

2021 State of Analytics in Distribution

# Uncovering and Driving Value with Data

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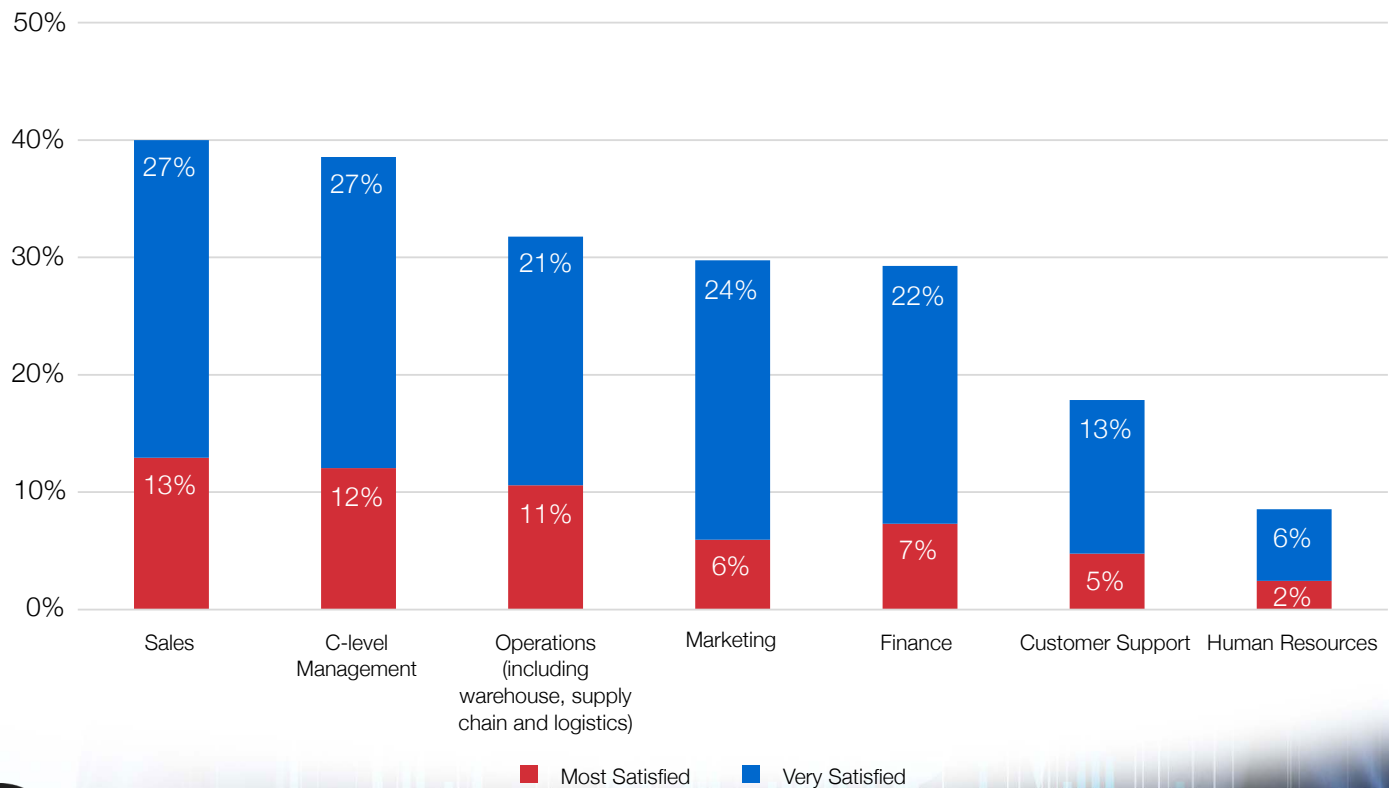
*In “Moneyball,” the Oakland As learned how to better target baseball players from a price-performance standpoint and identified undervalued players to outperform as a small-market team. The Houston Astros took this use of data to the next level; they not only looked at price and performance, they added health, playing style, age, personality and salary.*

They also used analytics to identify top prospects for the draft. For example, they found that high school players from New Jersey don’t typically pan out as top performers (with all due respect to those from New Jersey).

Many teams overlooked one player because he was considered too small to be successful in the Major League. But the Astros drafted him based on other metrics, and he outperformed, winning three batting titles.

