



## The Outlook for Wholesale Distribution in 2012

*A Survey of Key Business Objectives and Challenges  
Among Mid-Market Wholesale Distribution Companies*

## Executive Summary

During the last quarter of 2011, NetSuite undertook a survey on the state of business within the mid-market wholesale and distribution (WD) industry. The results were both positive and striking. Despite the challenging environment of 2011, over 69% of respondents were optimistic about their prospects for the near term, with close to 99% believing business will either improve or remain steady into 2012.

A majority (65%) of mid-market WD businesses are focused on achieving a balance between revenue growth and cost savings, with another 30% focused on just revenue growth. Profitable growth through new products, new channels, efficient automation and streamlining of business processes is the mantra for 2012.

This optimism continues from 2010, when our survey found that companies were focused on both revenue growth and cost savings. This year's survey makes it clear that mid-market WD companies are ready to grow their businesses sustainably in 2012.

## Methodology

NetSuite's online survey of mid-market WD companies in North America was designed to better understand the industry's economic health, business objectives, focus areas, key challenges and its use of software to support business processes. Participating WD companies met the following criteria:

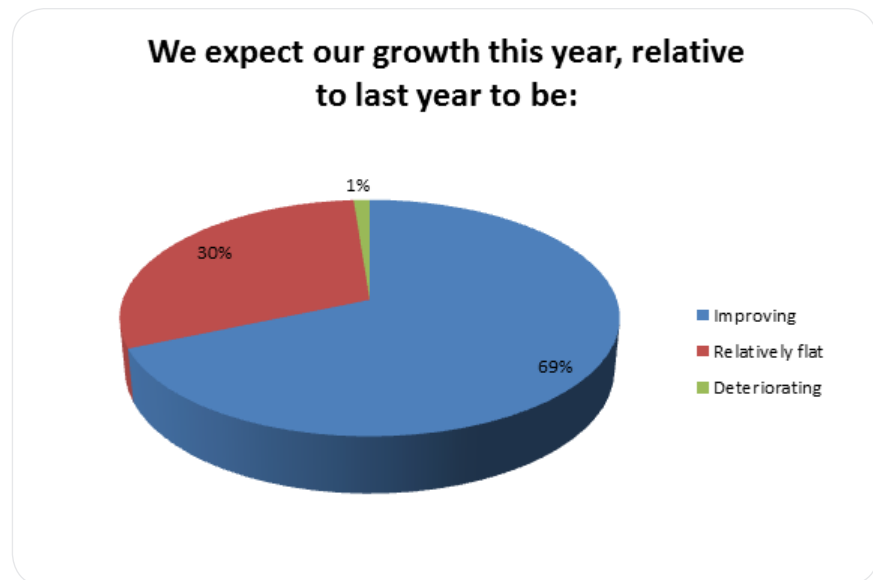
- Engaged in wholesale business or in the business of finished goods distribution
- Annual revenues of less than \$500 million USD.

More than 80,000 contacts received an invitation to participate. With more than 250,000 U.S. businesses self-designating as being in the WD business, this was a significant undertaking and builds on an earlier industry assessment by the National Association of Wholesaler-Distributors (NAW).

Among our respondents, 31% identified themselves as decision-makers regarding purchases of customer relationship management (CRM) and enterprise resource planning (ERP) solutions at their companies. Almost 46% were influencers or recommenders of CRM and ERP. The remainder was split among users and implementers with no specific decision-making role.

## Expectations for Growth

Optimism for growth is high in the wholesale distribution industry, according to our survey results. More than 69% of respondents expect their companies' growth to improve throughout 2012 compared to last year, a continuing trend of improvement from the trough of pessimism during the recession and the year following. Almost 30% expect their growth to remain about the same while less than 1% expect it to deteriorate, a remarkably low percentage that reflects a consistently positive outlook among wholesale distribution companies.

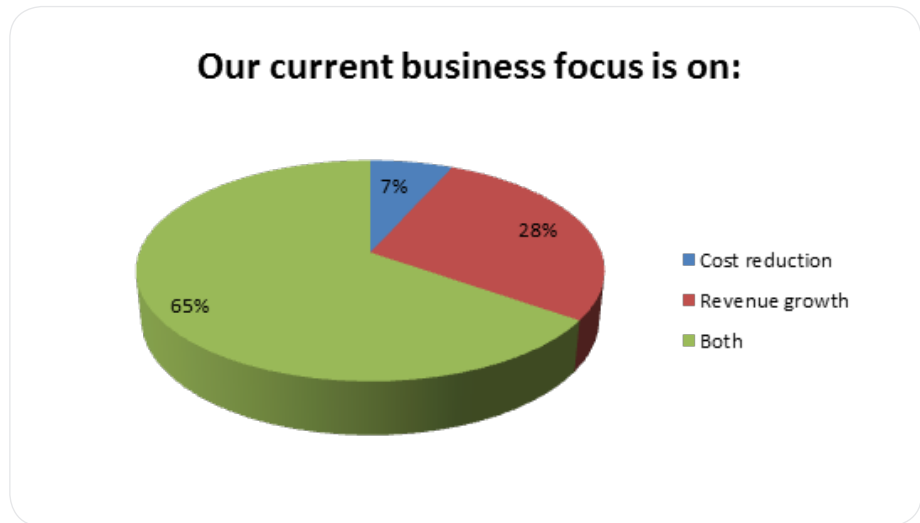


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### Business Focus on Growth and Cost Reductions

