

# Delivering Growth:

**How Wholesale Distributors can leverage technology and innovation to support their strategic goals**



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# Introduction

**Wholesale Distribution companies serve as pivotal intermediaries and logistic facilitators that ensure the continuous and uninterrupted flow of goods throughout the economy. Given the scale of their operations—consisting of inventory management, warehouse, supply chain optimization, logistics and transportation—midsize distributors could benefit from increased digitalization and deeper technological integration throughout their organizations. Yet few have explored this avenue in earnest.**

Oxford Economics, in collaboration with SAP, conducted a survey of 2,100 executives at midsize organizations—including 175 in the wholesale distribution sector—to find out what they are focused on for the coming years and how they are approaching robust technological solutions as a driver of comprehensive digital transformation.

According to the research, distributors are increasingly prioritizing growth as a strategic imperative. They have shown strong gains, with 89% reporting revenue growth and a considerable 60% realizing growth of more than 5% over the past three years. While this is encouraging to see, they could have trouble maintaining their growth if they fail to stay ahead with technology implementation and innovation.

## Prioritizing and Pursuing Growth

Like the other midsize companies in the survey, Wholesale Distributors have their sights set on continued and sustained growth. Many identified revenue growth and increased market share among their top objectives (Figure 1). Executives are looking to align these goals with their most pressing challenges. More than a third of respondents identified difficulties scaling operations to match growth as their top organizational threat over the next two years. Agility and innovation will be required to overcome this barrier to growth.

Another challenge is organizational resiliency. Midsize distributors were more likely to cite this priority than respondents in other industries (27% vs 20% survey average). With supply chains playing such a crucial role in their operations, it is no surprise that distributors have a sharper focus on staying nimble and adapting to risks as they arise.

**Figure 1: What are your organization's top business objectives for the next two years?**

*Select up to five; top 7 answers shown.*



As distributors look for ways to gain an edge, many are exploring and rolling out new initiatives and capabilities. Nearly half of executives ranked improved profitability of services (49%) or expanded geographic presence (42%) as ways in which they are seeking competitive advantages.

## How Wholesale Distributors are growing

Much of the company growth for the industry can be attributed to differentiation through deeper product catalogues and more sophisticated value-add services. Executives are shifting their thinking toward innovative new business models.

A number of respondents are focused on product and service innovation to further their growth and transformation goals. When asked about the strategic initiatives they are exploring to be more competitive, distributors ranked a variety of new service offerings as their top priorities (Figure 2).

Additionally, the path to growth for wholesale distributors includes a second approach. The industry is highly focused on mergers and acquisitions (M&A) to acquire new clients, shipping routes, and employees with in-demand skills.

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### How will you stay competitive?

“Sustain the stream of creativity by consistently unveiling fresh features, products, or services.”

— Chief Product Officer, Germany

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### How will you stay competitive?

“We plan to implement risk management strategies for our supply chain process.”

Direct report to Chief Purchasing Officer, South Korea

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#### Figure 2: What are your key strategic initiatives that will help differentiate your organization from its competitors?

Select up to three.



M&A is increasingly seen as an effective way of overcoming scalability problems. The primary benefits map closely to their priorities and risks. Half of respondents believe M&A would boost logistics efficiencies and help reduce their supply chain-related costs. Over half of executives also believe that M&A activity could facilitate business transformations by shaking up traditional business models and forcing a re-conceptualization of best practices. (Figure 3).

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### How will you stay competitive?

“We are considering migrating accounting systems and data to cloud platforms to improve accessibility, scalability, and cost-efficiency.”

— Chief Financial Officer, United States

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### Figure 3: In which of the following areas do you expect to see the largest benefits to occur after a successful merger?

Select up to three.



## Overcoming Technology and Talent Hurdles Through Innovation

Wholesale distributors are facing significant talent issues. More than a third of respondents identified an inability to find and retain the right talent to sustain operations as a top organizational risk. These issues could be linked to the fact that even the largest distributors lack broad brand awareness and are not known to prospective workers. Rather than following the traditional “recruit more workers” approach, distributors should look to leverage technology innovation to bolster employee efficiency. Automation and improved processes in both the front and back offices are key.

However, distributors were less likely than respondents in other industries to see value from automated processes (59% vs 70% survey average). The current state of their IT infrastructure may inhibit their efficiency and automation. When asked to evaluate the state of IT operations, respondents noted:

- **54%** - an inability to adjust or replan based on new information or shifting priorities.
- **54%** - an inability to scale processes and systems to match organic business growth.
- **50%** - a high reliance on manual, low-value tasks to work around deficiencies in legacy systems.

To mitigate some IT infrastructure issues, distributors can look to the cloud: an encouraging 79% of distributors have adopted cloud solutions, with nearly half indicating benefits in the form of optimized processes (45%) or reaching new levels of automation (37%). In addition, improved data integration is important to support transparent business processes and the functionality of technology solutions. Distributors cited “automating business processes across operations” (59%) as the top benefit of integrating data across their business.

Distributors must be deliberate in their approach when adopting new technology solutions. M&A activity means many distributors are working from disparate and fragmented systems. More than half have an ERP system in place (57%), but adopting a new, consolidated, and unified ERP platform may improve data integration and communication capabilities across acquired teams.

## Conclusion

Where automation, digitalization, and customer experience are concerned, the message is clear: distributors who do not digitalize operations to support a modern customer experience will find it difficult to differentiate and compete. Mergers and acquisitions will continue, but it is important to do it for the right reasons and with intent.

**Three key takeaways** for wholesale distribution executives:

1. Innovate services and implement new business models to capitalize on growth opportunities. This will help hedge against

Artificial intelligence capabilities may eventually help wholesale distributors unite systems and get the most out of their data, but adoption is currently low. Only 14% have fully adopted and are currently using AI/machine learning capabilities across their organization. They are, however, aware of its potential. They expect the biggest benefits to be:

- **81%** - supporting the rollout of new services, offerings, and business models—transforming how organizations provide goods and services to their customers.
- **77%** - transforming marketing and sales processes by optimizing pricing.
- **71%** - improving procurement and network management.

business risks and provide a path to organic growth and profitability.

2. Pursue mergers and acquisitions with purpose. Understanding technology needs and where those can be brought on quickly and efficiently will help address operational, customer, and talent needs.
3. Research AI use cases that fit distribution needs. Optimizing procurement, inventory tracking, and resource allocation can all benefit from AI—and determining which applications fit in which business functions will make all the difference.

## Take the next step

Please contact your SAP partner to learn how SAP technology can support your growth.