Clearly, the Astros’ investment in analytics paid off. They built an analytics team – who reside in what they affectionately refer to as the Nerd Cave – and successfully learned how to blend the intelligence, experience and gut feelings of long-tenured scouts with real data.

**Chart 1: Distributors’ Satisfaction with Value of Analytics, by Functional Area**



The Astros transformed their organization with analytics – and their team from perennial losers to 2017 World Series champs.

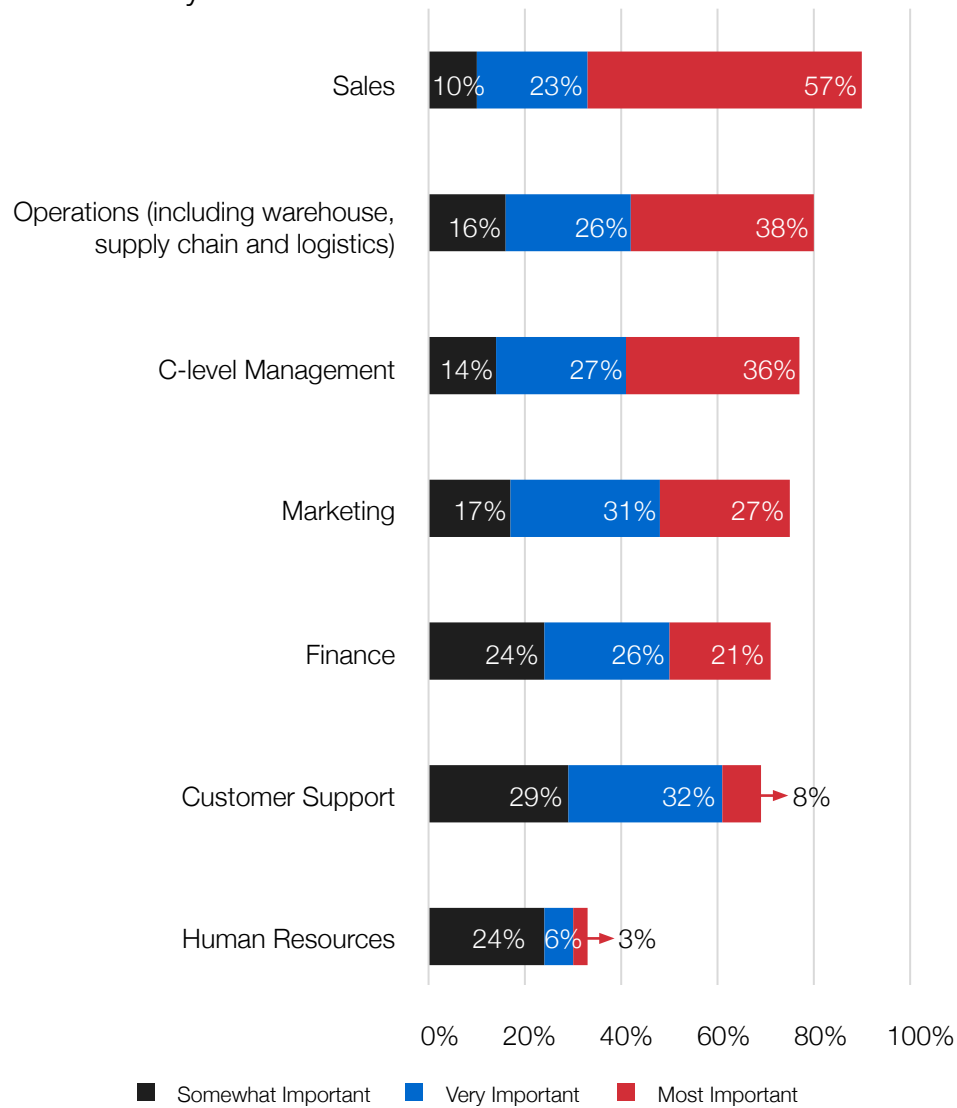
That's a success story.

The distribution companies that are winning today are becoming increasingly analytical as part of their digital transformations. Unfortunately (and unlike the Astros), few distributors are satisfied with the value they've been able to drive with analytics across functional areas (Chart 1), despite recognizing the importance of analytics and BI in their organizations (Chart 2).

This isn't entirely surprising. In our survey of distributors, we found that analytics for most of the respondents focused on core reporting dashboards, including historical data, current sales and product mix. They then use that data to forecast the next time period. But with COVID, we all learned that forecasting based on past performance is not a reliable approach. These tools provide patterns, but they don't give distributors enough information about how their world might change.

