



DIGITAL TRANSFORMATION IN DISTRIBUTION

How Intelligent ERP can Enable End-to-End Visibility
Across the Distribution Value Chain

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Why read this InfoBrief?



Distributors are striving toward end-to-end visibility and smarter and faster operations

Distributors are dealing with a multitude of internal and external complexity



What keeps the C-suite awake at night

Distributors must balance meeting fast-changing customer requirements and demands, growing and managing diverse and complex product inventories, dealing with fluctuations in the supply chain, monitoring and managing margins in the face of higher costs and reduced selling prices, addressing channel disintermediation, and many other things. But above all, they must maintain visibility into their processes, suppliers, and customers at all time.

With the right digital strategy, distributors can not only keep pace with these challenges, but more importantly achieve new levels of efficiency and business opportunities.

The Importance of Sustainability

Distributors worldwide are influenced by consumers, regulations, and new technologies to improve their environmental impact.

To tackle these challenges, their **top 3 sustainability efforts** are focused on:

73%

Product recycling/
reverse logistics

65%

Low/no-emission
internal logistics

61%






Low/no-emission
internal supply chain

Source: IDC Worldwide Supply Chain Survey, April 2020; retail and distribution n = 203

To achieve excellence, distributors focus on a balance of cost reduction, technology, customer centricity, and supply chain visibility

To deal with a multitude of challenges, ranging from acquiring and retaining customers to adapting to omni-channel logistics, **North American distribution companies** are strategically focusing on cost, IT modernization, customer centricity, and operational visibility. The **European market** is overall aligned, but also highlights cybersecurity as a focal point.* Distributors in **Asia/Pacific**** are first and foremost focused on cybersecurity, and then on competition and customer retention. Overall these business priorities are driving IT investments and digital transformation initiatives across the market worldwide.

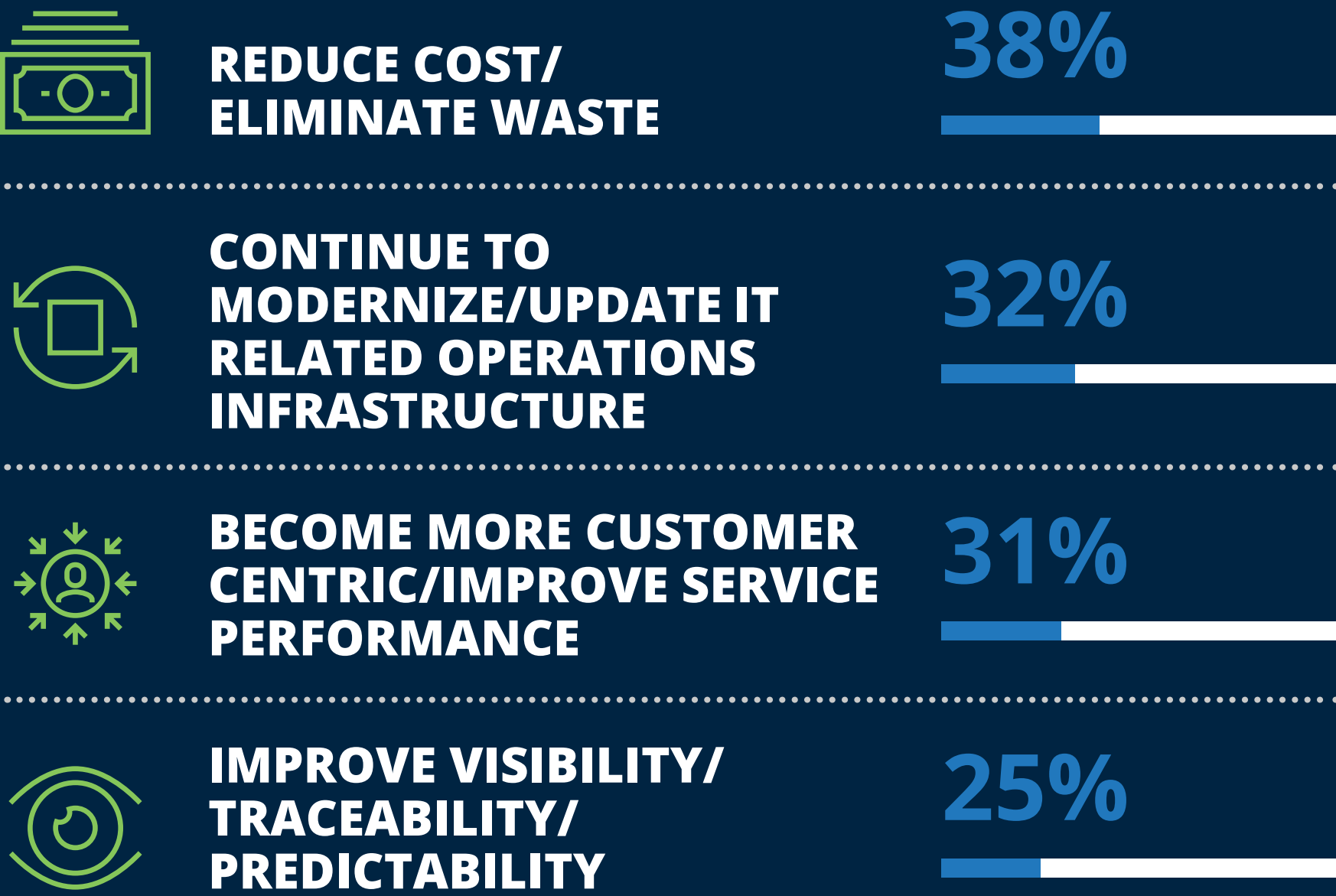
Distribution providers' key challenges:

-  Acquire and retain customers
-  Stock management
-  Minimize risks
-  Cost management
-  Profit margins
-  Adapt quickly to omni-channel logistics



How the market is responding to these challenges:

Q. What are the top 3 priorities for your supply chain over the next 12 months, and in the next two to three years?



* IDC European Tech and Industry Pulse Survey 2019–2020, distribution n = 62
** IDC Asia/Pacific Retail Trends Survey, 2018, retail and distribution n = 291