To drive their distribution business, the majority (65%) of respondents are focused on achieving a balance between revenue growth and cost reductions. About 28% of respondents are zeroing in on revenue growth, while only 7% are looking strictly at reducing costs. Growth is definitely back on the agenda!

The survey illustrates that distributors don't view pure cost-cutting as a sound strategy. Clearly, distribution leaders see significant growth opportunities and are aggressively pursuing them, while strategically reining in costs.

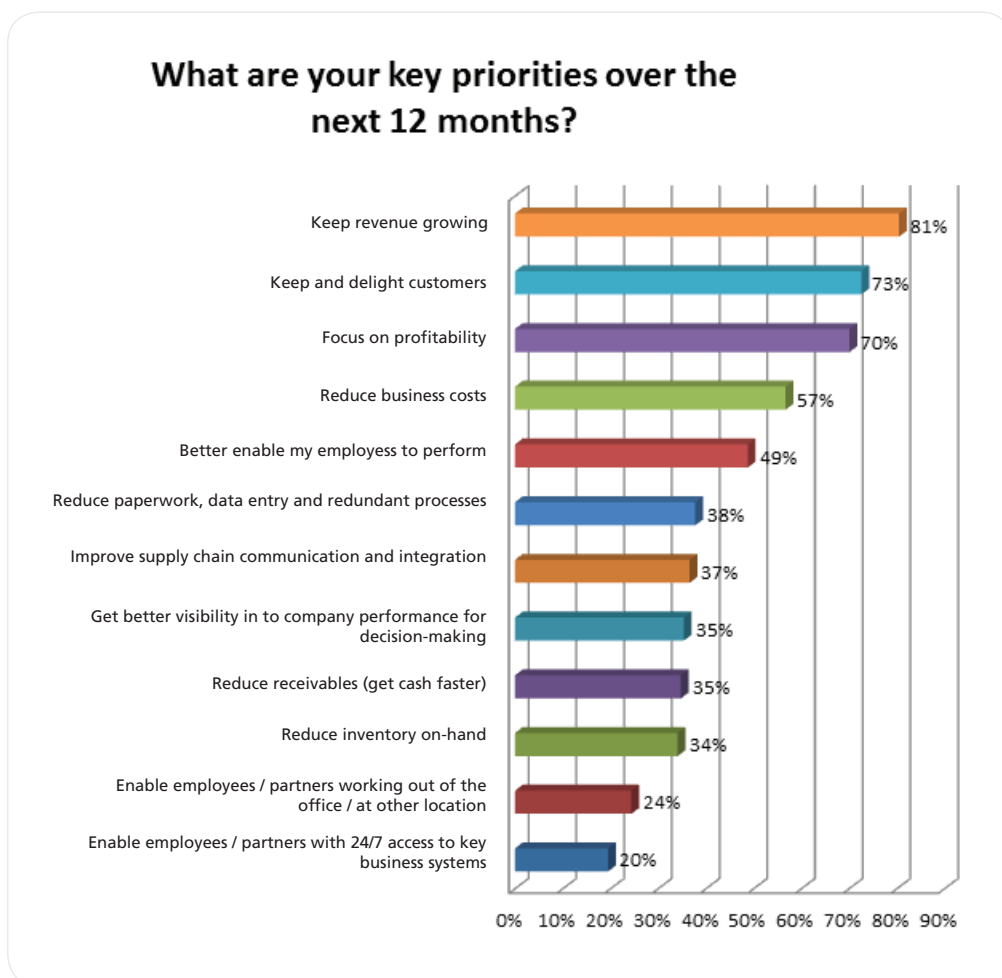


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### Key Priorities

The majority (81%) of wholesale distribution leaders identified revenue growth as their number-one priority for 2012. This is closely followed by the next two priorities: keeping and delighting customers (73%) and ensuring profitability (70%).

Respondents also identified reduced business costs (57%) and employee productivity (49%) as key priorities for 2012. The selection of these priorities suggests that revenue and profitability continue to be front and center for wholesale distribution companies. Additionally, companies recognize that it is more expensive to acquire new customers and thus continue to remain focused on maintaining and growing their existing customer base.

