THE COST OF DOING NOTHING IN WHOLESALE DISTRIBUTION

ARE YOU LEADING OR “MAKING DO” WITH THE SOFTWARE RUNNING YOUR BUSINESS?

Less than 60% of wholesale distributors indicate processes critical to their businesses are fully supported by enterprise applications like Enterprise Resource Planning (ERP). Instead distributors limp along, “making do” with something less than a complete solution, or struggle with a collection of disconnected applications. These processes include basics such as order-to-cash and procure-to-pay. Even fewer report fundamental functions like warehouse management (35%), procurement (43%) and finance and accounting (23%) are well supported with a single, integrated solution.

And yet, wholesale distributors in today’s challenging economy face increasing global competition, growing complexity of supply chains and trade regulations, and continued volatility of oil prices impacting transportation cost. And to top it off, they operate on razor thin margins. World Class Enterprise Resource Planning (ERP) implementations have been shown to produce impressive performance improvements and cost savings. If you, like many distributors, are still “making do” with a less than optimal solution, you are essentially leaving money on the table. This is the cost of doing nothing.

THE IMPETUS FOR CHANGE

Wholesale distribution isn’t immune to the accelerating pace of change today. Technological advances and an increasingly connected, global and digital economy have resulted in change that extends deep into the very foundation of distribution. Instead of operating as completely autonomous and isolated islands with tenuous ties to other supply chain participants, most modern distributors must operate in global networks.

The continued shift to more distributed environments and global trade relationships began decades ago when low-cost country sources made “outsourcing” very appealing. As companies become less vertically integrated to reduce costs and focus more on their core competencies, it has become necessary to develop new ways of doing business with each other within the new network economy.
Additionally, even more traditional wholesale distributors are looking for new ways to add value through services (light assembly, packaging, warranty, etc.). Minimally they must be able to transact business to business (B2B) through ecommerce, but many also offer products for sale directly to the consumer (B2C) through ecommerce or retail outlets. If you don’t have a fully integrated software suite, how can you hope to compete? And even if you do, if it is not an agile solution that can adapt, evolve and help you innovate, you cannot lead your field. You are indeed “making do.”

“MAKING DO”

At the very least, distribution of a physical product requires you to build and maintain an audit trail of inventory movement, which makes ERP, the transactional system of record of the business, an absolute necessity – at least if you define ERP as we do. Many use the acronym rather loosely, while others find it difficult to define. Mint Jutras defines ERP as an integrated suite of modules that provides the operational and transactional system of record of your business. Bear in mind though: Most ERP solutions today do much more.

This definition allows for a lot of variability in the scope of solutions. Some of that variability results from different types of companies having different needs. But a key word in our definition is “integrated.” If you are running a collection of disparate commercial or home-grown applications that are tied together with the software equivalent of duct tape, bailing wire, and a prayer, your solution may not be ERP at all. Our 2017 Enterprise solution study found that 58% of wholesale distributors described the solution used to run their businesses as ERP (Figure 1).

**Figure 1: What runs your business?**

An additional 28% have integrated finance and accounting solutions along with a collection of other operational applications, which may or may not be integrated. There have been significant technology advancements that allow very tight integration between ERP and surrounding applications, but chances are, if it’s been a while since you’ve invested in your ERP solution, you are not
Many of the basic processes required to effectively run a wholesale distribution business are not fully supported.

Taking advantage of these improved integration tools. The remainder (14%), running primarily finance and accounting applications, have a huge operational gap.

The net result is that many of the basic processes required to effectively run a wholesale distribution business are not fully supported (Table 1). While some might be satisfied with “mostly supporting” these basics, this does not put you in a competitive position.

