New Solutions for Tomorrow's Challenges:

A Distributor's Guide

The landscape of B2B distribution is evolving rapidly, driven by technological advancements, shifting customer expectations, and global economic changes. This new guide from NTT DATA Business Solutions will take a forward-looking approach to inform distributors on the market factors they will face in the years ahead and what they can do now to prepare for them. We will look at what technology tools distributors will use to improve efficiency and grow, and what they should start thinking about to stay ahead of the curve.

mdm white paper

72%

of more than 130 distributors picked talent/staffing as the factor having the biggest impact on their customer engagement success.

B2B distribution plays a vital role in the global economy, connecting manufacturers with retailers, businesses with suppliers and products with end-users. However, the traditional B2B distribution model is undergoing substantial changes due to various factors such as digital transformation, changing customer behaviors and supply chain disruptions. Distributors must anticipate and adapt to these challenges to remain competitive and sustain growth.

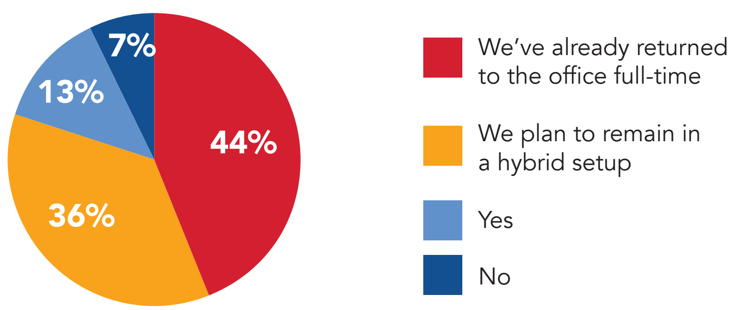
Key Challenges

The list of challenges for wholesale distributors continues to grow as eCommerce and B2B customers intensify their interest in digital-first buying experiences and global supply chains remain fragile. Talent has also risen to the forefront of distributors' challenges, and the industrial labor pool isn't expected to change much in the next few years. Meanwhile, industrial businesses are changing thanks to the ongoing digital transformation. Thus, distributors must update their customer experience and technology to keep up with customer demands and the pace of business, or they'll fall behind. The list of challenges that distributors face goes on, but we will focus on four in this guide.

Talent Management

MDM's post-pandemic research has consistently found that distributors consider talent to be their biggest challenge today. Most recently, a June 2023 MDM survey of more than 130 distributors found that 72% of respondents picked talent/staffing as their top challenge, far ahead of supply chain conditions (55%), delivery (40%) and technology limitations (40%).[1]

Do you plan to mandate or at least encourage your office staff to return to the physical office full-time in the next 12 months?



As technology becomes more integrated into distribution processes, distributors will require a workforce with new skills like data analysis, digital marketing and other technological proficiencies. Attracting and retaining this talent can be challenging, particularly as other industries also seek individuals with similar skills.

The distribution talent landscape has moved beyond the days of relying on family relationships and a staff of long-tenured parents and grandparents to create a natural succession pipeline. Today's Millennials and Gen-Z employees change jobs more frequently than previous generations, meaning distributors have to try even harder to keep the talent they already have.

1. MDM: "Insights, AI & More: What Distributors Are Doing to Improve the Customer Experience." Conducted May 2023.

"...Distribution is powered by technology and passion. We need to invoke the next generation to think about how they can be a part of an organization that moves the world's economy."

— Jimmy Dickinson, Vice President of Industry at NTT DATA Business Solutions

The remote and hybrid work environment — greatly accelerated by the pandemic — has thrown another complication into distributors' workplace culture. A July 2022 MDM study found that 44% of distributors had already returned to a full-time in-office setup for their staff, while 36% said they planned to remain in a hybrid setup going forward[2]. Another 13% said they plan to mandate or at least encourage their staff to return to on-premises full-time in the next 12 months. Pre-pandemic, not many would've envisioned such an industry centered on face-to-face relationships being able to operate efficiently in a hybrid environment, but plenty of distributors have proven otherwise.

Distribution has always been tasked with appealing to younger generations. That has become increasingly difficult in the era of tech startups and the gig economy where anyone can become an entrepreneur. One positive of the pandemic was that it put supply chains in the spotlight and gave distributors ammunition to communicate just how vital their $8 trillion industry[3] is in keeping economies moving.