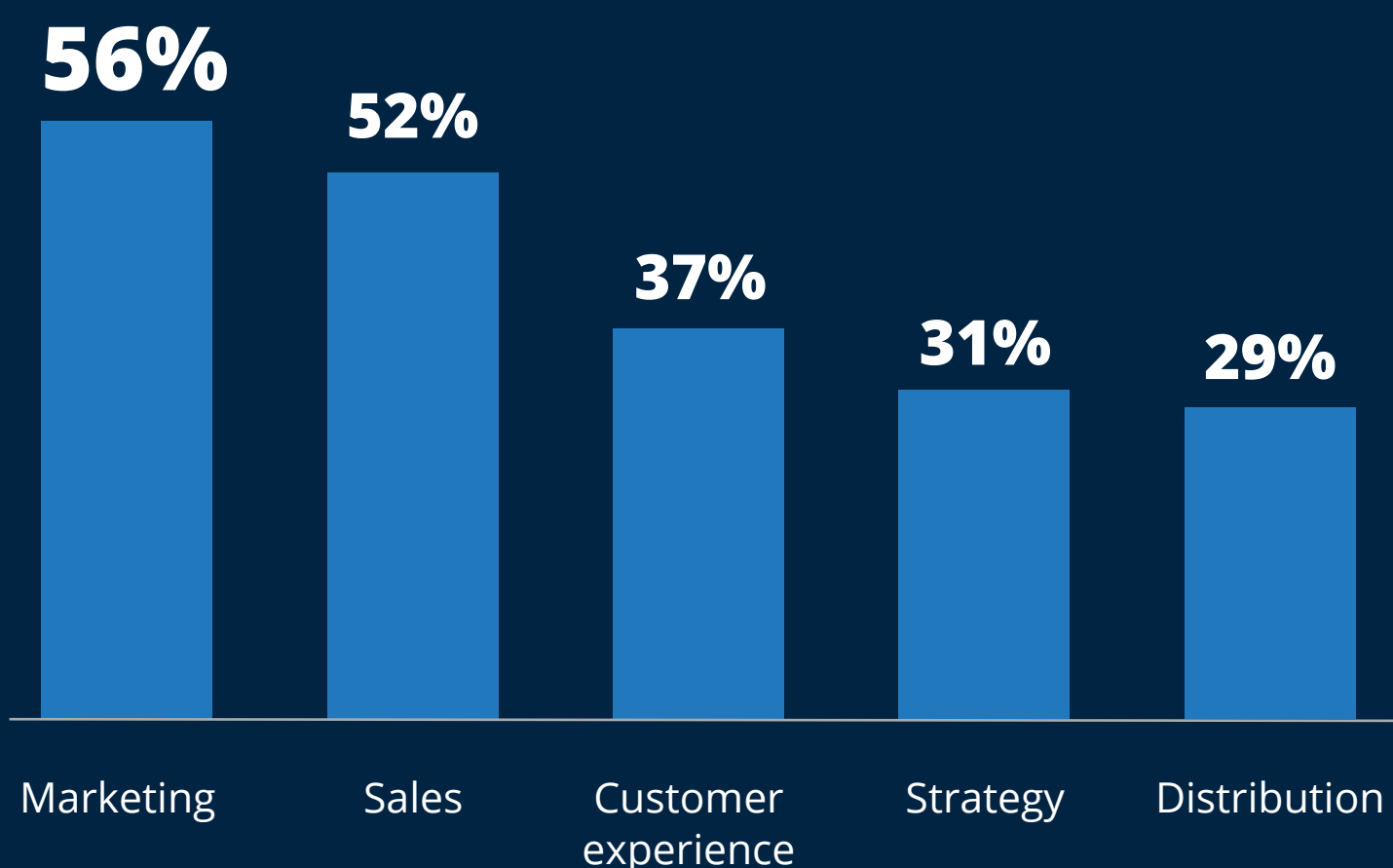
Source: IDC North America Supply Chain Survey, March 2018; total n = 502, wholesale distribution n = 88
Note: Top 4 ranked responses shown

Cost efficiency, customer success, and productivity are the biggest improvement areas resulting from digital initiatives

Distribution companies have started their digital transformation journeys with an **operations** (including supply chain and distribution) and **customer-centric view**. Those that have made digital investments have so far seen the biggest impact on **productivity** and **cost efficiencies**, providing the desired return on investment based on their strategic business priorities.

DX transforms the following functions ...