Distributors need more dynamic tools and ways of looking at things. This report provides a look at the state of analytics in distribution today, as well as where distributors need to be if they want to gain an edge from leveraging data today.

Chart 2: Importance of Analytics and BI



## Analytics maturity

Analytics is, simply put, the systematic analysis of data; analytics tools help distributors uncover, understand and act on meaningful patterns in data. Analytics maturity (Chart 3) – or how you are using analytics – starts with **descriptive analytics**, which helps you characterize what happened in the past.

**Diagnostic analytics** builds on descriptive analytics to answer: “Why did something happen?”

The next stage is **predictive analytics**, building on the two before it to predict what is most likely to happen based on the data.

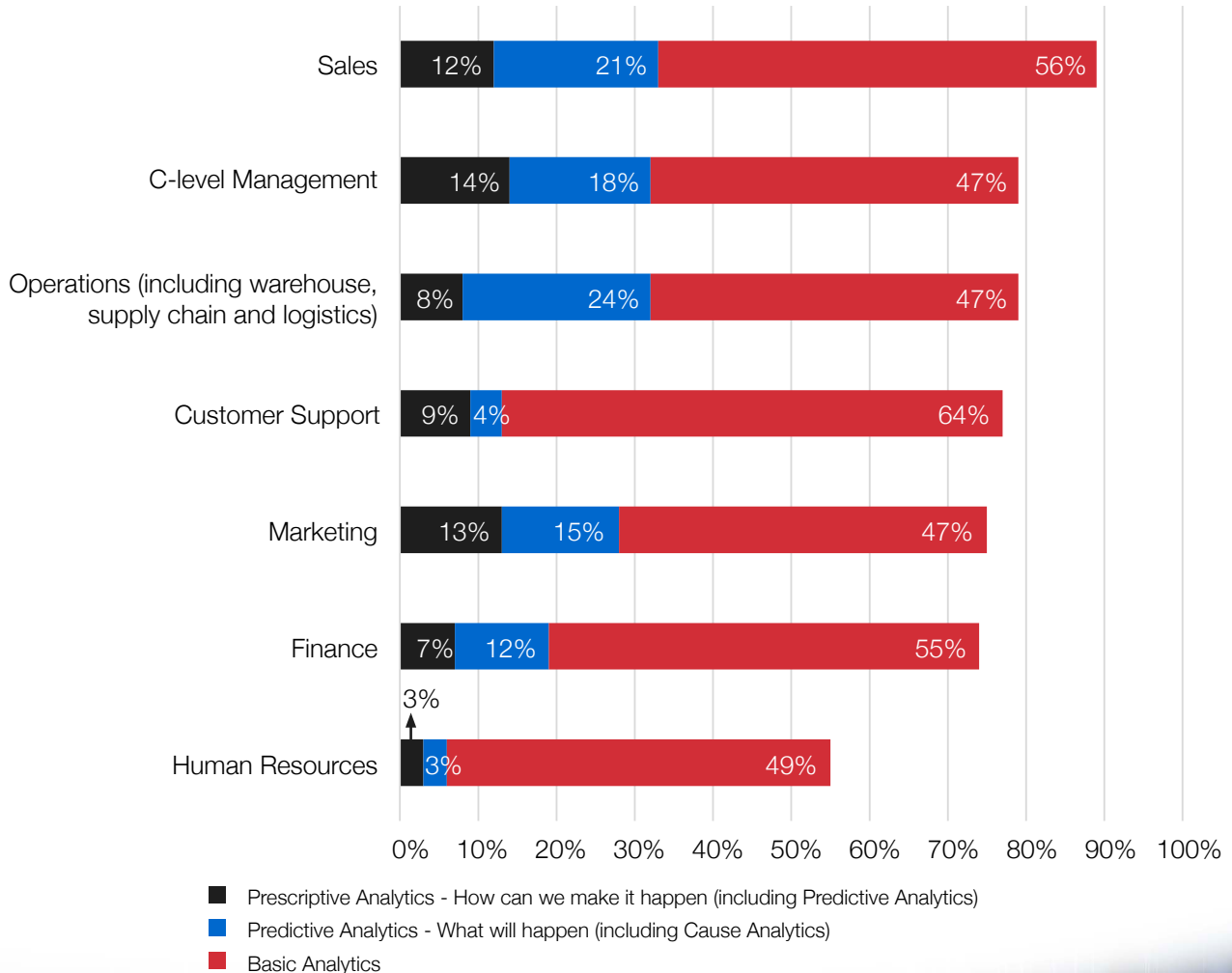


And finally, the fourth stage of analytics, **prescriptive analytics**, looks at what should happen, prescribing recommendations to affect outcomes. Predictive and prescriptive analytics both require more modern analytic techniques and tools, such as AI.