With new talent hard to come by for many distributors, some of them are leaning into automation and AI technologies to do more with less. This includes offloading repetitive, mundane tasks to technology so that staff can focus on more high-value tasks.

Modern distributors are doing fascinating things with technology and have plenty of things to promote to younger generations, but marketing the industry remains a challenge.

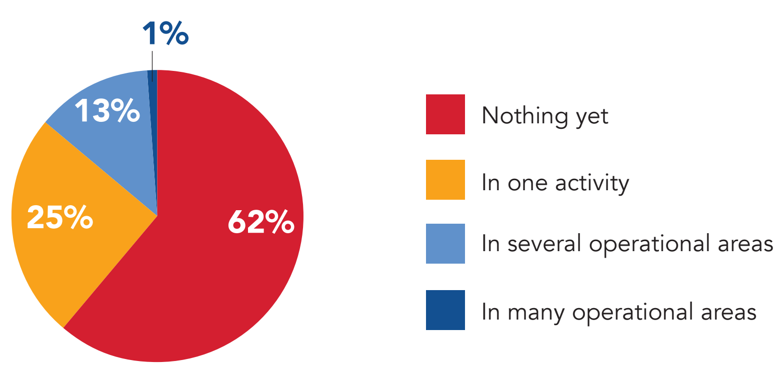
"I want to remind people that distribution is sexy, it's exciting and it's different," stresses Jimmy Dickinson, Vice President of Industry at NTT DATA Business Solutions. "You don't have to be in a tech company to do innovative and amazing things. Distribution is powered by technology and passion. We need to invoke the next generation to think about how they can be a part of an organization that moves the world's economy."

NTT DATA Business Solutions serves distributors as a long-term SAP Platinum Partner, helping businesses transform by providing SAP consulting, industry solutions, business process services, IT modernization and managed services.

AI Realization

In a July 2023 survey of approximately 500 distributor respondents, MDM found that 62% hadn't yet used AI in any operations; 25% were using it in a single activity; and only 14% were using it in multiple areas[4]. Those findings indicate that, despite all the AI hype, it's still very much in its infancy in the distribution sector.

To what extent is your company utilizing AI technology in its operations (internal or customer facing)?

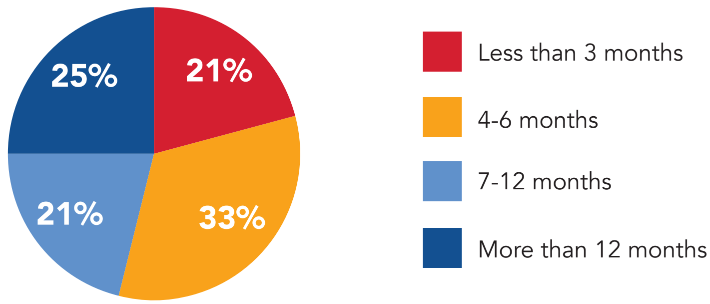


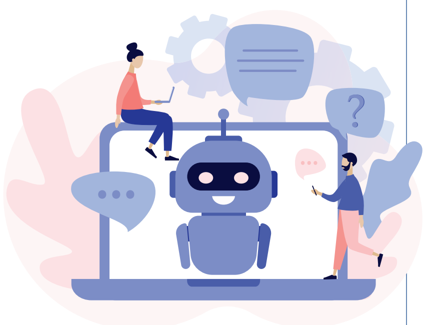
2. Baird-MDM 2Q22 Industrial Distribution Survey. Conducted July 2022.
3. MDM, "Distributors' Expectations Hold After Sector Revenue Topped $8.2T in 2022." February 2023.
4. Baird-MDM 2Q23 Industrial Distribution Survey. Conducted July 2023.

For those distributors that indicated they are leveraging AI, MDM's research indicates that the most popular areas they are using it in are CRM, inventory management and sales order automation.

What is the typical timeframe for distributors to implement and gain valuable business results from AI? MDM's June 2023 survey found a fairly even spread for that question, with one-third of respondents saying 4-6 months; 25% at 12+ months; and 21% each for less than three months and 7-12 months.[5]

If you are leveraging AI or automation tools, what has been the typical timeframe to implement and gain valuable results in your business?





