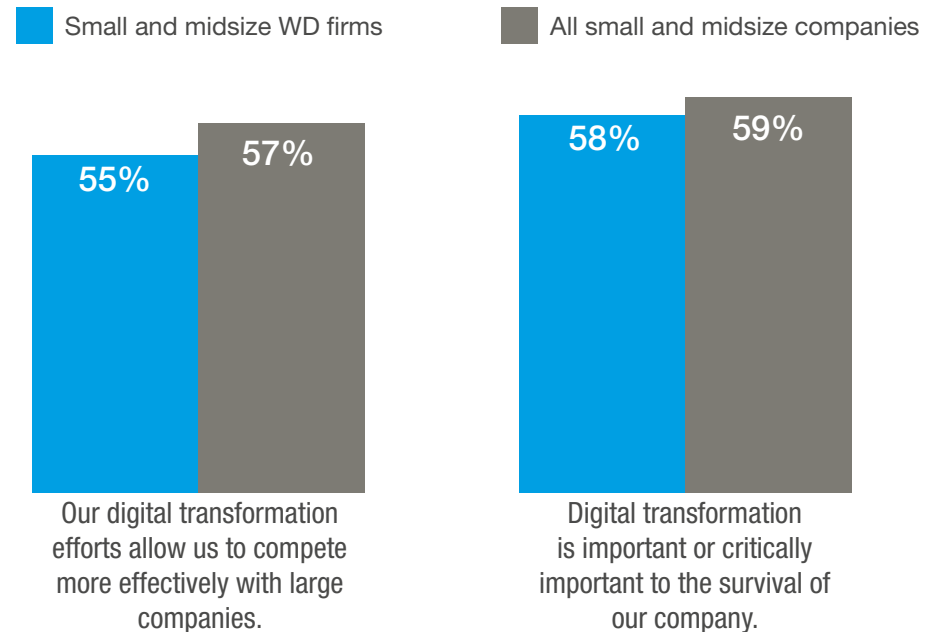


The Transformation Imperative for Small and Midsize Wholesale Distribution Firms

Technology is transforming the way small and midsize organizations do business. Wholesale distribution (WD) companies are subject to the same pressures, and see the same opportunities, as other businesses. The industry has been slower than most to adapt to new technology, but emerging digital tools—particularly the Internet of Things, analytics, and mobile—could give WD firms the opportunity to increase efficiencies in logistics and operations, offer tailored experiences for customers, and improve visibility into the supply chain.

Our global, cross-industry survey shows that wholesale distribution companies with less than \$1 billion in revenue are committed to digital transformation and optimistic about the payoffs they will see from their efforts in the next two years. Although small and midsize WD companies are behind their peers from other industries in most aspects of transformation, they are focused on the value of investing in security platforms. Meanwhile, they must focus more on other industry-critical technologies, such as robotics, Big Data, and Internet of Things (IoT). Given the major role these emerging technologies are expected to play in the sector, their development must be prioritized.

While smaller wholesale distributors may lack the financial resources of larger competitors, they can take advantage of their greater agility and cohesive cultures to quicken the path to value for technology adoption. WD companies—like those from other industries—need to prepare their organizations for sweeping changes to processes and workflows and address talent gaps that threaten to impede progress.



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Small and midsize wholesale distribution companies are behind on technology spending

Digital transformation revolves around the successful integration of emerging technologies into all lines of the business, but many wholesale distributors have not yet prioritized transformation as a strategic plan. Small and midsize WD firms—like their peers from other industries—are less likely than larger enterprises to say digital transformation is a core business goal (60%, vs. 82% of larger WD companies). While some smaller companies may be saddled with less legacy infrastructure than larger and more well-established businesses, transformation still requires a defined approach to maximize its benefits.