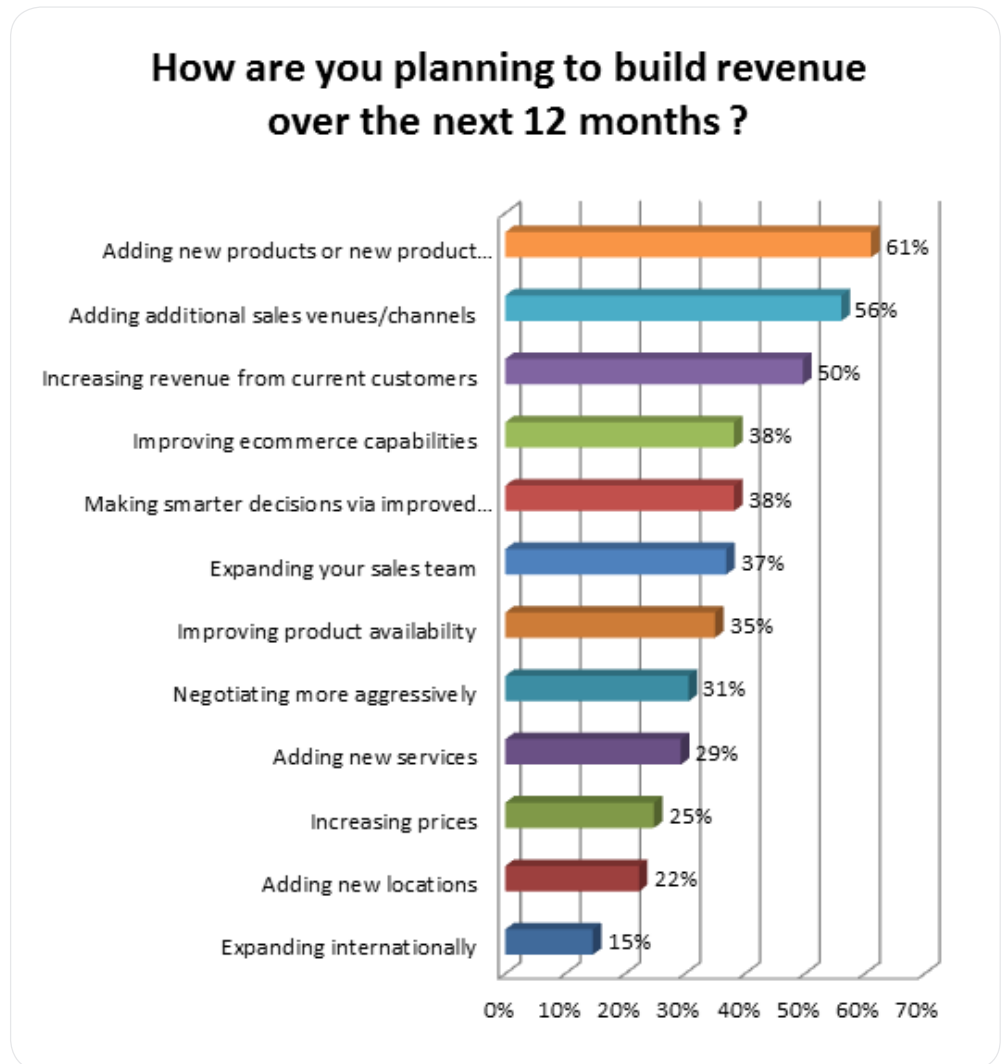


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### Plans to Grow Revenue

A solid 61% of respondents are looking at adding new products or product categories in order to drive revenue growth. Adding in additional sales venues or channels (56%) came in at a close second.

Less than 25% are considering price increases as the way to increase revenue, suggesting continued price and margin pressure among wholesale distributors.

