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# Wholesale: Small and Midsize Firms Are Using Technology to Sharpen Business Practices and Improve Customer Engagement

## THE BRIEF

Small and midsize wholesale firms in every part of the world are seeing their businesses change in a variety of ways. These companies, typically with fewer than 1,000 employees, have been transforming themselves because the retail firms they work with are demanding greater responsiveness and the manufacturers that provide products expect higher levels of efficiency and effectiveness. New business models and new competitors are also encouraging (if not necessitating) change in the way wholesale firms operate. Rather than simply react to new threats by trying to improve performance and reduce costs, successful wholesalers are leveraging technology in new ways to sharpen business practices, improve agility, and anticipate customer buying behavior (and retailer needs) while working more closely and effectively with suppliers to support a comprehensive view of the distribution chain. Through digital transformation, including the effective engagement of the Internet of Things (IoT) to track inventory at every stage, the opportunity to maintain and gain competitive advantage can be significant.

## INDUSTRY DEFINITION AND CORE ATTRIBUTES

Small and midsize wholesale firms, typically with fewer than 1,000 employees, serve as intermediaries in the distribution chain that runs from manufacturers to retailers and other customers to end consumers. Wholesalers provide products and supporting services across a broad range of industry categories, from retail and healthcare products to construction and telecommunications equipment. The specialization and diversity are associated with the large number of different small and midsize wholesale firms.

Wholesalers typically carry and facilitate customer access to products from multiple suppliers, taking title and possession of goods and arranging storage and shipment from centralized locations. Traditional activities have been undergoing a transformation, with changing roles and responsibilities as suppliers rethink their strategies to support channel partners and as viable competitors emerge from outside the traditional industry (e.g., Amazon, Home Depot).

Revenue growth is the key challenge for both traditional wholesalers and those crafting new market approaches. Given the importance of minimizing expenses in a low-margin business, wholesalers of every size category, but especially small and medium-sized businesses (SMBs), have long been technology laggards. More recently, though, the availability of affordable and effective cloud-based applications has been encouraging alternative thinking with regard to operations, especially given the increasingly competitive environment. These applications and modernized operations offer the opportunity for inherently more flexible small and midsize companies in this industry to “leapfrog” larger but less “technology enabled” competitors (e.g., leveraging technology to innovate how the small and midsize wholesaler interacts with its customers or utilizing commerce networks to find new suppliers and customers).

While price remains a critical component, at its core, the wholesale business is based on service, product availability, and product quality. Even small companies hold very large stock-keeping unit (SKU) inventories, with in-stock, quick availability, and category knowledge all critical competitive differentiators. As would be expected, the largest share of business expense is related to the supply chain (inventory and shipping) and physical facilities (rent/storage space and support facilities) rather than capital equipment, although automation (the classic “picking, packing, posting”) is an area of growing investment for some.

Wholesalers can have a local or regional focus, though a growing share of small and midsize firms are expanding their global reach to help drive revenue. This makes global trade capabilities an increasingly important skill, including online ordering, global shipping, and remote order management. At the same time, industry specialization and customer intimacy can help SMBs expand even in the face of competition from larger traditional distribution firms or emerging external competitors. A strong performance track record has been essential to both retaining current customers and adding new customers, but the continuing challenge will be to strengthen understanding of all aspects of customer and supplier relationships (the full supply chain picture) so that targeted opportunities to add value can be addressed.