**Table 1: How well supported are processes?**

<table>
<thead>
<tr>
<th>Process</th>
<th>Not well supported</th>
<th>Mostly supported</th>
<th>Fully supported,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing to Opportunity</td>
<td>30%</td>
<td>31%</td>
<td>39%</td>
</tr>
<tr>
<td>Opportunity to Order/Contract</td>
<td>17%</td>
<td>42%</td>
<td>41%</td>
</tr>
<tr>
<td>Order to Cash</td>
<td>5%</td>
<td>37%</td>
<td>58%</td>
</tr>
<tr>
<td>Procure to Pay</td>
<td>4%</td>
<td>41%</td>
<td>55%</td>
</tr>
<tr>
<td>Financial Closing</td>
<td>4%</td>
<td>42%</td>
<td>54%</td>
</tr>
<tr>
<td>Financial Planning &amp; Budgeting</td>
<td>21%</td>
<td>46%</td>
<td>33%</td>
</tr>
<tr>
<td>Sales &amp; Operations Planning</td>
<td>19%</td>
<td>47%</td>
<td>34%</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>9%</td>
<td>43%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Source: Mint Jutras 2017 Enterprise Solution Study

So why are so many struggling? Table 2 provides at least a partial answer.

**Table 2: Single or Multiple Solutions? Integrated?**

<table>
<thead>
<tr>
<th>Process</th>
<th>No solution implemented</th>
<th>Multiple solutions, not integrated</th>
<th>Multiple solutions, integration needs improvement</th>
<th>Multiple solutions, well integrated</th>
<th>Single solution, no integration required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing to Opportunity</td>
<td>5%</td>
<td>12%</td>
<td>25%</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>Opportunity to Order/Contract</td>
<td>3%</td>
<td>11%</td>
<td>25%</td>
<td>28%</td>
<td>33%</td>
</tr>
<tr>
<td>Order to Cash</td>
<td>2%</td>
<td>4%</td>
<td>15%</td>
<td>24%</td>
<td>55%</td>
</tr>
<tr>
<td>Procure to Pay</td>
<td>3%</td>
<td>3%</td>
<td>22%</td>
<td>19%</td>
<td>53%</td>
</tr>
<tr>
<td>Financial Closing</td>
<td>2%</td>
<td>4%</td>
<td>20%</td>
<td>35%</td>
<td>39%</td>
</tr>
<tr>
<td>Financial Planning &amp; Budgeting</td>
<td>2%</td>
<td>14%</td>
<td>27%</td>
<td>33%</td>
<td>24%</td>
</tr>
<tr>
<td>Sales &amp; Operations Planning</td>
<td>3%</td>
<td>11%</td>
<td>26%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>4%</td>
<td>10%</td>
<td>23%</td>
<td>33%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Mint Jutras 2017 Enterprise Solution Study
With the exception of basic order-to-cash and procure-to-pay processes, distributors are more likely to have multiple solutions rather than a single solution - and even these two are only slightly more likely to be handled with a single integrated suite. When multiple solutions are involved, they are most often poorly integrated or not integrated at all.

While some distributors might find comfort in not being alone, that is no excuse and is certainly not a desirable situation. Satisfying the basics is still a must, but the basics aren’t so basic anymore. Blended roles and the digital economy place new demands on supporting systems. This means the ERP solution you bought a few years back may not have the features and functions or the advanced technology you need to stay competitive. Worse yet, if you have not invested in ERP, you definitely do not have all you need to achieve or maintain a competitive edge.

The most basic of ERP solutions does a good job of tracking inventory in a warehouse, but as a distributor, you also need to manage the activity in the warehouse, the transportation, ecommerce and supplier collaboration across a potentially complex supply chain. You need to accurately forecast demand. And in this new world of blurred boundaries, you may need to manage product configuration and/or light assembly.

**THE COST OF DOING NOTHING**

Of course there is another side to the coin here. If you are still thinking you can “make do” with a solution that doesn’t give you a competitive advantage, perhaps a better perspective is to consider what that decision (or lack of a decision) is costing you.