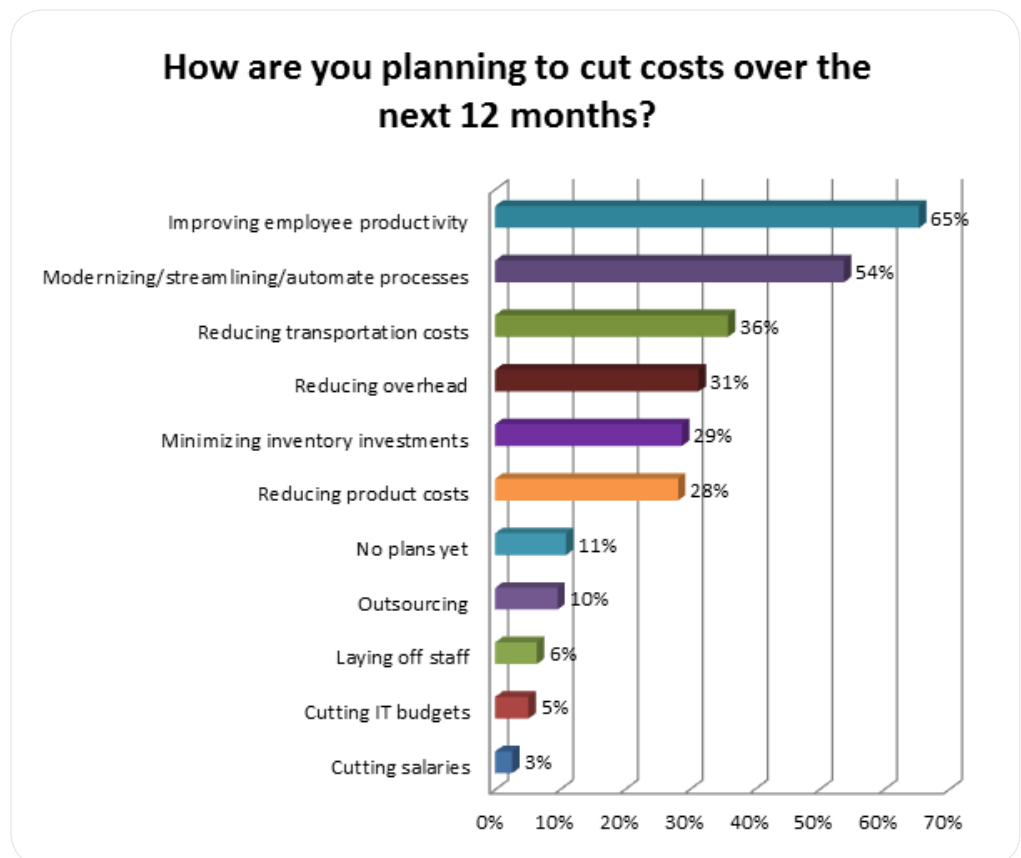


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### Plans to Control Costs

Almost two-thirds (65%) of wholesale distribution leaders cited improving employee productivity as their key strategy for reducing costs in the near term. In addition almost 54% are planning to modernize, streamline and automate business processes, which bears directly on employee productivity by relieving them of manual data and order management chores to focus on value-added customer and revenue growth initiatives.

Directly related to continued cost increases for fuel and other commodities, 36% of respondents are looking to how they can reduce transportation costs. Indicating the relative health of the industry, a very small percentage of respondents are considering laying off staff or cutting salaries, hours or IT budgets.



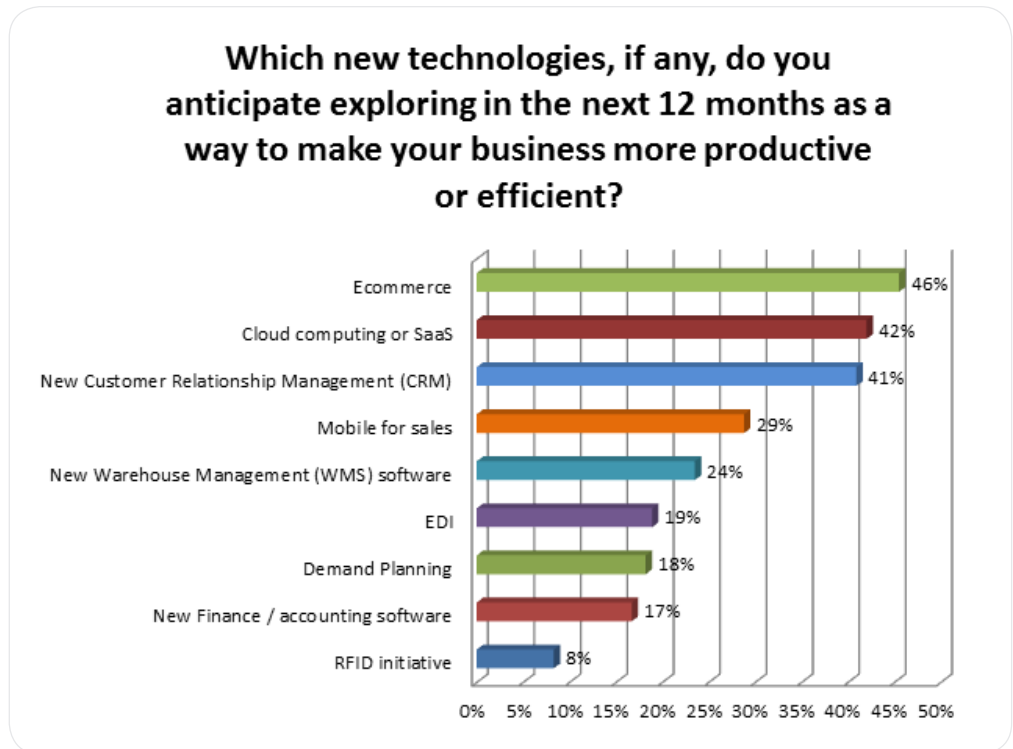
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### Priorities for New Technologies

Asked which new business technologies they are exploring, the largest percentage (46%) cited ecommerce as a potential way to improve business productivity and efficiency. Consistent with the earlier result of distributors looking at additional channels to drive revenues, distributors see ecommerce as a way to fuel growth without substantial increases in cost. Ecommerce was also ranked highly in last year's survey, in the second position.