Chatbots and AI-powered chatboxes are valuable tools for customer service

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With so much hype and discussion about AI's potential in B2B applications, it can be difficult for distributors to find a starting point and know where it can have a real positive impact on their business. MDM's May 2023 survey asked distributors where they see AI providing the most value for the customer experience, and here are the key takeaways based on an analysis of their write-in commentary.[6]

- **Product Recommendations:** Several distributors mentioned that AI can provide intelligent and personalized product recommendations based on customer behavior, buying patterns and browsing history. This can enhance the customer's shopping experience and increase sales.
- **Chatbots and Guided Help:** Chatbots and AI-powered chatboxes were mentioned as valuable tools for customer service, providing quick and automated responses to customer inquiries and guiding them through the buying process.
- **Order Processing and Fulfillment:** Automation in order confirmation, tracking and delivery notifications can improve the overall customer experience by providing accurate and timely updates on order status and ensuring a smoother process.
- **Forecasting and Inventory Management**: AI can help forecast demand, optimize inventory levels and provide recommendations for stock replenishment. This can lead to improved inventory efficiency and ensure that products are available when customers need them.
- **Customer Service and Support**: AI can streamline customer service processes by automating repetitive tasks and handling common customer inquiries. This can free up staff to focus on more complex issues and provide personalized support.

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- **Pricing and Sales Insights:** AI can provide recommendations and insights on pricing strategies, helping businesses optimize pricing for better customer value and increased sales. It can also analyze sales data to identify trends and patterns that can inform sales strategies.

- **Self-Service and Personalization:** AI can supplement customer portals to enable self-service options for customers, allowing them to find information, place orders and access account details independently. Personalization based on customer preferences and segmentation can enhance the customer experience by tailoring recommendations and offerings to individual needs.

- **Efficiency and Automation:** Automating processes, such as data management, reporting, and workflows, can make operations more efficient and speed up customer interactions, leading to better service quality and faster response times.

- **Uncertainty and Exploration:** Some respondents expressed uncertainty or a lack of clarity on how AI and automation could benefit their business. They mentioned the need for further exploration and understanding of AI's potential applications.

This doesn't exhaust all the potential uses for AI and automation in distribution, but it shows that there are a vast number of opportunities.

"A lot of times, AI is demonstrable and scary, or seems like an ivory tower experience," Dickinson says. "But it can also be ridiculously practical. What we need to do as distributors is empower people at the business level to understand AI. Not just the guy in the corner who writes code, but the director of marketing or inbound supply chain and anyone who makes operational decisions."

International Supply Chain Management

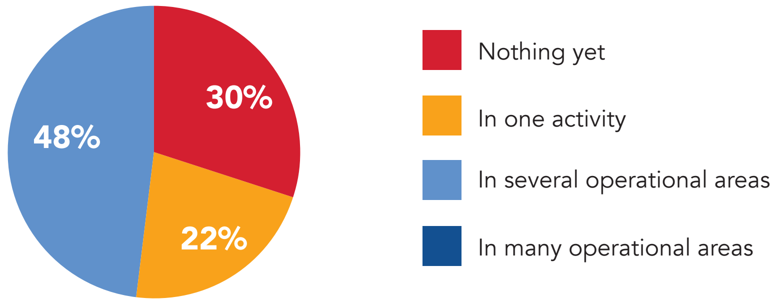
Sadly, it took a global pandemic to see just how fragile international supply chains can be. One positive that came out of that ordeal was that it showed distributors just how critical it is to not put all of their supply chain eggs in one or two baskets. It also fanned the flames of the nearshoring movement that was already growing pre-pandemic. In MDM's Industrial Distribution survey conducted in July 2022, 70% of respondents indicated they were likely to shift more of their product sourcing to domestic suppliers over the next three years.[7]

Still, nearshoring your supplier base is much easier said than done. Given the nature of global manufacturing, distributors will always rely on international suppliers to some extent. Going forward, distributors will have to find the right equation that balances freight costs with the geographic diversification needed to avoid becoming crippled when one supplier hits a snag.

