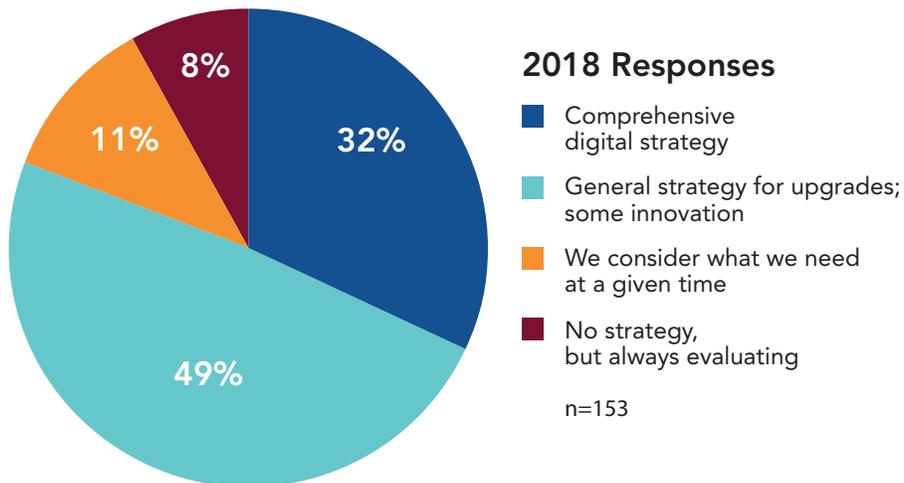
Size distribution of respondents was diverse, with 10 percent below \$2 million in annual revenues; 35 percent between \$2 million and \$50 million; 20 percent between \$50 million and \$100 million; 23 percent between \$100 million and \$500 million; and 11 percent over \$500 million.

The Results

Overall Digital Strategy

- The percentage of distribution companies who report having a comprehensive digital strategy is the same as in 2015
- Half of respondents report having a general strategy for upgrades, with some innovation
- Despite a constant series of product innovations and increasing disruption, distributors are making little progress in digitization

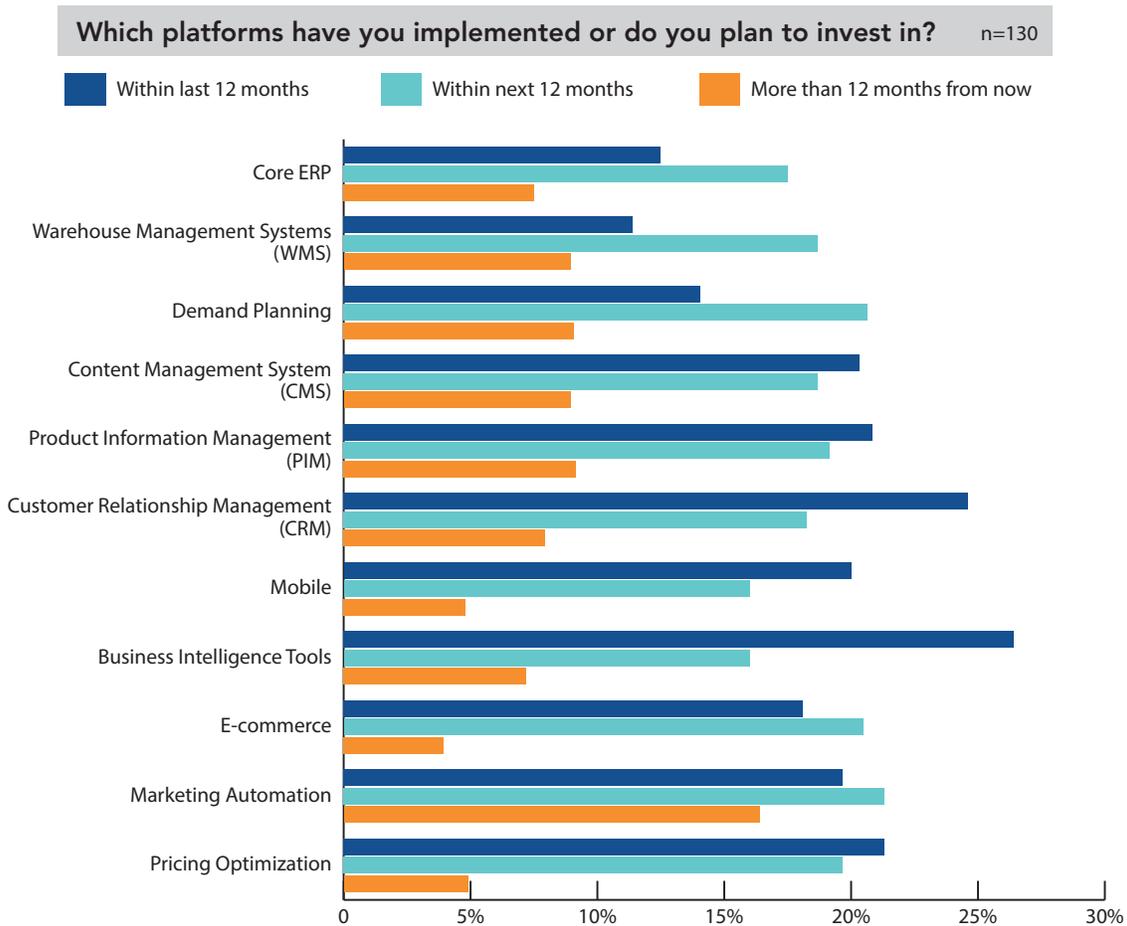
What approach does your company take with its overall digital or technology strategy?