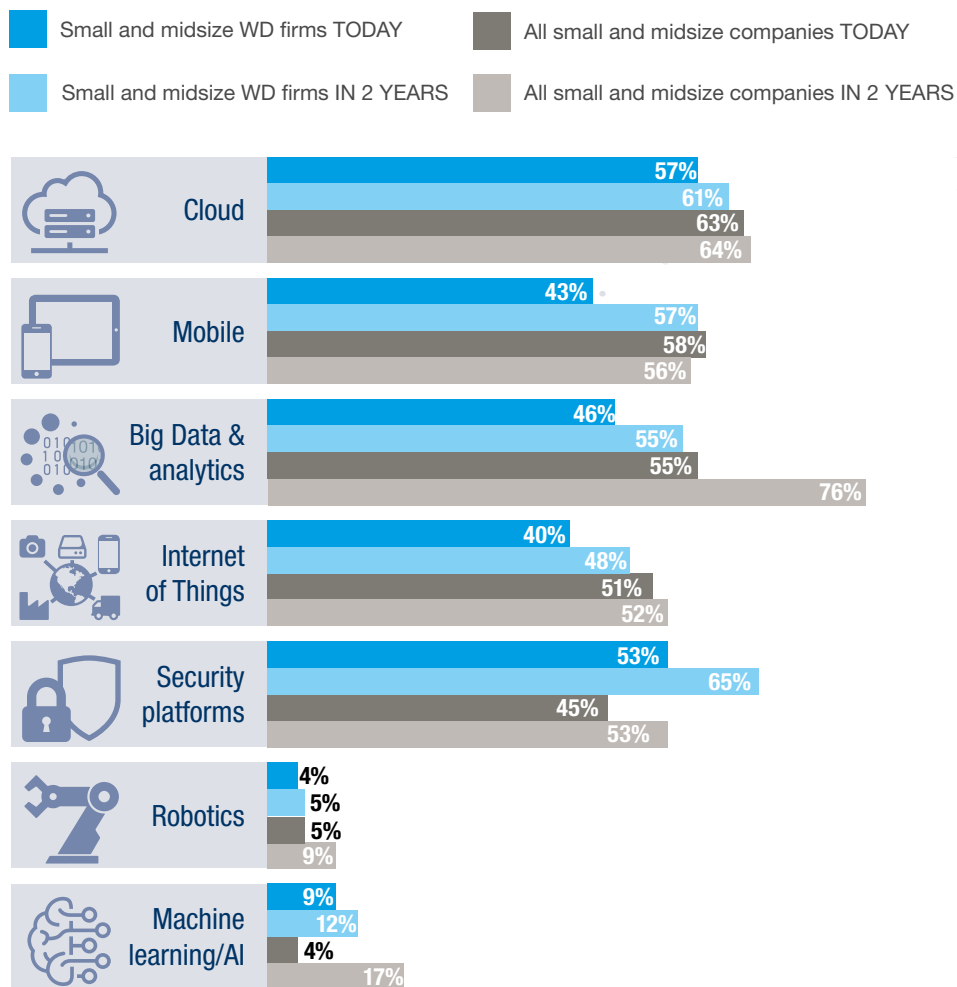
WD firms are investing in security platforms at a higher level than in other industries. Security investments will continue in the coming years, giving WD companies the opportunity to catch up to their peers in other industries: 65% say they will still be spending most heavily on security platforms in two years, vs. 53% overall. These are strategic moves for an industry that depends on building relationships with their customers by understanding their wants and needs—and protecting their information.

Other industry-critical technologies need further development. The WD firms in our sample are not investing heavily in robotics, a technology critical to the future of their industry and the manufacturers it serves; drones, which will enable new accounting and maintenance models as well as delivery methods; or IoT, which improves machine maintenance through the analysis of sensor data. Like firms in other industries, WD companies would also benefit from increased investment in augmented reality—a technology that could help the industry create interactive training materials for employees.

The smallest WD companies are furthest behind, possibly due to budget and resource constraints. They are less likely than the largest small and midsize companies in the sector to say transformation is important or critically important to their survival today (only 46% of respondents with sales of \$250 million to \$500 million say this, vs. 57% of those between \$500 million and \$1 billion). They have invested less in Big Data and analytics (23%, vs. 58%), IoT (32%, vs. 45%), and cloud (47% vs. 63%).

Q: Which technologies are you investing in most heavily, today and in two years?

Respondents could select all that apply.



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Technology investments are meant to support core business goals

Digital transformation efforts—involving the processes, functions, and business goals that surround technology investments—will affect business performance. Small and midsize WD companies anticipate seeing meaningful value in their supply chain, operations, and organizational structures over the next two years. Over half see big payoffs for supply chain—a critical area of the business for WD firms and one where other small and midsize firms expect considerably less progress.