Initiatives for cloud computing or Software as a Service (SaaS) came in a solid second with 42%, as more distributors take a serious look at the cloud model to reallocate IT budget and more easily manage their business. This is a major change from a year ago when SaaS was cited by just 21% of respondents, in fourth place on our list.

Coming in a close third and consistent with the focus on customers was CRM technology (41%).



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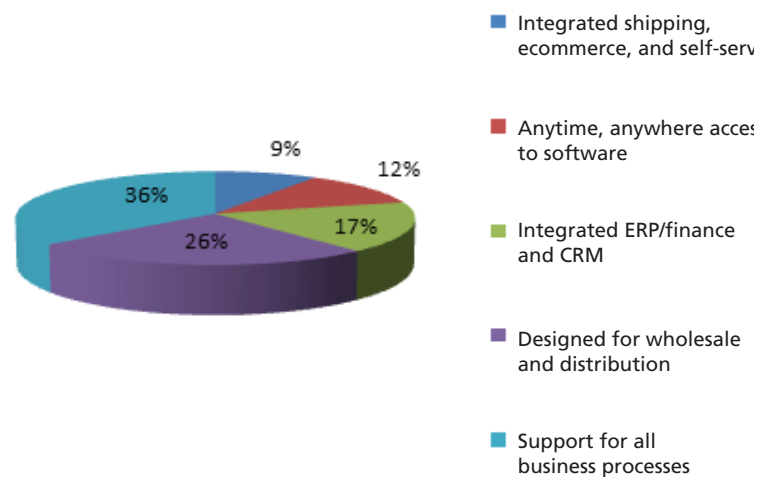


## Requirements for Business Software

When asked about the most important software requirement for business operations, 36% of respondents named support for all business processes. The old piecemeal approach has proven itself to be too costly, too complex, too fragile, too limiting. Wholesale distributors appear to be dissatisfied with point tools and single-purpose solutions that often require costly integration, maintenance and upgrades, and that can hinder employee productivity.

Meanwhile, 26% view functionality specific to wholesale distribution as the most important requirement for software. These distributors recognize that software with built-in industry best practices offers a considerable advantage over generic applications.

### Which is the most important software requirement to run your business

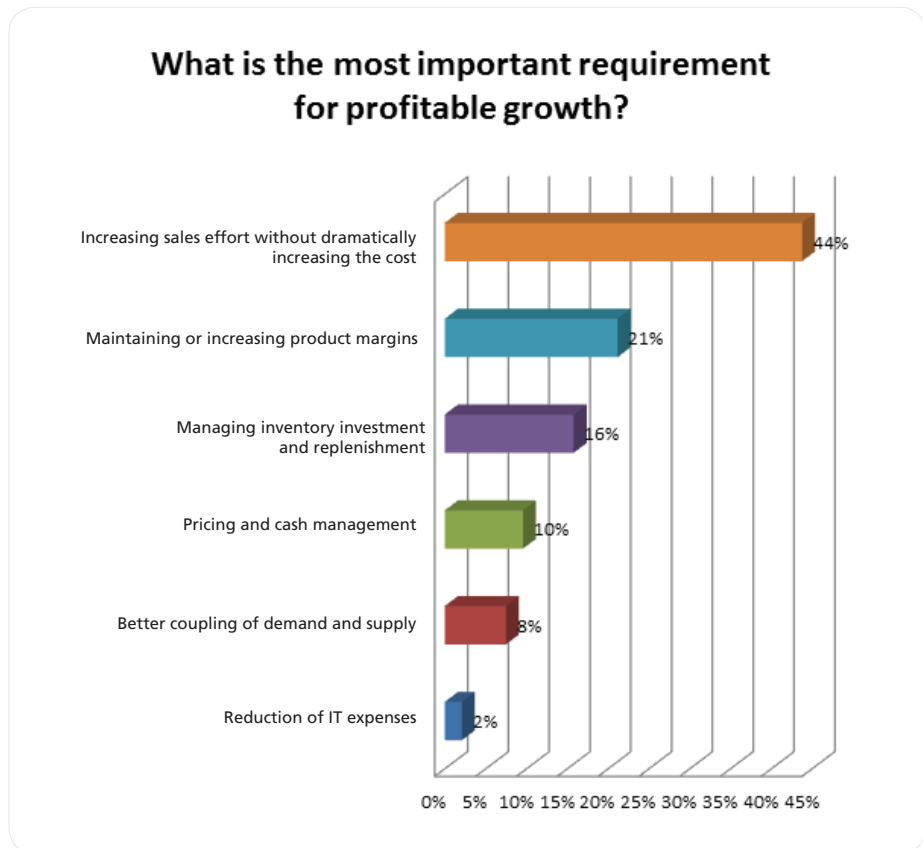


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## Requirements for Profitable Growth