Distribution's Looming Technology Crisis

The chart below shows industry investment in established business platforms such as ERP and CMS during the past year and for the immediate future. As can be seen, the overall level is low, with just one category breaking 25 percent in the past year and most significantly lower than that. Going forward the level drops off markedly, particularly as you move beyond the 12-month range. This creates concern that many companies are either complacent about their current technology position or are not devoting sufficient thought to developing it moving forward. Given the speed of the current changes and the rise of non-traditional competitors, this strikes us as unwise.

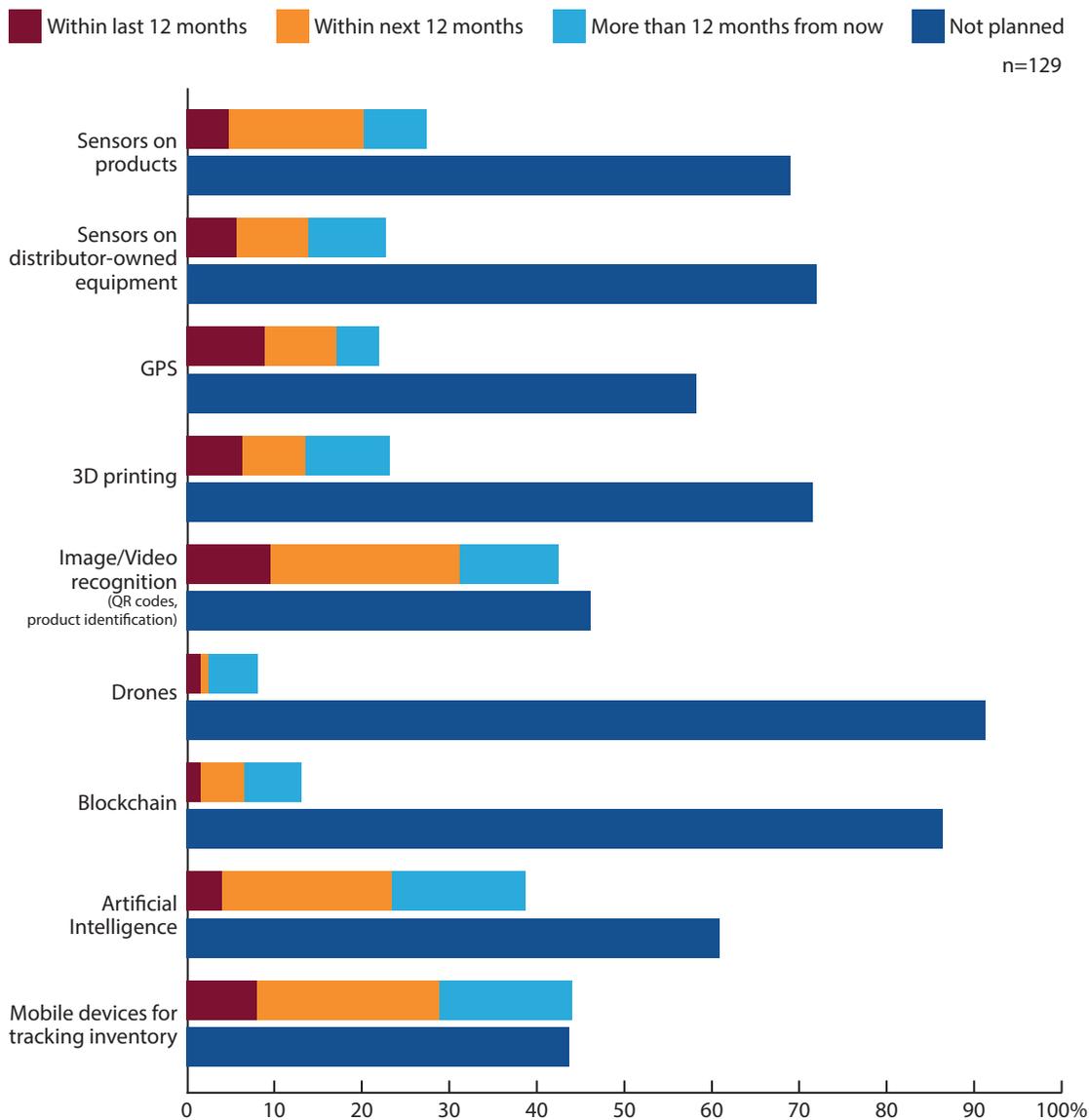
Based on conversations with clients, MDM believes that some of this is due to distributors having already made investments in e-commerce and not yet seeing a payoff. Some report that they are still working to integrate their e-commerce investments into their other operating systems. Others are waiting for a universal standard to be adopted by the industry. Some don't want to make the investment.