Q. Which business support functions are being digitally transformed?

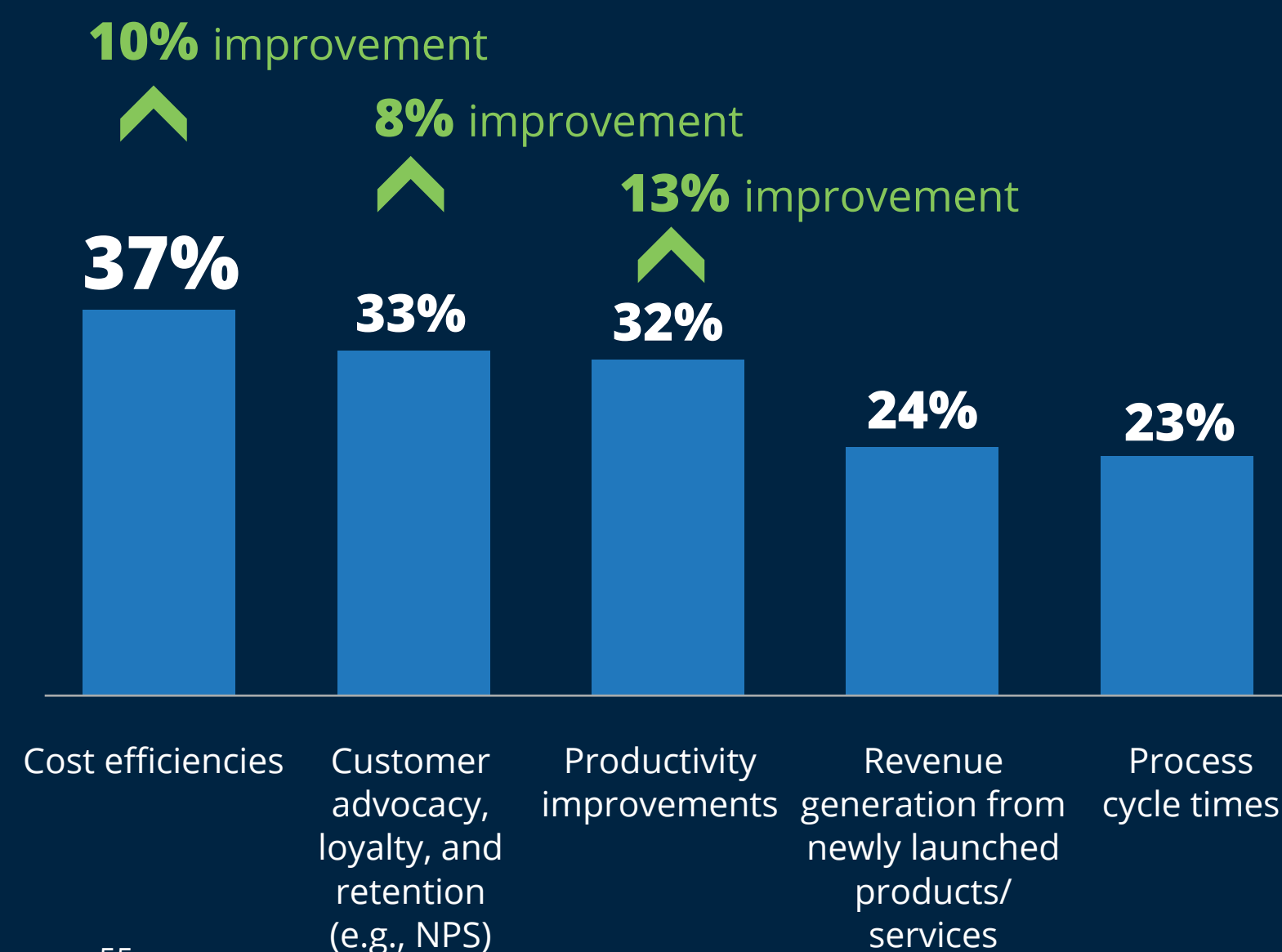


Note: Top 5 answers shown; information technology was deliberately removed.

Source: Digital Transformation (DX) Executive Sentiment Survey 2019, IDC, August 2019; distribution n = 55

... and brings these benefits:

Q. Where have you achieved the biggest benefits from your current DX programs/projects?

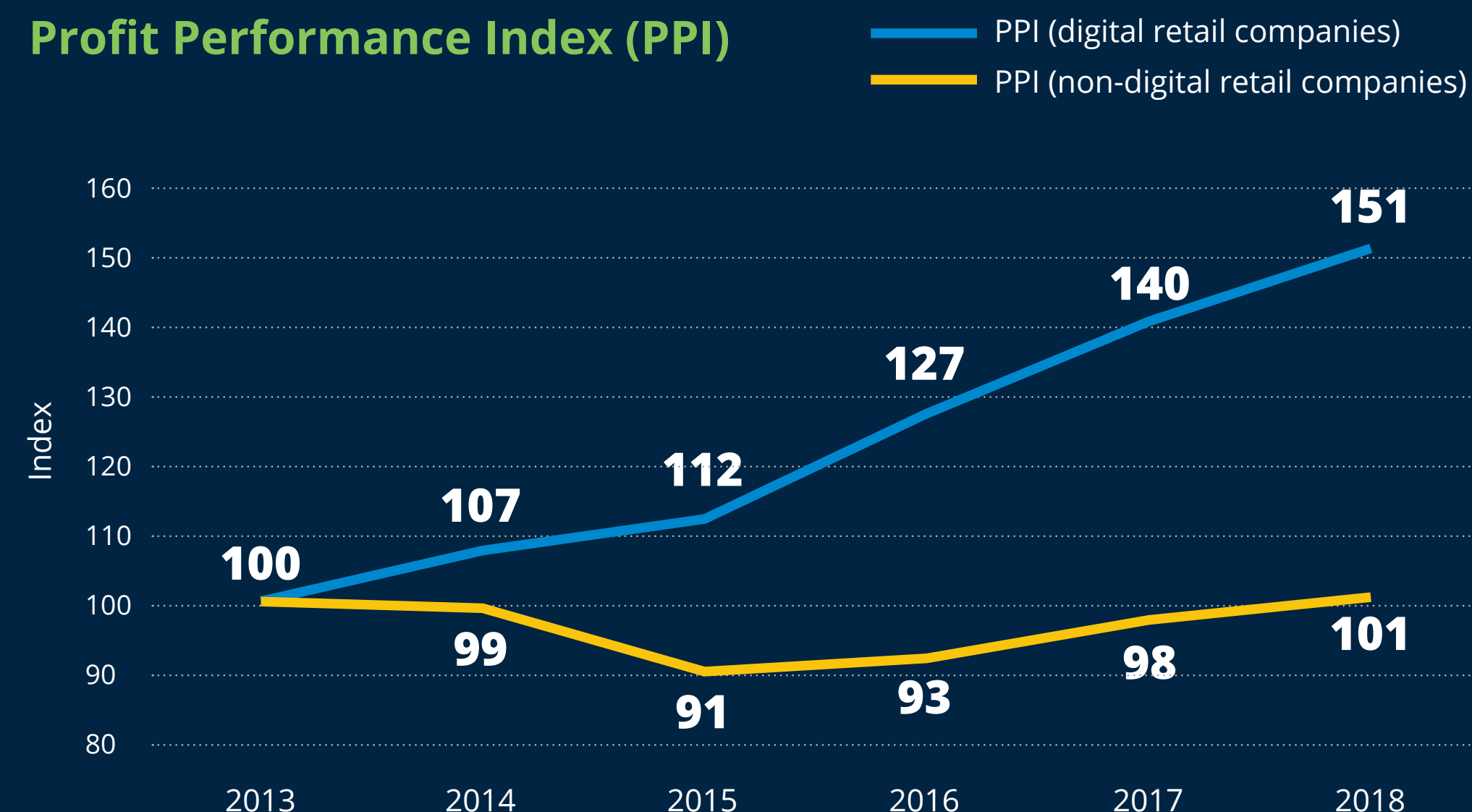
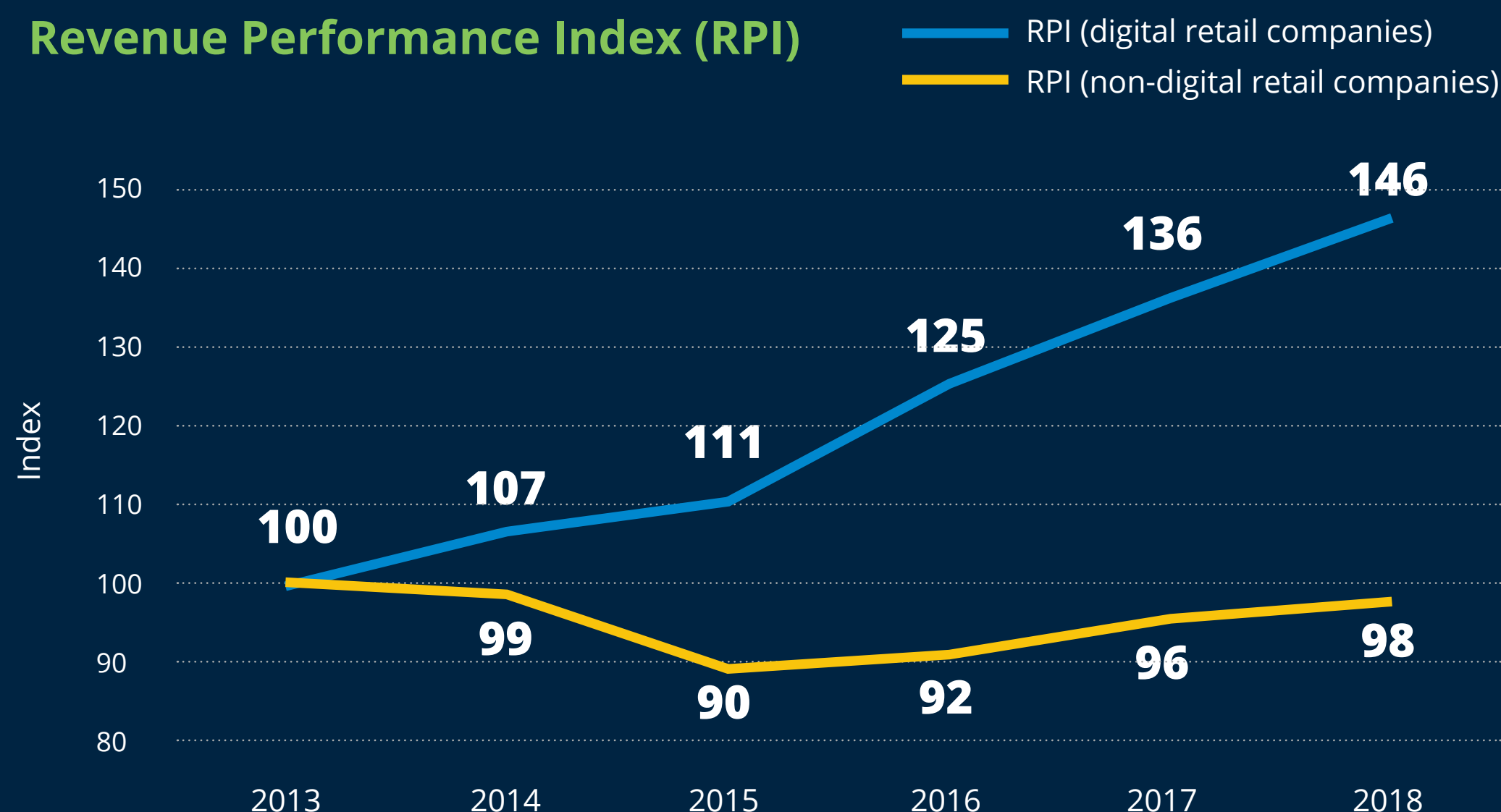