Close to half (44%) of wholesale distributors view increasing sales efforts (without dramatic cost increases) as the most important requirement for profitable growth. This is consistent with other survey results that show distributors looking at technology such as ecommerce to increase their reach without the added cost of a direct sales force.

Maintaining or increasing product margins is also highly regarded as a method for profitable growth among distributors (21%). Lastly, distribution companies continue to be focused on inventory management (16%) as a way to ensure profitable growth.

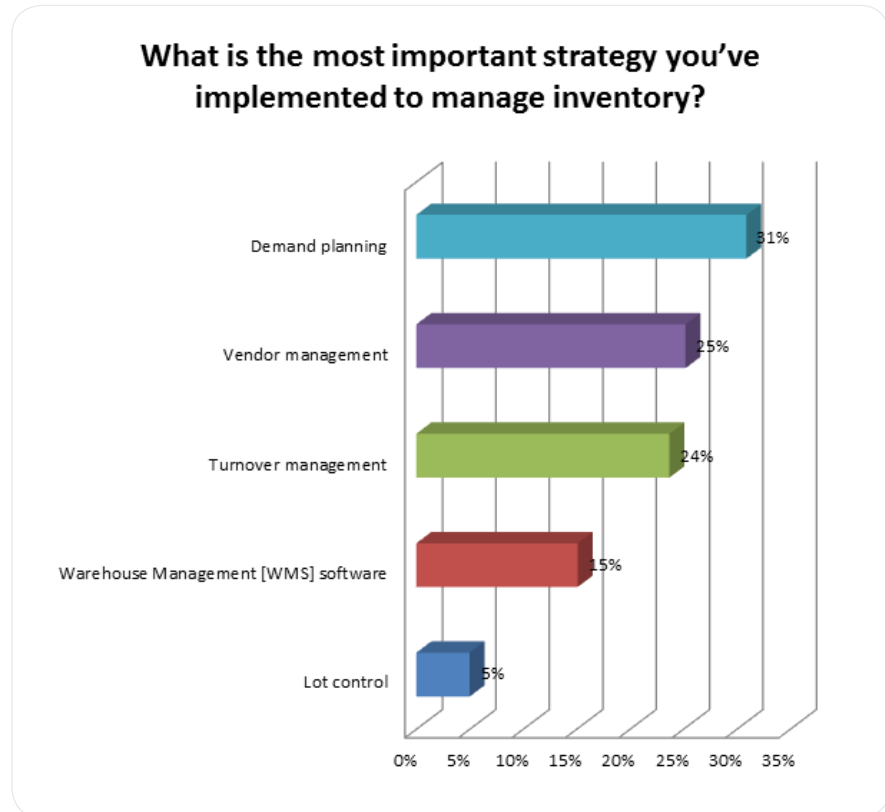


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## Inventory Management Strategies

Asked about how they managed inventory, 31% of respondents said that they are relying on demand planning as the key strategy. Companies are using demand planning to better adapt to volatile market conditions, fast-changing customer requirements and long (or erratic) lead times in global importing and exporting. Vendor management is also critical (25%) as well as turnover management (24%).

Given that the industry has cost efficiency at a top priority, distribution businesses are clearly looking to demand planning as an engine that can reduce costly stock-outs and help them maintain optimal inventory levels.



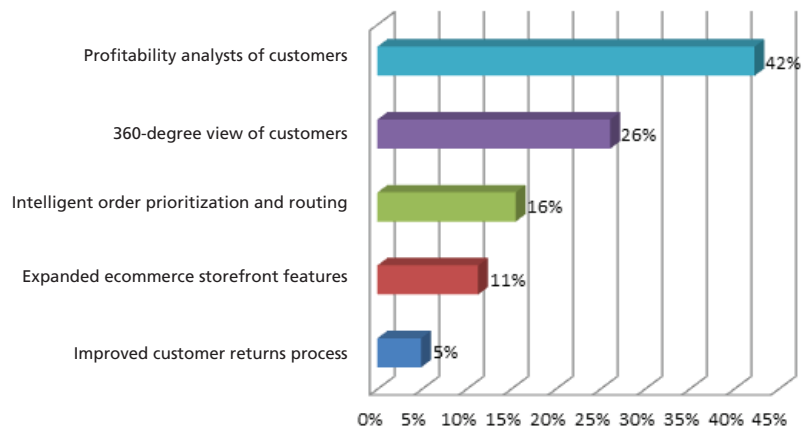
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## In Pursuit of Customer Service Excellence

According to the survey, 42% of distribution leaders are focused on understanding who their most profitable customers are to ensure they are delivering the right customer service to the right customers, and to optimize pricing and margins.