In order to quantify the lost opportunity cost of doing nothing, we look to the cost savings realized by ERP implementations in wholesale distribution. We compare “World Class” implementations to all others. When we refer to “World Class,” we refer to the implementation of the ERP solution. We capture cost savings and other improvements measured since the current ERP solution was installed and combine those results with progress measured against a set of possible goals. Of course not all distributors have the same specific goals for ERP, but the more goals that are set and the more progress that is achieved against those objectives, the higher the probability the implementation will achieve “World Class” status. Possible goals relevant to wholesale distribution are listed in the sidebar to the left on the next page.

Finally, we temper those results with some universal measures of current performance. Each company receives an aggregate “score” and the top 20% are categorized as “World Class.”

We start by looking at cost and inventory savings. Figure 2 compares those with World Class implementations to the remaining 80% (All Others).
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Possible goals and benefits of ERP

- Better visibility from quote to cash
- Sustained growth without additional headcount
- Reduction or redeployment of headcount
- Reduction in operating cost
- Reduction in administrative cost
- Reduction in inventory cost
- Reduction in obsolete inventory
- Better utilization of resources
- Reduce time-to-decision (better decision-making)
- Positively impact bottom line profits
- Reduction of waste
- Increase value delivered to customers

savings achieved by All Others should provide a very realistic and achievable objective, those achieved by World Class ERP implementations should perhaps be a secondary, or “stretch” goal.

Figure 2: Cost and Inventory Reduction Since Implementing ERP

![Figure 2: Cost and Inventory Reduction Since Implementing ERP](image)

Source: Mint Jutras 2017 Enterprise Solution Study

Inventory costs and obsolete inventory should be self-explanatory, quite straightforward and easily measured. While the categories of operating and administrative costs are quite broad and leave some room for interpretation, a precise definition is less important when we measure the savings as a percentage of total costs.

To put this in perspective, let’s use a mid-size distributor that is carrying a modest $1,000,000 worth of inventory on its books. Reducing that inventory by 13% realizes $130,000 savings of cold, hard cash. This doesn’t even take into account any operating or administrative cost savings. If that same distributor achieves World Class status with its ERP implementation, it sees an additional savings of $110,000. This alone will go a long way towards justifying the initial implementation expense.

Think about your own operating costs, administrative costs and inventory costs. Think about inventory on your books that is obsolete and simply will not move. Take 15% and do the math. You might have your return on investment right there. These are the average savings produced by wholesale distributors that invest in ERP. Those that go on to achieve World Class status achieve that much more.

Cost savings, while very important in terms of cost justification and profitability, are very internally focused results and impact only the bottom line. To stay competitive and achieve a competitive advantage, you also need to produce results that are more focused on your customer and can in turn impact your top line performance. In order to measure this type of success, we use a variety of metrics, shown in Figure 3.
As in measuring cost savings, we mostly measure the improvement since implementing ERP. Growth is the exception primarily because of its dependence on the general state of the economy. It can be adversely affected by external factors such as economic and market conditions. But growth should be sustainable and therefore we look at it as a change over the past two fiscal years in order to normalize it.

Complete and on-time delivery and cycle time are intimately dependent on one another. Cycle times can directly impact your ability to deliver, not only as promised, but also as customer requested. One symptom that indicates you need (a new) ERP is not being able to meet customer demand, even as your inventory levels rise.

SPECIAL NEEDS OF WHOLESALE DISTRIBUTORS

If your current ERP doesn’t meet your needs, this may be because your options were limited by budget or limited functionality available at the time. Or perhaps your solution never lived up to promises made, or your business has changed, adding new requirements not previously anticipated.

By definition, any “real” ERP will be able to track inventory movement, although some will do a better job than others in actually controlling it. This is true particularly if you must track it by lot or serial number, or you must be concerned about controlling hazardous materials or co-mingling different types of products.