64% of distributors are choosing **operational excellence** (supply chain and distribution/ecosystem focused) as the **number 1 priority** of their DX vision.

The most common **digital success metric**, according to **54% of distributors**, is around the ability to track bookings/orders, revenue, profit, efficiency, productivity rate, and return on investments.

Digitization translates into positive impact both on revenue and profit, causing a rising digital divide in the distribution market

The best-performing companies — armed with digital-native culture, tools, and processes — are racing away from the rest due to their high productivity and profits. This creates a digital divide, where laggards struggle to sustain their businesses and remain relevant in today's digital economy. What is holding these companies back?



Methodology:

The IDC Manufacturing Insights Global Performance Index (GPI) tracks growth metrics from 800+ publicly traded global firms in the manufacturing and retail and distribution industries based on the performance of a sample of companies from those subindustries. Estimates by Reuters.

Source: IDC Manufacturing Insights' Global Performance Index analysis, 2013–2018

The impact of digital on retail and distribution companies

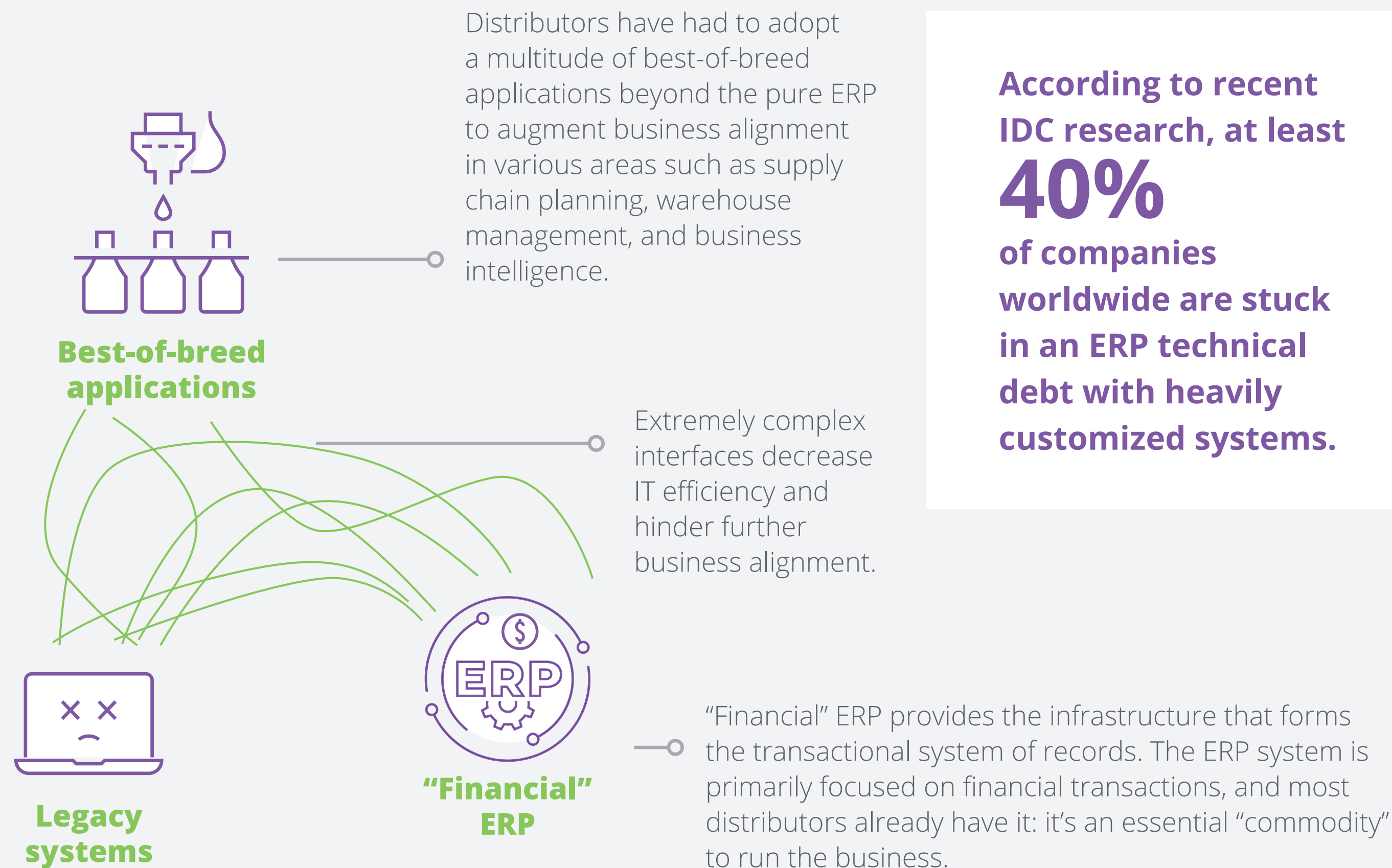
Digital retail and distribution companies are showing **consistent** growth at a much higher pace, and fare much better in the scaling of revenue and profit compared to their non-digital peers. **In only five years**, digital companies have managed to improve their profit performance by **51%**.