Our respondents also want a 360-degree view of the customer (26%), which encompasses all activities (meetings, transactions, phone calls, email marketing response, etc.) that a company logs with a customer to better meet the client's needs and identify cross-sell and up-sell opportunities.

### What is the most important thing you're doing in your pursuit of excellent customer focus



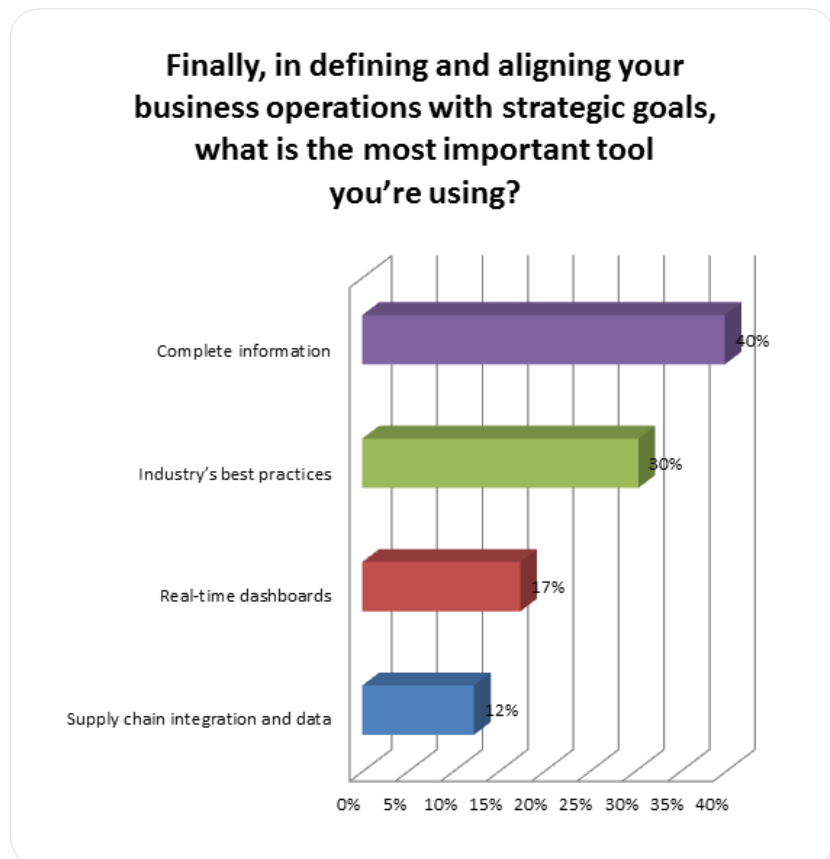
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## Aligning Business Operations with Strategic Goals

According to 40% of respondents, having complete information is key to aligning their business operations with their strategic goals. As in many industries, distribution businesses depend on quality information. Performance will rise or fall depending on the accessibility, timeliness, relevance and quality of information.

This emphasis on complete information aligns with the top-ranked characteristic of distribution software—that it support all business processes. Distribution leaders appear to be looking to understand their operations in a comprehensive, unified business model.

Other key elements for tactical/strategic alignment are the use of industry best practices (30%) and real-time dashboards to monitor performance (17%).

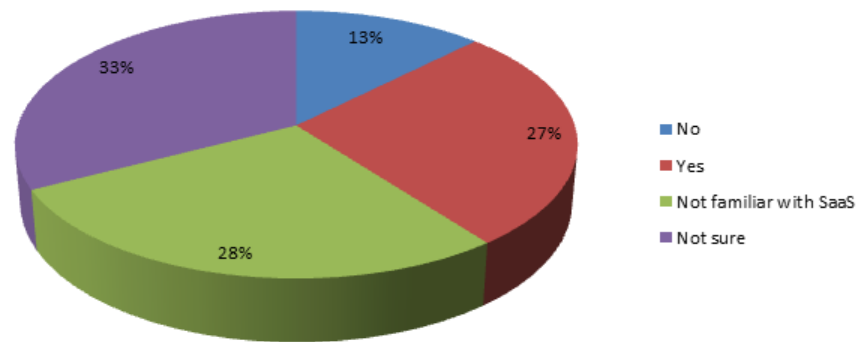


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### Perspectives on SaaS

About 27% of distributors consider Software as a Service (SaaS) an effective way to reduce expenses and make their businesses more efficient. This reflects a growing embrace of the web-based SaaS model among smaller and mid-market businesses (in many industries) that lack the resources to deploy, integrate and maintain on-premise applications. Consistent with other studies, 28% are still unfamiliar with SaaS and another 33% are evaluating its viability.