"The supply base has to be wider. Distributors need to have answers that aren't dependent exclusively on an internationally-obscure supplier that may be pinched by a manufacturing relationship, a tariff scenario, a disruption on a global scale, or just getting a spot on a ship in port to get unloaded," Dickinson says.

7. Baird-MDM 3Q22 Industrial Distribution Survey. Conducted July 2022.

How likely is your company to shift more of its sourcing to domestic suppliers over the next 3 years?



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Recession Mitigation

Depending on who you talk to, the United States is already in an economic recession, on the brink of one, or just facing a looming slowdown. However, most economists agree that business conditions are gearing toward a much slower environment for the growth of goods and services throughout 2024 and into 2025, compared to the considerable growth seen coming out of the COVID-19 pandemic. Even if it's not a full-blown, technically-defined recession, distributors that insulate themselves for lower demand will be better positioned for growth when the economy rebounds.

As distributors navigate what could be a bumpy road ahead for revenue and profit stability, they will be challenged to do the following:

- **Keep to the Core.** Amid competition with fellow distributors as well as manufacturers selling direct, distributors with a market differentiator can lean into that advantage during slower business conditions. It's the one particular thing that they do very well — their relationship with their customers; their product availability; their customer experience; service levels; etc. — and they keep it laser-focused.

"It's about setting that vision, that strategy, and asking how you can keep that differentiation going consistently for the next three years to make sure the business is strong and healthy and that its foundation is growing," says Dickinson. "It's about staying sound and successful, and knowing you have people, processes and products to support that. So keep that focus and consistency regardless of changes in revenue velocity."

- **Component-based innovation.** Expanding via acquisition, adding a greenfield facility or wholesale digital transformation can be exciting. However, those things also involve substantial investment and a fair amount of risk during a volatile economy. Valuable but less risky expansion can still be achieved via adding product lines, suppliers or technology. These are expansion levers that add direct value to the business and in smaller bites than everything involved with a new facility. Since digital transformation is a journey rather than a one-time event, it's almost always easier to complete micro-digital transformations over time than to eat the elephant with a one-time investment.

"In times of reduced revenue or profit instability, you want to be able to take smaller bites so that you can keep innovating at the core of your business and keep going," Dickinson says. "You need to be able to pivot and switch on what you're going to invest in. If the macro environment changes, you need to be able to do things that are right-sized based on your available cash flow."

Strategies for Success

Now that we know some of the challenges distributors will face in the years ahead and the cost of not preparing for them, what can firms do to remain a step ahead?

It largely boils down to three crucial things distributors will have to pull off:

1. Empower Employees with Information

If knowledge is power, it will only prove more valuable in the years to come for B2B businesses. Giving staff access to the data they need to make smarter, faster decisions will enable a nimble organization. This involves investing in digital tools and systems to streamline operations, gain insights from data and offer seamless online experiences. Automation can enhance efficiency and reduce manual error.

When an employee has to jump through hoops to get the data needed to make decisions, it has a trifecta of bad results: 1) It decreases how fast they can make decisions; 2) it decreases the quality of the decisions they ultimately make; and 3) it decreases overall employee satisfaction because they are struggling to do what's needed to make the best choices.

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Workplace culture has become a central focus for distributors amid their hiring and retention struggles. Thus, to develop a sustainable workforce and create an environment where employees want to stay, they will need to: 1) Foster a culture of learning and development within their organization; and 2) Provide training and upskilling opportunities to equip their workforce with the skills needed for the digital age.

2. Supply Chain Demand Planning

In MDM's 2023 research into the topic of customer experience tactics, distributors voiced a growing need for open communication and understanding of supply chain dynamics. They stressed that customers want to stay informed about product availability and any potential disruptions in the supply chain.

These firms are now looking at their inventory from a perspective of category mix and determining what their goals and targets should be to have a rich and robust supply chain. The pandemic taught distributors that just-in-time inventory — having just enough inventory to match current demand — leaves them flat-footed in times of supply chain disruption. So, these firms are trying to find the right balance between having enough safety stock and avoiding too much dead inventory. This is where demand forecasting and supply chain analytics tools play a huge role.