A follow-up question asked about specific investments in various innovative technologies. An innovative technology is defined as one that is relatively new, with less-defined costs and benefits than existing technologies such as those listed in the chart on page 5.

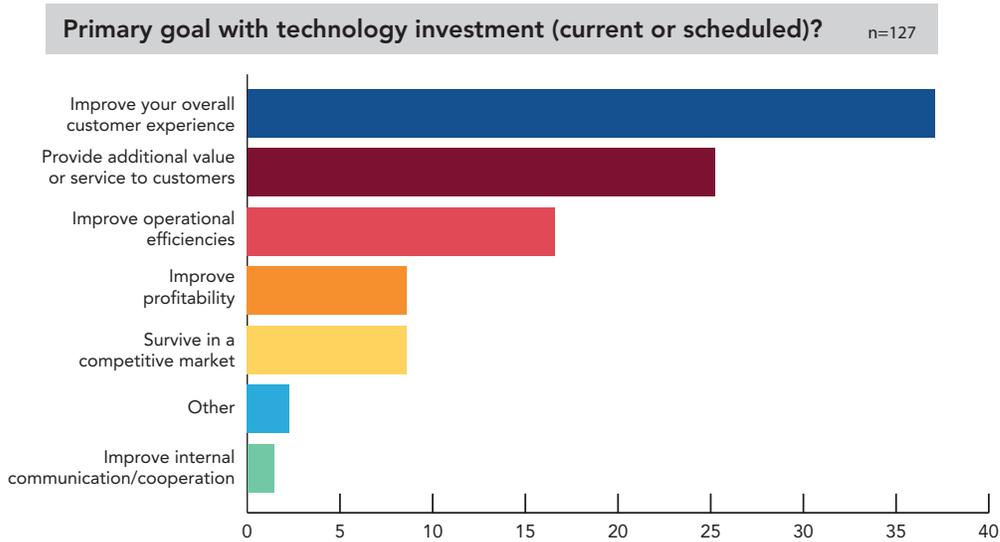
As can be seen, there is an overall lack of enthusiasm for investing in these technologies. Such interest as does exist is chiefly in image and video recognition, artificial intelligence and mobile inventory tracking.