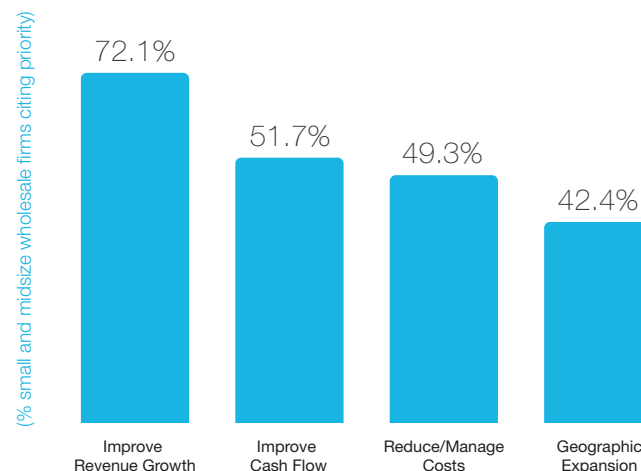
## TOP BUSINESS PRIORITIES: REVENUE AND CASH FLOW

Improving revenue growth is the business priority cited most frequently by small and midsize wholesalers, followed by improving cash flow and managing costs. The relatively low margins that wholesalers generate means that volume is the key to success, and for small and midsize firms, high levels of efficiency, minimal out of stocks, and the opportunity to provide special services help build revenue, the top priority for small and midsize wholesalers (see Figure 1). Exploration of new geographic markets is one approach to revenue growth, as is expanding into adjacent product areas to provide deeper coverage for customers. Some wholesalers are even expanding into areas such as light manufacturing/assembly or field service, with technology as a key enabler. A further opportunity for revenue growth may be in supporting suppliers' need to personalize products — something wholesalers are in a better position to do than other participants in the manufacturing supply chain.

Given the importance of cash flow (especially for smaller firms), the effective management of both payables and receivables is critical, with a particular focus on chargeback management and identifying every opportunity to generate revenue. Integration with customer processes and adding value downstream with expert post-sale support are becoming increasingly standard among the most successful wholesalers.

**FIGURE 1**

Top Business Priorities for Small and Midsize Wholesalers



*n = 1,889, n=110 for small and midsize wholesale firms only*

*Note: Multiple responses were allowed.*

*Source: IDC's Worldwide SMB Survey, 4Q15 (United States, United Kingdom, Germany, Japan, India, China, Brazil)*

## STRONG SMALL AND MIDSIZE WHOLESALER AGREEMENT: THE INTERNET HAS HELPED TRANSFORM INTERNAL OPERATIONS

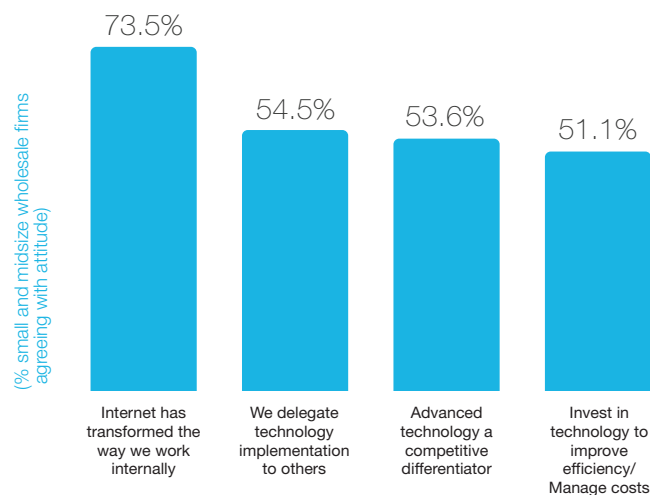
Although small and midsize wholesale firms have been traditionally cautious about adopting new technology, they have been strong supporters of the Internet as a resource to help transform both internal operations and external customer interaction (see Figure 2). Part of this is due to the relatively late adoption of Internet-based resources, which means that small and midsize wholesalers are seeing more immediate performance improvement as they catch up.

At the same time, small and midsize wholesalers are more likely than any other segment to prefer delegation of technology implementation to others. In effect, companies know they need to invest in technology in order to maintain a competitive position, but they don't want technology assessment and deployment to be a management distraction.

This ties to another important issue: The performance gains associated with Internet engagement have been realized, but the next level of technology integration, including the next generation of automation associated with the Internet of Things, will require much more work. In addition, the coordination and exchange of information with suppliers and with customers will require significant effort. Firms that delegate technology investment without understanding both near-term and long-term implications may find themselves at a competitive disadvantage.