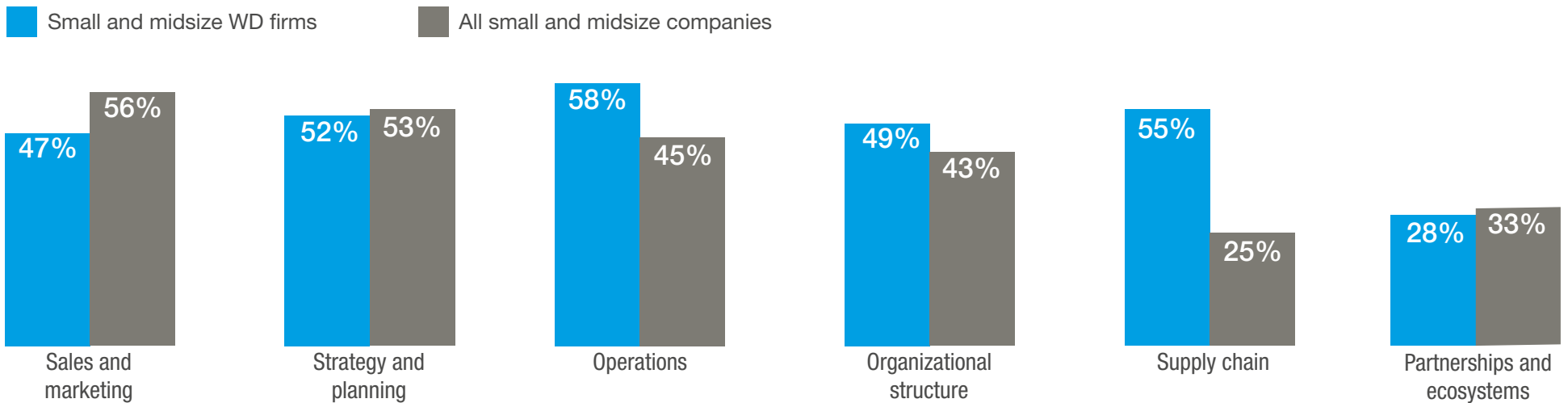
While midsize WD respondents between \$500 million and \$1 billion in revenue have seen more change in operations (41%) and supply chain (37%) than larger companies overall, WD firms with between \$250 million and \$500 million in revenues have yet to see substantial or transformative change from digital technology. This is likely because of their lack of focus on technology investment to date.

But change is on the way for all WD organizations, as a growing focus on technology is expected to yield dividends in the next two years. Small and midsize WD companies expect to see the greatest value in terms of innovation (65%, vs. 58% overall), customer satisfaction and engagement (66% vs. 63%), streamlining internal processes (59% vs. 54%) and employee engagement (57% vs. 54%). The largest band of small and midsize WD companies—those with revenues between \$500 million and \$999 million—are the most optimistic about these benefits, particularly customer satisfaction (43% expect significant value), innovation (42%), and external efficiencies (41%).

Risk management is seen as a top revenue and profit driver for WD companies over the next two years—one reason they may be investing more in security platforms—as is employee engagement. Technology-driven improvements to business functions will support core strategic goals—if they can build the culture to facilitate the necessary changes.

Q: To what extent do you expect digitization to change the following areas of your organization?

“Substantially” and “It will be transformative” responses combined are shown here.



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Managing change for digital transformation

To get digital transformation right, small and midsize companies must leverage their inherent strengths, including agility and the ability to build a strong and collaborative culture. Small and midsize WD firms, like those from other sectors, have work to do to prepare their organizations for the digital era. Executives at WD organizations often need additional training to make transformation a reality, citing a lack of change management expertise as the top barrier to their digital-transformation initiatives—50% rank it as a top-three challenge, even ahead of lack of mature technology (46%) and budget (35%).