Which innovative technologies have you implemented or do you plan to implement?



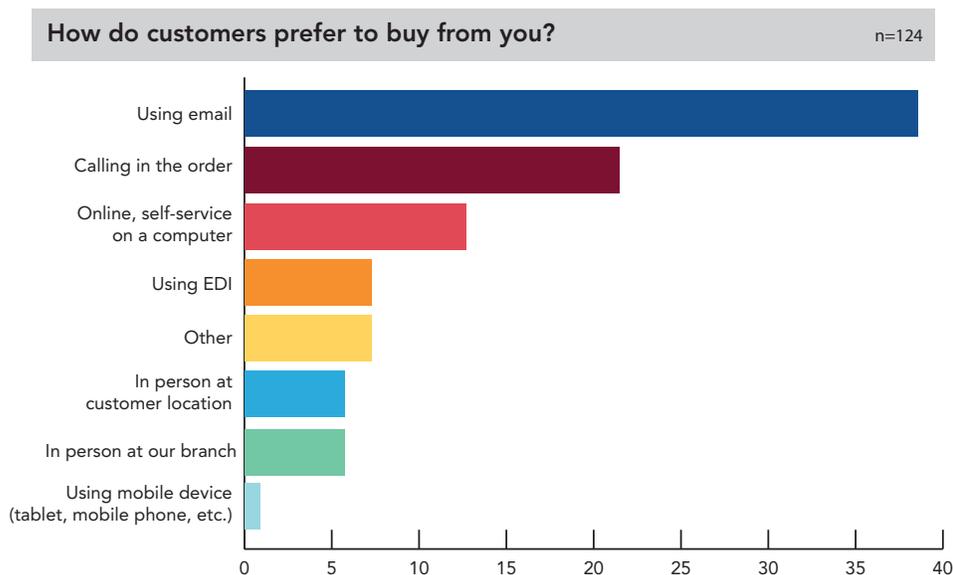
Customer Experience and Value

Over 60 percent of respondents indicated that their goal for technology investment is to improve the customer experience or to provide additional value to the customer. There is a lesser focus on gaining efficiencies.



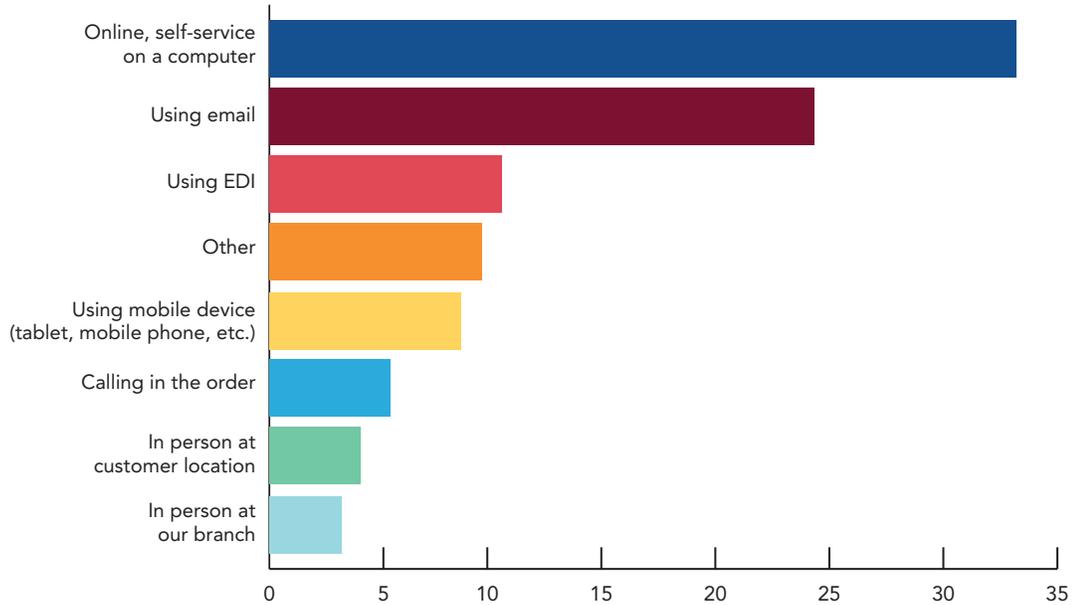
Responding to Customers Now and in the Future

The survey results show that e-mail, telephone and online are the top three sales channels preferred by customers. These three options combine for nearly 79 percent. However, the largest growth being experienced in sales channels is online self-service ordering (p. 8). Additionally, companies expect to migrate their investments into new areas of sales and customer service, especially self-service and mobile order tracking and inventory checking (p. 8).