"Is my supply chain meeting my sales targets? And, conversely, is my staff meeting the supply chain expectations they've set? The only way to know is to think about demand and supply chain planning — and operations planning — at a much more strategic level besides just being responsive," Dickinson advises.

This also involves distributors' rapidly growing role as data exchangers. Distributors that can provide customers with valuable supply chain and product usage data — whether through dashboards, vendor-managed inventory, smart vending machines or otherwise — become engrained with their customers. Doing so also helps distributors' reputation as a service provider. Software that gives distributors the ability to provide customers with this kind of data can add value to the company's overall value proposition.

3. Networks and 4PLs

Whether a distributor is buying or selling products, they are interacting with networks. No distributor wants to be the holding agent hosting all the inventory for everybody. They want to connect to their network of customers and suppliers and be the service provider between those two parties. Now, the industry is maturing to navigate how to work in a network economy and serve as a connector, facilitating goods and services with as much flexibility as possible.

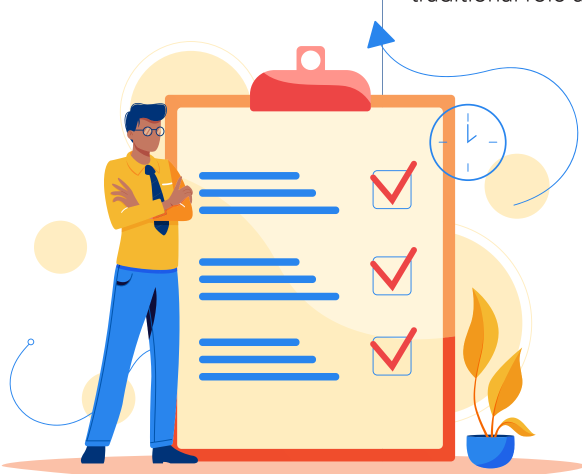
Dickinson explains that as supply chain firms work to reduce risk, there has been a rise in distribution entities selling manufacturers' products without having any inventory. Instead, they rely on third-party logistics providers (3PLs) and other warehousing organizations to be the physical operators of that inventory.

Dickinson gave the example of a distributor client of NTT DATA Business Solutions that is forming a startup within the organization using this very model. Essentially, it's a way for distributors to outsource their supply chain management and logistics to an external service provider, or a fourth-party logistics provider (4PL).

"It can be the highly technical, highly integrated source that customers onboard and connect with as their fulfillment partner," Dickinson explains.

In this model, the parent organization must ensure levels of uptime, security and information traceability throughout the supply chain.

The key benefit of using such a model is that it positions the distributor to evolve beyond their traditional role as an inventory provider.



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"It's amazing what you can do in this model," Dickinson says. "That isn't being a distributor buy-and-sell company, that's becoming a technology company that's focused on distribution, and that's where the future is going."

The Tools to Get it Done

Knowing how to attack these challenges is only half the battle for wholesale distributors. Firms can use technology to stay ahead of these forces and thrive in spite of them. NTT DATA Business Solutions makes it easy by offering an array of tools to facilitate and manage the following:

- Organizational transparency
- Demand management
- Cross-channel order management automation
- eCommerce
- Procurement and supplier management
- Standardized reports
- Shipping processes management
- Customer experience touchpoints
- Vendor rebate and discount management
- And more

These tools include distribution-specific software add-ons specifically tailored to accelerate the implementation of SAP solutions and minimize business disruption.

The Final Word

The B2B distribution landscape is evolving, presenting both challenges and opportunities for businesses in this sector. Distributors can position themselves for the future by embracing digital transformation, focusing on customer needs, building resilient supply chains, and prioritizing sustainability. Those who are willing to adapt and innovate will not only survive but thrive in this dynamic environment. B2B distributors can lean on NTT DATA Business Solutions for the industry knowledge and technology solutions to help them overcome any challenge the industry presents.

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We Help Distributors Innovate

Modern Distribution Management (www.mdm.com) has been a trusted resource for market intelligence, analytics and industry insight for wholesale distribution executives since 1967. As a market research and media company, we have nurtured the industry's premier thought-leadership community to help leaders make better decisions and build stronger, more profitable businesses. We provide comprehensive coverage of trends, management best practices, technology and innovation through multiple platforms – research reports, media channels, conferences and market analytics services and software.

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