How can distributors compete successfully in digital markets given their ERP heritage?

Over decades, distribution companies have invested in **outdated legacy systems**, heavily customized applications, and “financial” ERPs, creating a technical debt that is a nightmare to untangle. This archaic ERP heritage, along with the ongoing use of spreadsheets, is what prevents companies from moving forward in their digital transformation journeys — and is one of the key challenges they need to solve.

IDC research shows that ERP implementations can be more than 12 years old.

32% of distributors see **new technology** as one of the most important change drivers in their industry, according to *IDC's Worldwide Supply Chain Survey 2020*.



According to recent IDC research, at least **40%** of companies worldwide are stuck in an ERP technical debt with heavily customized systems.

For distribution enterprises, not having access to the right information at the right time comes with repercussions

The distribution industry consumes a multitude of information, more than ever before. Being able to get access to data in real time and applying it intelligently in the context of business processes will drastically improve the value delivered to customers, with a positive impact on service quality and ultimately the brand. This is only possible with the right ERP system.

Key C-suite and end-user challenges:

Lack of data accessibility leads to operational resources spending extra time looking backward instead of at current data, and forces them to use **manual processes** to fill the gaps.



Worldwide distributors admit to **lack of (supply chain) visibility** as one of their biggest gaps that need to be tackled to be fit for the future, according to IDC's Worldwide Supply Chain Survey 2020.

This causes three business issues ...



Inefficiencies, errors, inflexibility, and lack of agility



Inability to trace **key metrics** across the value chain (e.g., productivity, inventory, booked vs billed)



Loss of money related to missing payment discounts and other cost-saving opportunities, and inefficient processes

... and leads to wider industry issues ...



Inability to respond fast enough to changing customer needs and requirements in the distribution network



Waste — costs associated with excess inventory, transportation resources, warehouse operations, etc.



Risk exposure — related to the quality of services, traceability of goods, and safe handling



Lack of agility — in being able to adapt to changing regulations and compliance requirements

... and ultimately this response from the market ...



The cost of the wrong ERP

Loss of visibility across operations, inability to fulfill orders in full and/or on time, brand/reputational damage

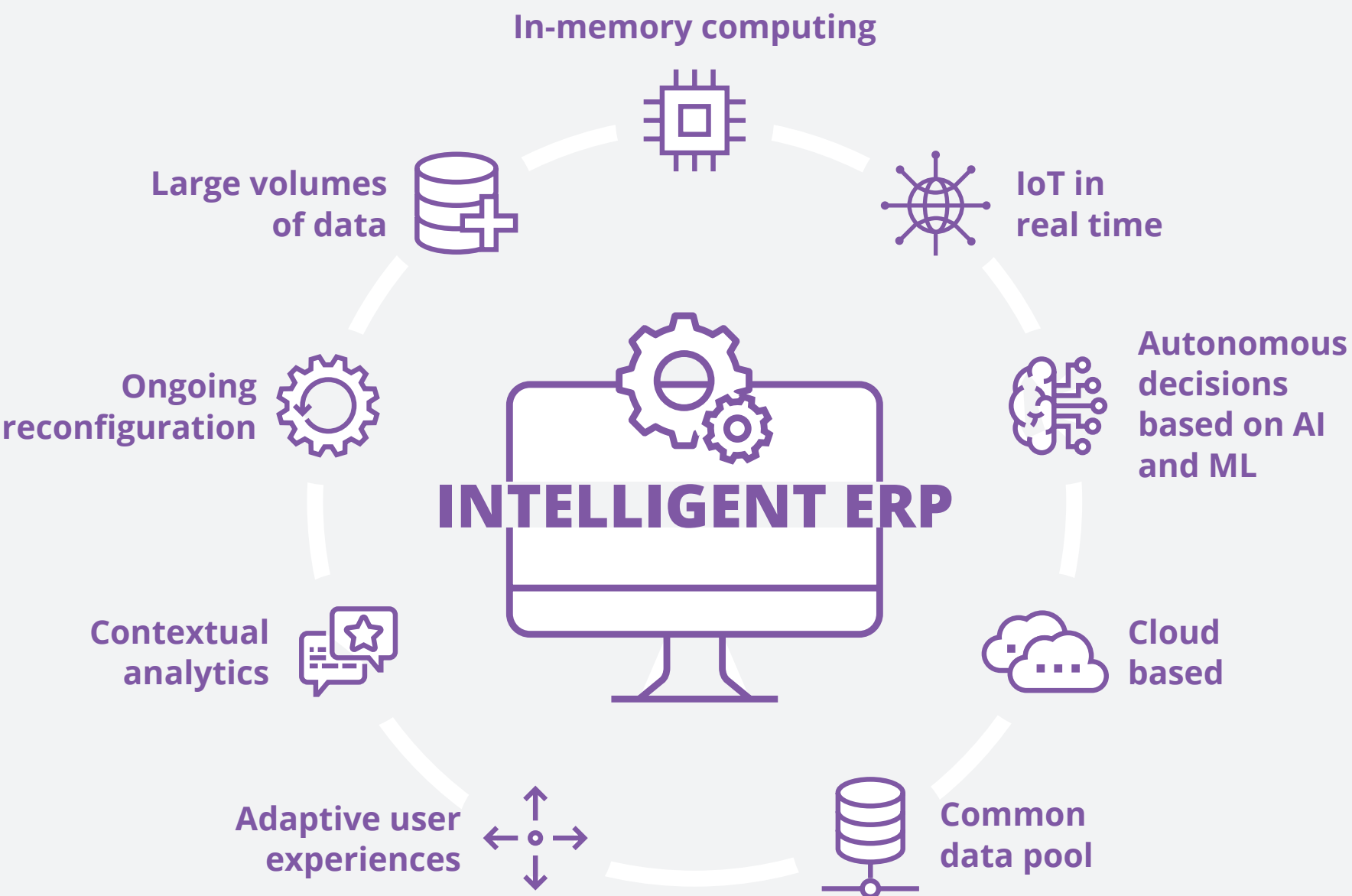
Source: IDC MarketScape Worldwide SaaS and Cloud-Enabled Operational ERP Applications 2019 Vendor Assessment

Intelligent ERP becomes an enabler and strategic decision-making tool in the digital transformation journey

The ERP market is shifting

Distribution enterprises must stop investing in antiquated legacy ERP solutions and start looking into more robust, innovative, responsive, and intelligent ERP systems that can address their challenges. This new generation of intelligent ERP — iERP — is the future of the business enterprise. The intelligence comes from more information/data, in-context learnings, and the application of the knowledge obtained to deliver better business outcomes.