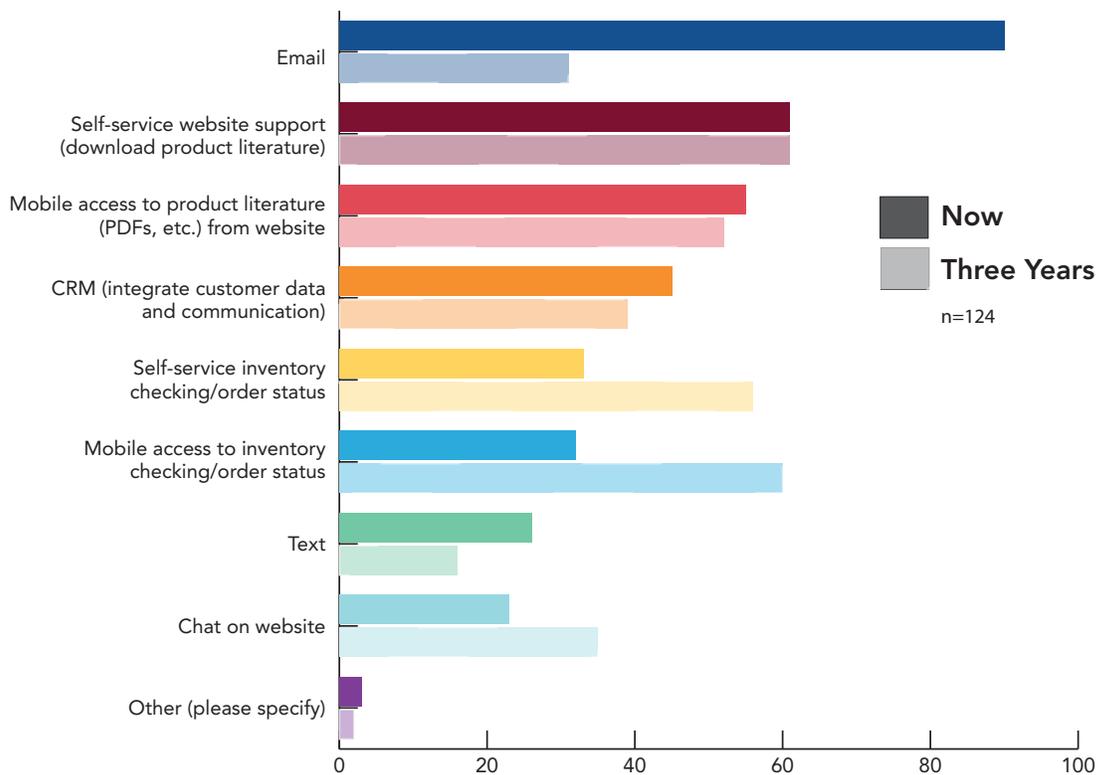
In which sales channel are you seeing the biggest growth?

n=123



Most important customer technologies (now and in three years)?