Early versions of ERP treated every unit of measure the same and knew nothing about space or warehouse capacity constraints. If you told ERP you put 100 cubic feet of material in 10 cubic feet of space, it believed you. It couldn’t optimize your picking or put away. It expected you to know that traversing the entire expanse of the warehouse each time you put an item away was inefficient. It didn’t know how many pallets fit on one forklift, so it had no idea how many trips it would take to move a truckload of goods off the receiving dock and into the warehouse.
But these are very real issues for distributors that make a living from moving inventory – hence the need for better inventory control and for warehouse management solutions (WMS). Yet only 52% of the wholesale distributors we surveyed said their warehouse management needs were well satisfied with their current solution(s).

And of course, if you want to optimize your inventory levels to their lowest levels without adversely impacting customer response, you’d better have tools for sales and operations planning (S&OP), including forecasting and demand planning. Today’s network economy places more emphasis on supply chain planning and management (SCM), yet only 49% of distributors surveyed indicated their SCM needs and even worse, only 34% said S&OP was well supported.

The bottom line: If you struggle with satisfying these needs you are not alone. But that is no excuse for ignoring them. Furthermore, if you act now, you have a good chance of achieving a competitive edge over those who continue to be satisfied with “making do.”

**GETTING THERE: TECHNOLOGY ARCHITECTURE IS KEY**

Throughout this discussion we have been alluding to the value of newer, modern technologies, but what really is the impact? One of the biggest challenges in making an ERP implementation truly successful is the ability to handle change. Older, outdated technologies relied very heavily on logic hard-coded into source code. Changing it meant invasive customization that built in barriers to upgrades and innovation.

Newer solutions are built for change, often using a platform approach. They are more extensible and much of the logic is built into business rules that can be changed as required - without ever having to muck around in source code.

This is why the underlying architecture, or platform, is so important. A platform approach helps customers satisfy that “last mile” of functionality that has traditionally required invasive customization, which presents barriers to consuming further innovation. It is made even more crucial because we live in a changing world, during disruptive times. In response, the pace of innovation of enterprise applications must increase dramatically in order to remain viable. A solid platform provides a better way.

Look for a platform that is open and extensible –one that makes it easier to add new functionality while preserving the integrity of the core. This extensibility is most often facilitated through modern APIs (application programming interfaces).

Modern platforms today are also moving in the direction of microservices. For the reader with a technical background, microservices, also known as the microservice architecture, is defined (by Wikipedia) as an architectural style.
that structures an application as a collection of loosely coupled services. For those nontechnical readers, think of it as constructing a solution from a set of Lego building blocks.

Think about how you build a structure from Legos. Each Lego block is made of the same kind of material and is attached (connected) to the other Lego blocks the same way. In many ways they are interchangeable. By choosing different colors and sizes, and connecting them with a different design, you can make a structure that is very unique. And once constructed, if you want to change it, decoupling some of the blocks and replacing them doesn’t destroy the parts that are not affected. There is far less disruption introduced than if you had constructed it with timbers, a hammer and nails.

**KEY TAKEAWAYS AND RECOMMENDATIONS**

If you are like most wholesale distributors today, you are operating on a tight budget. You face increasing global competition, tighter global trade regulations and unpredictable transportation costs. This puts added pressure on operating margins that were already thin. And you can’t be successful operating in a vacuum in our evolving network economy, which is also a digital economy. A well-run ERP solution can provide the type of controls and visibility to achieve both operational excellence and a competitive edge, while also producing cost savings.

But that won’t happen unless you set the bar high enough in terms of expectations. If you are running on old, outdated technology, if you don’t have the kind of specialized functionality required for world class distribution, or if you can’t easily respond to changing business requirements, you are not alone. Many wholesale distributors are still “making do” with underperforming solutions. But that doesn’t mean you shouldn’t fix that problem. Competition is only going to continue to intensify and grow on a global scale. Now is the time to gain that competitive edge.

World Class ERP implementations have been shown to produce impressive performance improvements and savings in excess of 20% across several cost categories. If you continue to expect less of your ERP, then you are leaving money on the table. **That is the cost of doing nothing.**

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**About the author:** Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 40 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 11+ years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.