Key characteristics of the intelligent ERP:



The features of iERP help distributors achieve new levels of productivity across the organization



iERP strategy to maximize business value:



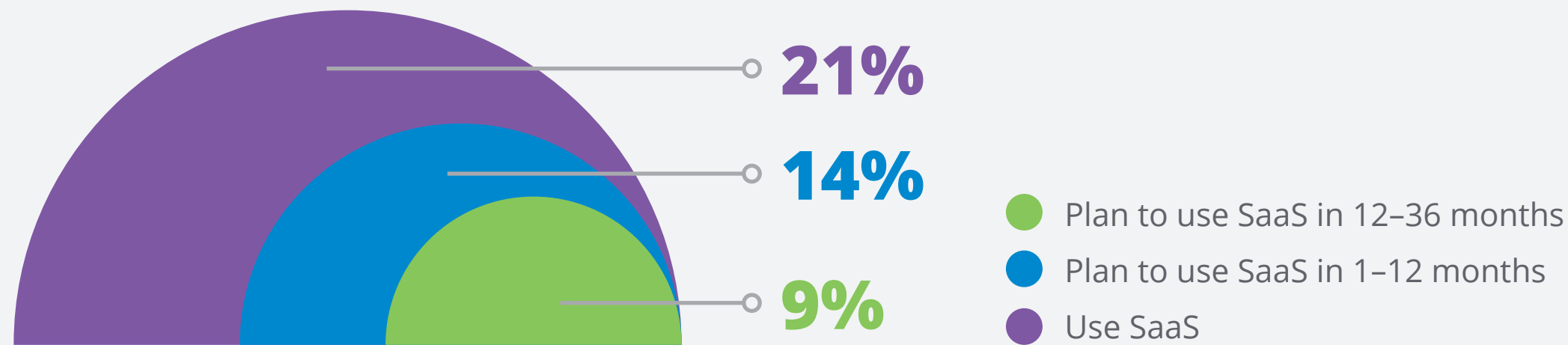
Distributors can optimize across all resources with iERP systems and applications. The business improves productivity, reduces additional layers of resources in employees, technology, and processes, and improves its time to market.

Source: IDC, 2020

Cloud doesn't have to be an all-or-nothing option for distributors

The industry is still conservative toward cloud adoption ...

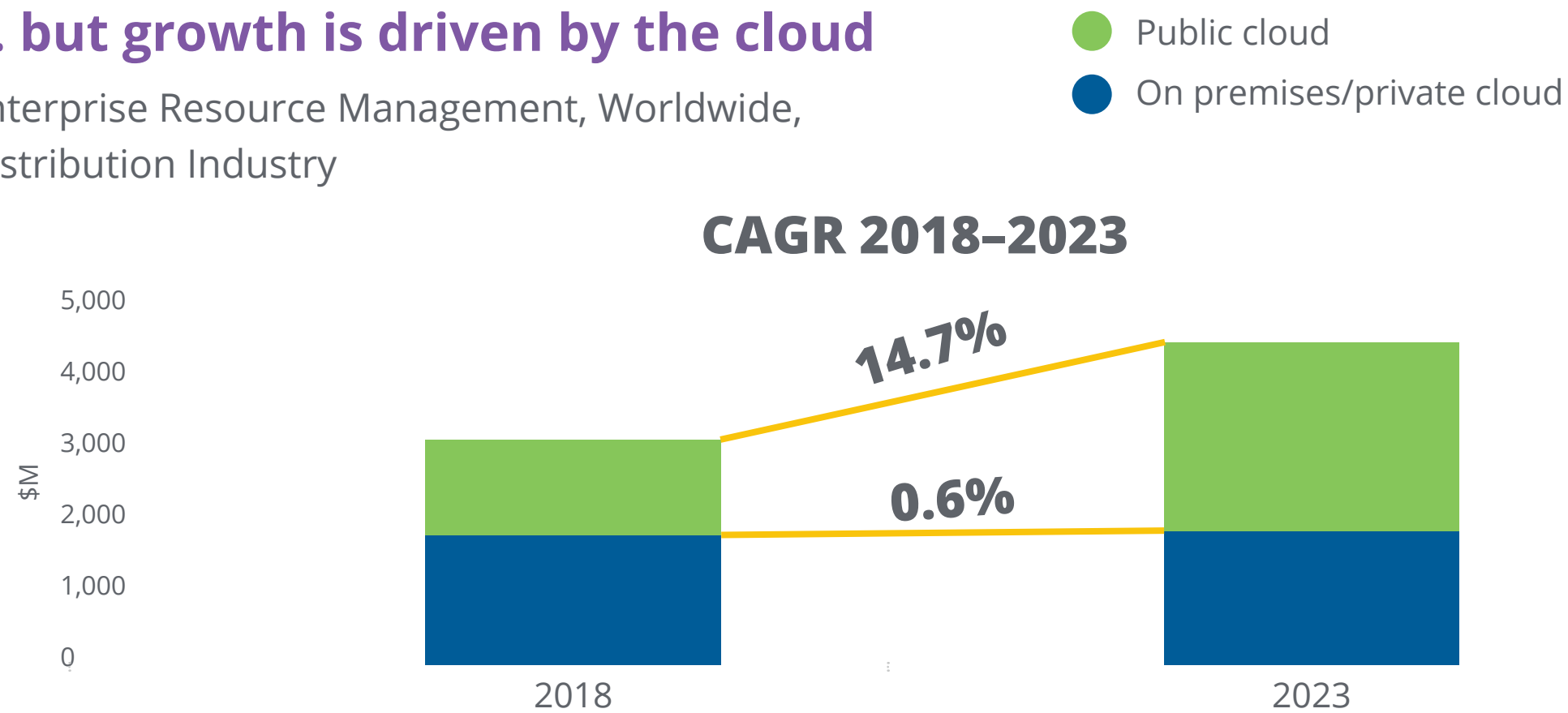
Q. Does your company use a SaaS application for ERP?