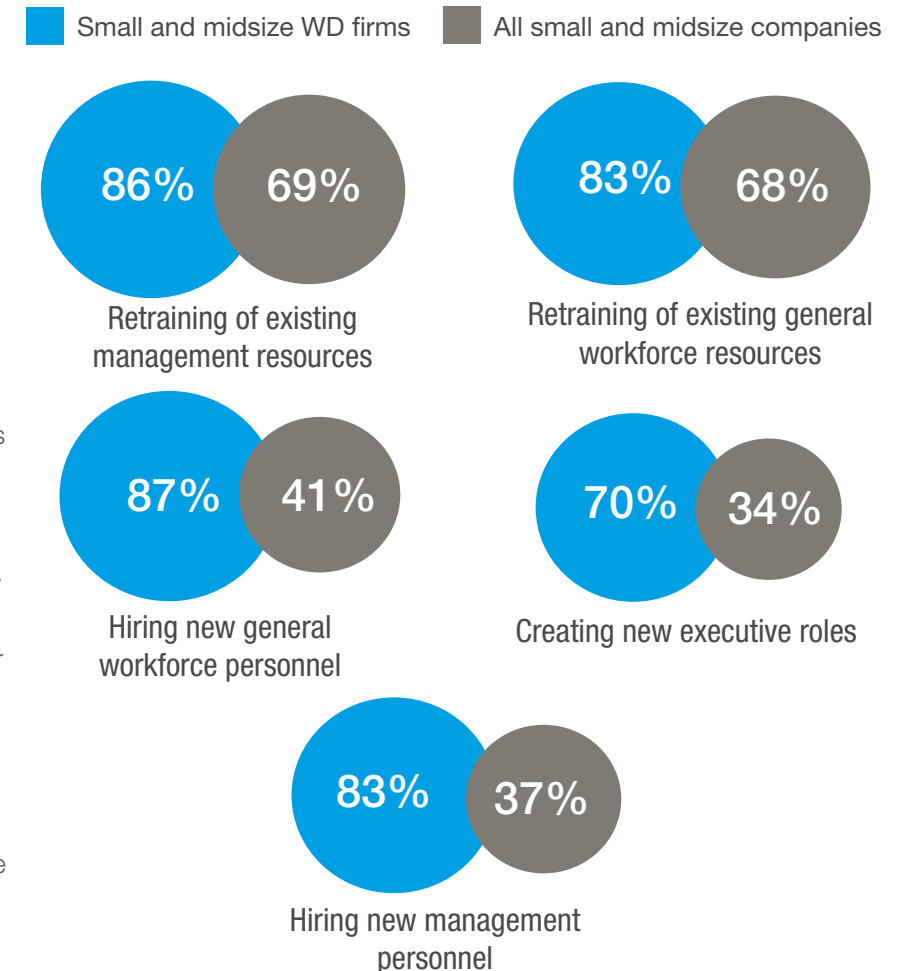
Other important changes must happen at the employee level. Data analytics skills, for example, will be critical to WD firms as they face pressure to translate massive quantities of data produced from connected devices and sensors into meaningful insight in real time. They also must find and develop workers and leaders who can collaborate with other functions, redesign business processes to reflect new technologies, and adapt to the emerging demands of working with intelligent machines. But these capabilities are in relatively short supply among workers in the industry.

Small and midsize WD firms are more likely than respondents in any other industry to expect their technology investments to help address this challenge (e.g., by providing tools or games) through the upskilling of general workforce resources (87%) and management resources (86%). And while most have been slow to address talent issues, midsize WD respondents are ahead; over one-third of executives report well-developed strategies for employee engagement, compared to just 15% for all SMEs. WD executives are most likely to understand that complex and bureaucratic organizational structures make it difficult for many of these companies to move quickly. They are more likely than their peers from other industries to say their employees are getting value from simpler decision-making (89%, vs. 72% overall) and less bureaucracy (94% vs. 64%).

The smallest WD companies in our survey need to invest both time and resources into digital transformation to compete with their larger peers. They do not have well-developed strategies and processes in employee engagement, supply chain, or manufacturing. These are critical business processes for WD organizations, and they must be addressed for this smallest tier to prosper.

Q: Thinking about the technologies you are investing in, to what extent do you expect them to affect your human capital and HR strategy?

“Minimal increase” and “substantial increase” responses combined are shown here.



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Conclusion

Digital transformation is understood as a survival-level issue for small and midsize enterprises. Leadership at wholesale distribution companies must continue to focus their technology investments on the suite of emerging tools, including robotics, drones, augmented reality, and IoT, that will be most valuable to their business models over the next two years, develop processes and strategies around the application of these technologies, and build a workforce that can adapt to these changes—and the ones that follow them.

Get the complete story in our [executive summary on small and midsize companies](#).

About the research

Oxford Economics was commissioned by the SAP Center for Business Insight to conduct and analyze a survey of over 3,100 executives around the world about the opportunities and challenges facing companies as they attempt digital transformation.

Our sample includes nearly 2,600 companies with revenues of less than \$1 billion; 284 of these small and midsize companies are from the wholesale distribution sector. This paper includes our analysis of the wholesale distribution survey results.

Fieldwork took place in 2017 by computer-assisted telephone interviewing. Respondents come from 17 countries or regional groupings, with a significant sample of small, midsize, and large enterprises within each area. Geographies covered were Brazil, Mexico, Australia/New Zealand, Japan, Southeast Asia, India, Greater China, Canada, the US, Germany, Switzerland, Russia/Ukraine, France, the Nordics, the Netherlands, the UK, and the Middle East/North Africa.

Companies surveyed represent a range of industries: wholesale distribution, consumer products, professional services, manufacturing, retail, banking/insurance, healthcare, technology, and the public sector.

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