**Do you consider web-based SaaS applications an effective way to cut expenses and improve efficiency?**

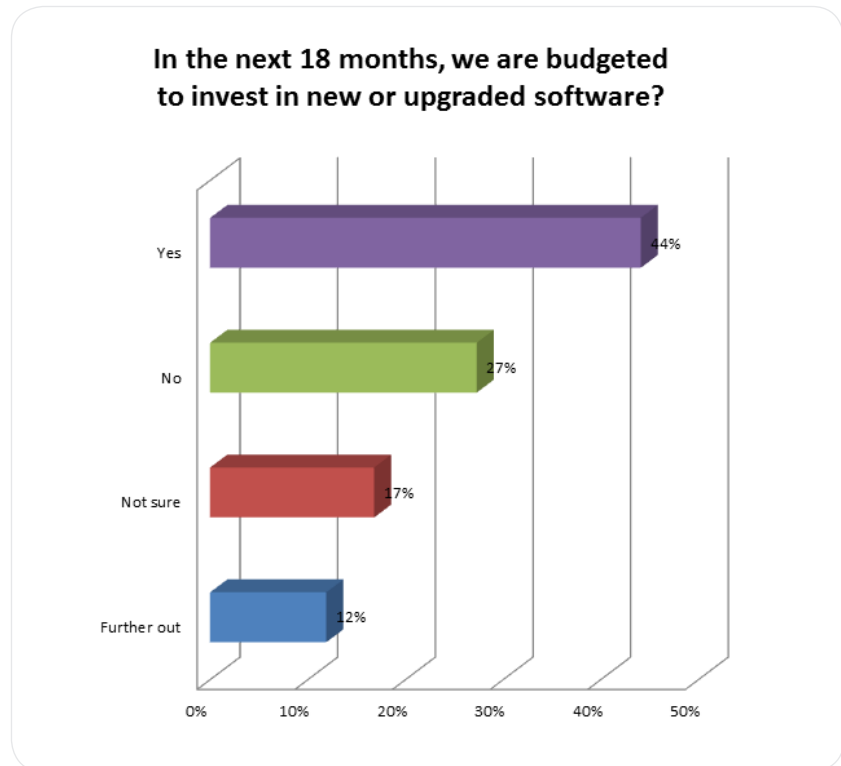


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### Investing in New or Upgraded Business Software

With growth and optimism on the upswing, the greatest percentage (44%) of distribution businesses are planning to invest in new or upgraded business software over the next 18 months to help them achieve the key objectives identified in this survey—improved customer satisfaction, revenue growth, reduced costs, improved employee productivity, automated and streamlined processes, and the ability to access complete information to align tactical execution with strategic goals.

This focus on new software investment is further proof of survey respondents' optimism and is a significant increase over the 36% who reported planning new software investments in last year's survey.



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## Conclusion

As the results of this survey illustrate, the mid-market WD industry is decisively optimistic for its future. The priority is to grow while at the same time controlling or reducing costs, and leaders are looking to boost sales efforts without dramatically increasing costs in pursuit of this objective.

The survey also reveals a strong focus on new products, customer retention and profitability, with SaaS, CRM and ecommerce systems atop the list of technologies to help achieve these strategic business goals. At the same time, WD leaders are looking to improve employee productivity, automate and streamline business processes and reduce overhead to boost overall efficiency.

WD companies also want a system that supports all business processes and gives a complete view of what is going on within the business. Many believe that web-based SaaS applications (also called cloud computing) are an effective technology to reduce costs and improve business efficiency.

## The NetSuite Wholesale Distribution Edition

The NetSuite Wholesale Distribution Edition is the only cloud-based integrated business suite designed expressly for wholesale distribution. It gives WD businesses a complete, web-based suite that allows them to:

- Get complete information by monitoring and managing their businesses with the ultimate customizable business dashboard, featuring built-in best practices for wholesale distribution.
- Convert leads to orders, orders to shipments and shipments to revenue with NetSuite's advanced warehouse, inventory management and order fulfillment capabilities.
- Gain a real-time, 360-degree view of customers and provide better customer service through NetSuite's seamless integration of CRM with financials and other back-office systems.
- Grow revenues, enter new markets and improve channel partner engagement with tools for partner relationship management (PRM) to expand your sales presence.
- Manage webstores and online business with NetSuite's ecommerce solution, tightly integrated with accounting, fulfillment, inventory, CRM, PRM and more.
- Leverage demand planning to optimally manage inventory seamlessly.

For more information, please visit [www.netsuite.com/wholesale](http://www.netsuite.com/wholesale).