**FIGURE 2**

Small and Midsize Wholesalers Recognize Transforming Nature of Technology But Often Prefer to Delegate Implementation



*n* = 1,889, *n* = 110 for small and midsize wholesale firms only

Base = percentage of small and midsize wholesale firms citing 6 or 7 on a 7-point agree/disagree scale (7 = strongly agree), respectively

Note: Multiple responses were allowed.

Source: IDC's Worldwide SMB Survey, 4Q15 (United States, United Kingdom, Germany, Japan, India, China, and Brazil)

## FOCUS ON REVENUE GROWTH AND CASH FLOW MANAGEMENT WILL INFORM TECHNOLOGY INVESTMENTS FOR THE NEXT DECADE

The dual goals of revenue growth and cash flow management mean that small and midsize wholesalers will have to manage customers, consumers, and innovation more efficiently and effectively than they do today — and this means better business processes enabled through new technologies.

- **Manage cash flow and profitability:**

- Achieve ruthless cost reduction with analytics, cloud, robotics, and 3D printing
- Manage cash flow dynamically with analytics, cloud, and networks
- Optimize working capital with analytics, cloud, and networks
- Improve cost controls and manage customer profitability

- **Drive business growth and customer retention:**

- Extending services and innovating successfully with social business, IoT, and cloud for global growth
- Contextual marketing to understand core value contribution
- New businesses/new products with IoT, social, and cloud
- Competitive differentiation with cloud, networks, IoT, and social
- Digital transformation of sales and marketing, supply chain, and finance
- Global trade

## SMALL AND MIDSIZE WHOLESALE FIRMS USING ADVANCED TECHNOLOGY TO ENABLE NEW PRODUCTS AND SERVICES

- The transition to a consumer-focused relationship rather than a transaction-focused relationship will provide meaningful competitive advantage to small and midsize wholesale firms with supply chains suited to handling large SKU inventories and personalized products.

- With the consumer at the center of information gathering and business planning, the role of wholesale becomes especially important. Real-time tracking of goods and responses to personalization or servicing needs will be crucial, which means that wholesalers need greater visibility than ever across the distribution chain.
- Technology will also enable the layering of services (think MRO) as a complement to products, especially in post-sale and field services. Older systems, limited IT budgets, and a reluctance to engage in very large/long IT implementations can increase the appeal of cloud and/or hosted applications, which require less up-front investment and (ideally) can be integrated effectively into a firm's current IT environment.

## TAKEAWAYS

Despite highly conservative traditions associated with traditional selling markets and historical stability in business operations, wholesalers, especially small and midsize wholesale firms, face a profound change in the nature of their business that will require a rethinking of business practices and processes in response to the changing and expanding competitive environment. In detail:

- **Utilize cloud-based social networking capabilities.** Cloud-based social networking enables interactions with customers and consumers that facilitate the purchase experience, the usage experience, personalization as necessary, and a productive feedback loop for both current product improvements and ideas for potential new products.
- **Add more value with effective engagement of the Internet of Things.** The Internet of Things can offer new insights and provide more value to customers and consumers in terms of both sensor-based inventory management and sensors embedded in the product itself. Both of these are essential for small and midsize wholesalers to maintain competitive advantage.
- **Explore new business models (but don't feel compelled to disrupt everything).** As competition broadens, the imperative for the small and midsize wholesaler to expand revenue opportunities becomes critical. Whether light manufacturing, personalization, or post-sale servicing, these must be enabled through the use of technologies such as 3D printing, cloud, and IoT to enable the ease of use and efficiency demanded by modern customers. But don't modify processes that are working well or change things just for the sake of changing them — just be attentive to ways changing technology might provide opportunity for meaningful improvement.

- **Consider where participation in business networks can provide additional value.**

In keeping with where new business/solution provider relations will be heading, small and midsize wholesale firms should explore becoming part of wider business/solution provider networks with customers, suppliers, and service providers. Rather than try to be everything to everyone, firms can partner effectively with different specialists to offer comprehensive solutions to customers and consumers that they might otherwise have struggled to manage. Such an approach could facilitate digital transformation in an effective and affordable way, with resources from multiple sources curated and coordinated for maximum impact.

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