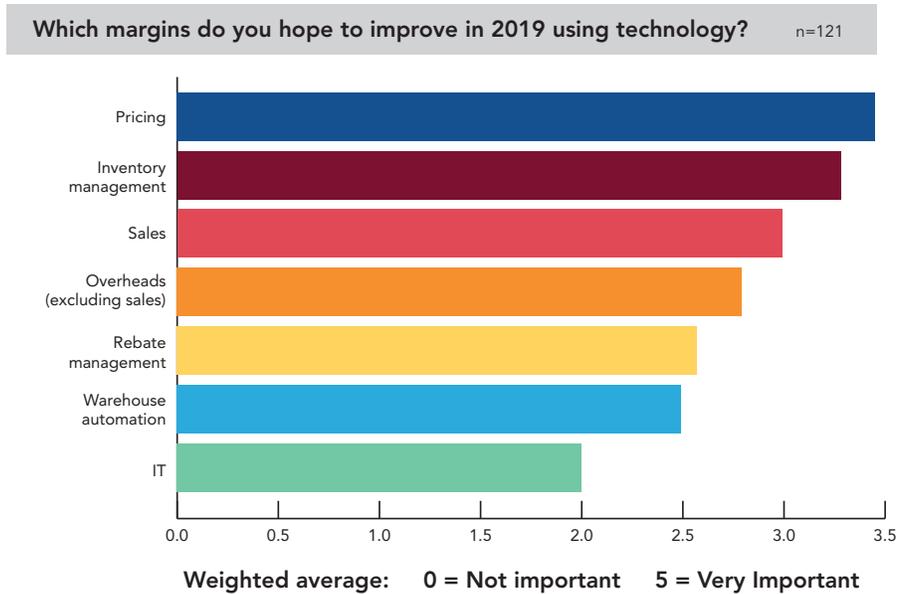
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Improving and Controlling Margins

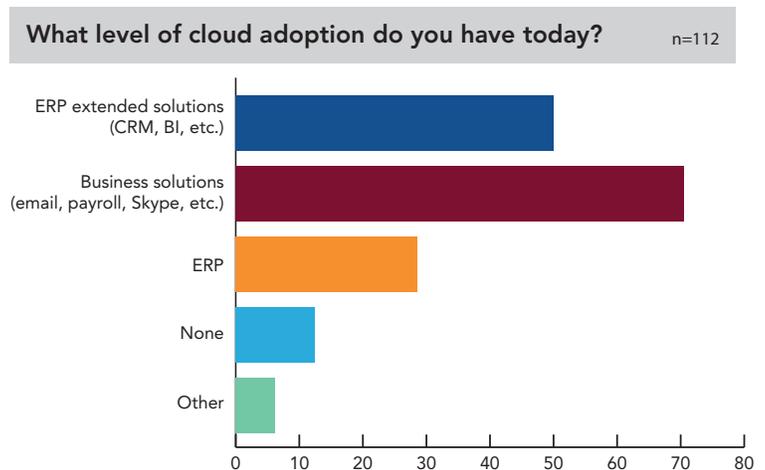
Despite the customer-centric focus of technology investments in the industry, one of the great promises of technology is to improve operating efficiencies. This often goes hand-in-hand with improved customer experiences and so the goals are not mutually exclusive.

Responses show that companies place a high degree of importance on pricing optimization, inventory management and cost control (including sales costs and overhead costs).