Source: IDC SaaS Cloud Survey, January 2020; distribution n = 524

... but growth is driven by the cloud

Enterprise Resource Management, Worldwide, Distribution Industry

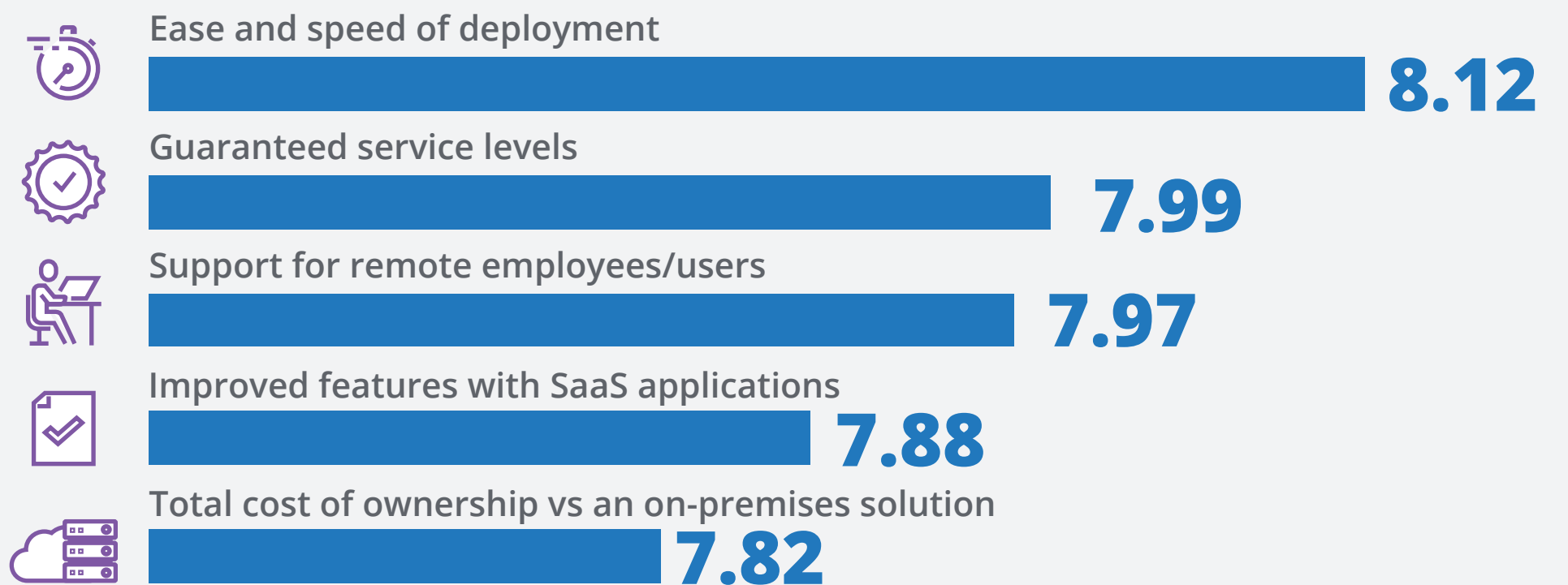


Source: IDC Worldwide ICT Spending Guide, January 2020

Cloud ready in your own time:

- Each business has its unique processes and workflows, and some workloads come with their unique challenges as well, all of which affect ERP deployment choices.
- Some companies have already invested in cloud ERP. IDC predicts that, driven by factors such as cost effectiveness and improved functionality, cloud is what will drive ERP growth in the years to come.
- But this is not to say that cloud is the best option for everyone today. Some companies are already enjoying the benefits of having a **hybrid cloud** approach, enabling them to keep data-sensitive or mission-critical applications on-prem.
- Cloud adoption is a journey; companies should decide the pace of their cloud adoption based on their organizational requirements.

Top 5 reasons for moving into the cloud



Source: IDC SaaS Cloud Survey, January 2020; distribution n = 139

Note: 0 = not important at all, 10 = extremely important

ERP becomes the pivot and organizer of distribution processes, providing real-time inventory data and proactive replenishment operations

ERP helps distributors manage orders for sales, pricing, and shipping, enabling them to optimize business processes so that all information is stored in one secure system.

Other business applications can benefit from the data that ERP handles. Warehouse management systems, fleet management, and business intelligence are just some examples.

This is amplified by the fact that there are supporting technologies that enable seamless collaboration and foster decision making, such as artificial intelligence and cloud.

Source: IDC, 2020

Targets for distribution providers	ERP	Surrounding business applications								Supporting technologies			
End-to-end visibility	ERP	WMS	FM	CRM	BI	eCom	SCP	API	EDI	Cld	AI	IT/OT	BC
Supply chain planning and management	ERP	WMS	FM	CRM	BI		SCP	API	EDI	Cld	AI		
Supplier management	ERP	WMS							EDI	Cld			
Chargeback management	ERP									Cld			
Order management	ERP								EDI	Cld			
Effective warehouse	ERP	WMS			BI			API		Cld	AI	IT/OT	
Engagement with ecommerce	ERP	WMS			BI	eCom		API		Cld	AI		

ERP

WMS Warehouse management system

FM Fleet management

CRM Customer relations management

BI Business intelligence

eCom eCommerce

SCP Supply chain planning

API Application programming interface

EDI Electronic data interchange

Cld Cloud

AI Artificial intelligence/machine learning

IT/OT IT/OT integration

BC Blockchain

In times of disruption, resilience is key to succeeding

The many faces of disruption

Given the interconnected nature of today's global supply chain and expansive network of production facilities, warehouses, and transportation hubs, companies are more likely to encounter **disruptions** or **breakdowns** at more touch points across their supply network.

Distributors can also face external disruptions, which have increased through globalization. While globalized operations can mean diversification of risk, they also **expose** companies to the impacts **of regional problems**, particularly where those operations play a significant role globally.

Many distribution organizations believe themselves to be more resilient than they are. For a business to be truly resilient, and to be good at avoiding disruption regardless of the form it takes, it is imperative that it first looks at its own practices and sets in place the appropriate policies, processes, and tools.

The four components of a strategic approach to resilience



Resilience comes in different shapes

For some, it may be about **improving inventory performance** (getting to more “agile” inventory); for others, it may be about **autonomous warehouses**; and for others still, it may be about **supplier and partner diversification**.

Between 2020 and 2023, distributors worldwide plan to improve their strategy on **being resilient to external disruptions** from 26% to **44%**.

Source: IDC Worldwide Supply Chain Survey, April 2020; retail and distribution n = 203

Case study Lykki

Leveraging ERP for business agility and creating unique positioning in a changing market



Company Overview

Company name: Lykki	Geographic footprint: Vancouver, Canada	Core business: distribution, office supplies retailer
		

Background, Key Challenges, and Objectives

- Vancouver-based Lykki.com positions itself as a one-stop shop for office supplies. It runs 24 hours a day, and every order is made online, supplying everything an office might need — from bananas, binders, candy, and copy paper, to toner cartridges and shredding machines.
- Lykki also offers next-day delivery, no minimum order, a just-in-time (JIT) inventory of 60,000 products, and a generous returns policy. Consolidating multiple office supply vendors may seem like a straightforward market opportunity, but the technology, logistics, and scale required make it a daunting task.
- To execute on its vision for one order, one delivery, one invoice, Lykki needed a robust platform on which to run its core services: inventory, sales, customer services, and finance.