Usage of Cloud Services

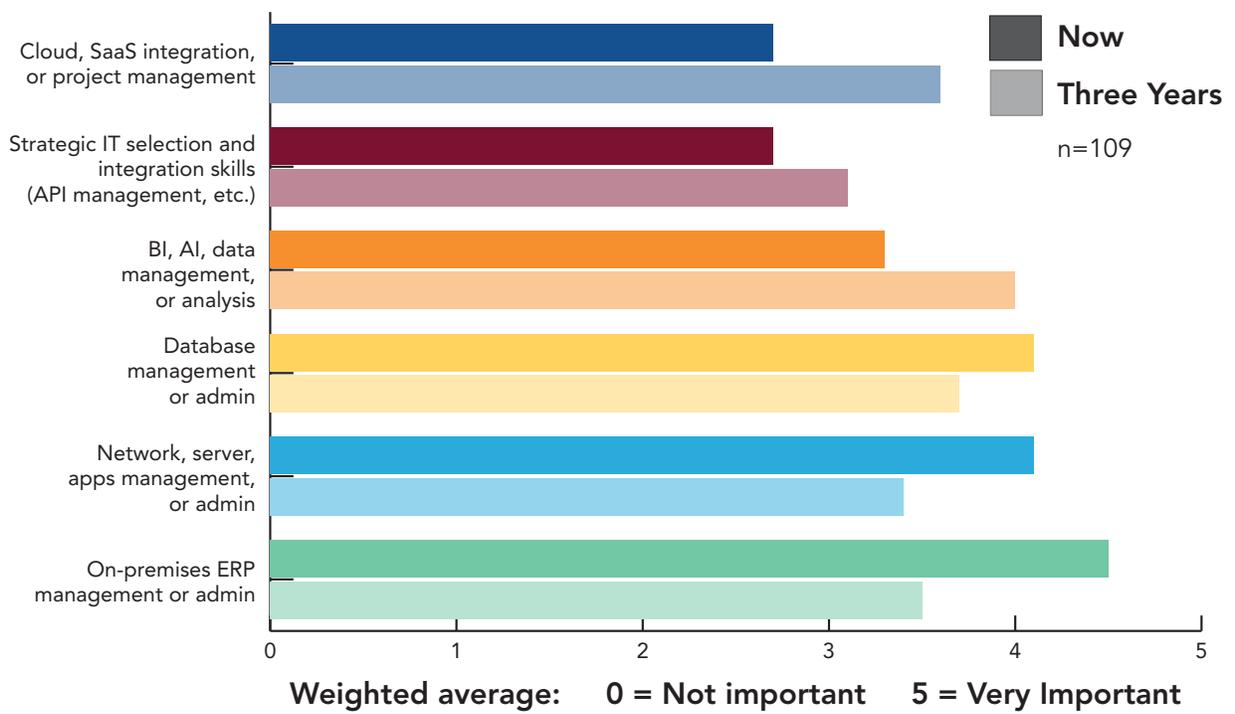
Implementing technology that is delivered via the cloud, rather than locally controlled and maintained, is typically very cost-effective and robust. The survey shows considerable adoption of cloud services for traditional technical applications such as CRM and ERP. General business solutions, including payroll and e-mail, also have a high cloud adoption rate (70 percent). In the 2015 survey, 86 percent said they would consider using the cloud for technology, which indicates that over the past several years many firms have switched to cloud providers for at least some of their business.



Most Important IT Skill Sets

The survey showed that companies use a variety of in-house and outsourced IT services. Responses indicate that traditional IT skill sets are becoming less important compared with strategic/cloud-related expertise. Companies are moving away from a self-funded in-house approach to technology and towards a more collaborative method, including outside consultants and vendors. We anticipate that skills sets will migrate towards cloud implementation, strategic technology and business intelligence/artificial intelligence. Parallel to this shift will come a reduced focus on in-house ERP and network database management.

Most important IT skill sets in your company (now and in three years)?



Conclusion

The technology needs of the distribution industry continue to evolve. From legacy in-house ERP and CRM systems, business is migrating to the cloud. The cloud is sometimes overhyped, but it can provide robust functionality that offers the latest updates and improvements automatically. Also, in the era of for-profit and for-sport hackers, cloud-based systems offer greater security and recovery potential.

Customers and clients increasingly expect high levels of technical sophistication and favor business partners that they have grown comfortable with via online purchases. Vast selection, real-time delivery tracking, optical recognition, competitive pricing, convenience of single orders accommodating a wide variety of products, financial flexibility and online reporting are all key components.

Personnel needs are also changing to employees who can provide a multitude of services, interacting with both technology providers and customers. A comprehensive technology strategy encompassing systems and personnel that can adapt to changing customer and corporate requirements is of critical importance for distributors, but we see little evidence that this approach is being adopted across the industry.

In fact, while the awareness of the needs and challenges is great, the level of investment in technology appears set to decline. Companies that believe they can compete effectively without a material investment in technology are likely to be poorly positioned in the future. These firms will face difficulties responding to existing competitors with a greater technology focus and new non-traditional entrants into the business.

The latter is of significant concern. New industry entrants are coming from a background where technology is the backbone of their business. Several are also significantly resourced with established systems and a large balance sheet. Firms in the distribution business who plan to compete by tweaking their resource allocation to technology might be at a disadvantage.



About Infor

Designed for progress™

Infor® is committed to being the market leader in wholesale distribution enterprise business applications. We build beautiful solutions with last-mile functionality and scientific insights. Infor provides our customers with what they need today and the innovation they'll depend on tomorrow.

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