Actions/Solution

- Sage X3 offers Lykki.com everything for managing accounting, payroll, payments, and its people. It also provides the service flexibility needed.
- Sage X3 is fully integrated with Lykki.com’s ecommerce platform. EDI, Sage Enterprise Intelligence (SEI), accounting, and purchasing run through Sage X3, all of which are linked to CRM on the other side. The orders come in through the website, and once a customer hits “submit,” it appears directly in Sage.
- Lykki.com has a 99.6% fill rate — drawing from its own warehouse inventory and an additional 2 million square feet of JIT partner inventory within four hours. Handheld scanners on the Lykki.com warehouse floor are also integrated with Sage X3.
- The company’s systems are automated and instantaneously show supplier inventory. Having a real-time inventory displayed on the Lykki website is something that none of its competitors offer.
- With Sage systems in place, Lykki can now accept web orders, separate JIT from in-stock, handshake information with EDI scripts, and place purchase orders.

Results and Benefits

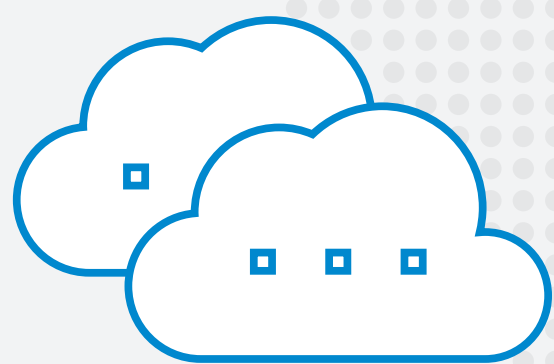
- Given the complex, integrated JIT environment, data is key. Sage X3 provides Lykki.com with a historical overview and future trends to stay ahead.
- Thanks to how the Sage products integrate with Lykki’s ecommerce and CRM software, Lykki can pull any data needed, set up automated reporting and processes, and reduce workflow processes.
- Another benefit is the improved forecasting of internal inventory. As a result Lykki has managed to reduce its inventory on-hand values by 50% while increasing fill rate and inventory turns.
- Since installing Sage X3 the company has flowed over \$29.6 million in orders through the system without a single day of missed orders.

The Future

- Workforce automation has helped Lykki.com to be leaner and smarter with its distribution and management. It can now offer tens of thousands more products for next-day delivery.
- Sage has not only helped Lykki to improve its position in the market, but it is also enabling the business to move forward.

Sage X3 — faster, intuitive, tailored

Sage X3 lets you deliver a faster, more **efficient distribution operation**. From procurement to warehousing to sales and financials, Sage X3 provides the **visibility** and **control** you need to manage your distribution enterprise **faster**, whether you operate domestically or globally. It helps enterprises to **quickly adapt procedures** to **changing regulations** and **compliance requirements**.



Cloud service offerings



Customer first experiences



Connected ecosystem



Global compliance & finance

CLOUD  MOBILE    Windows 10

Enablers of the Distribution Industry



Supply chain



Operations



Sales and marketing



Warehouse and inventory



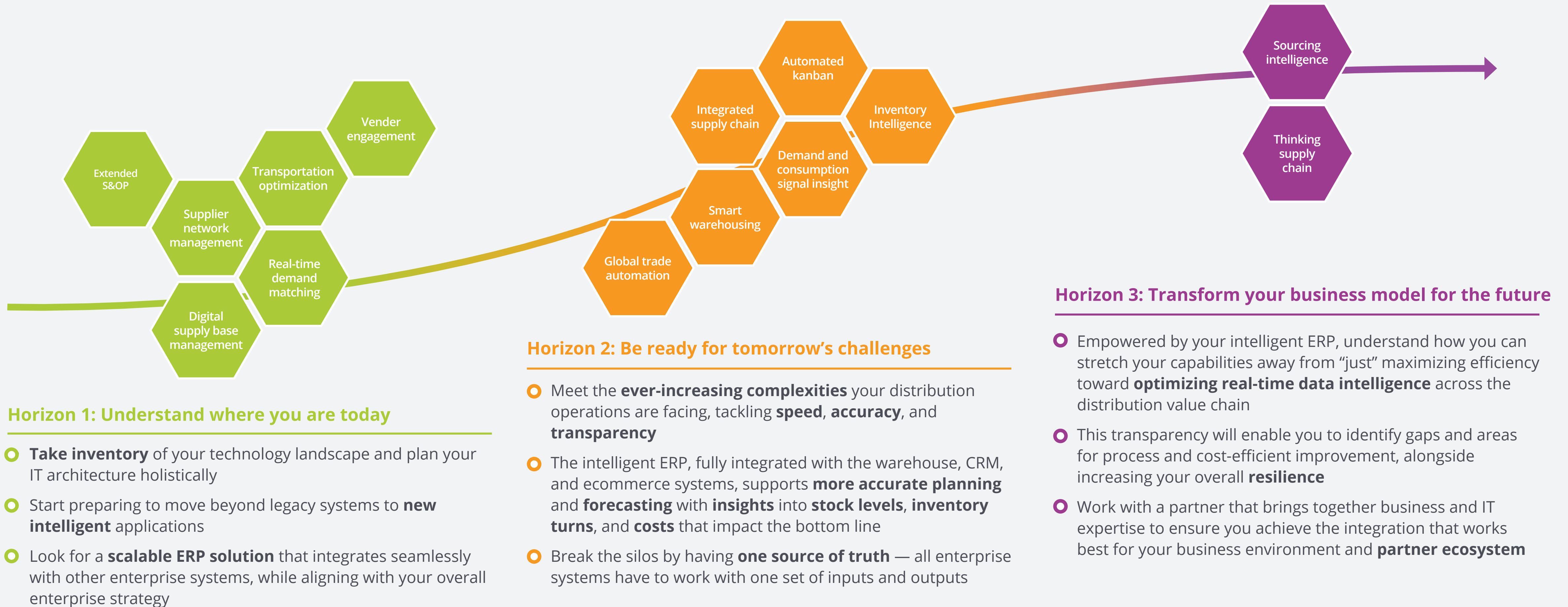
Mobility



Planning and forecasting

IDC recommendations

IDC recommends that distribution providers consider breaking their ERP-driven digital transformation journey into three horizons. This will enable them to get started quickly and execute their strategic mid- to long-term plans in conjunction with the right use cases.



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