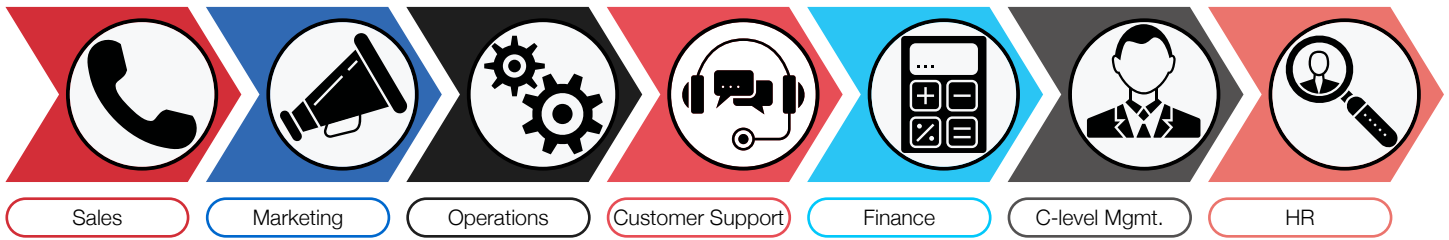
You must have the entire set of analytics to be successful.

Distributors have a lot of runway for growth with analytics. Most respondents said they employed “basic analytics” across all functions. Distributors can get great value from basic analytics. Often the more advanced analytics rely on basic analytics as input. Very few are employing more useful and robust “predictive” or “prescriptive” analytics. In our research, we found that distributors were using humans to do most of the predictive and prescriptive work, doing their own analysis based on experience and gut feelings.

Chart 3: Distributors’ Analytics Maturity, by Functional Area



## Analytics by Functional Areas



## Where distributors are using analytics

The most common areas that we saw adoption and widespread use of analytics in distribution were in sales performance and forecasting; operations; and by C-level management.

As noted, adoption of analytics beyond the basics was low, but distributors recognize the importance of data. In fact, 90% of distributor respondents in our research said that analytics and BI were important in sales; and 80% said it was important to apply analytics tools to operations (Chart 2). More than three-quarters of respondents said that analytics and BI were important for C-level management.

Here's a closer look at each functional area:



### Sales Analytics

Examples of ways distributors are using analytics to enhance sales effectiveness include:

- Customer contact analytics
- Lead scoring
- Sales forecasting
- Sales force management (sizing and geo-distribution)
- Sales process improvements (performance and compensation)
- Sales attribution between marketing and sales

The benefits of sales analytics include:

- Shorten sales cycles
- Increase sales predictability and success rates
- Optimize sales-deal sizes
- Improve profitability
- Ensure optimal sales coverage
- Strengthen performance
- Improve customer satisfaction and loyalty



## Marketing Analytics

Examples of ways distributors are using marketing analytics include:

- Customer intelligence, including feedback or interaction data across channels, and demographics/psychographics
- Customer targeting based on customer history and profiles to identify similar customers
- Web analytics, including visits, navigation and conversion rate analysis
- Text and sentiment analysis
- Advertising and promotion, using A/B testing

The benefits of marketing analytics to the organization include:

- Understand your ideal customer profile and segmentation
- Understand shopping and buying behavior across channels
- Identify promotion, upsell and cross-sell opportunities
- Pricing strategy and optimization
- Market positioning and customer awareness
- Increase sales efficiency and effectiveness
- Improve planning and forecasting



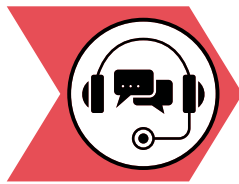
## Operations Analytics

Distributors are employing operations analytics for:

- Inventory planning and management (such as stock equilibrium, reorder automation, price negotiation)
- Warehouse operations (such as location optimization and merchandising across channels)
- Order fulfillment status
- Supply chain risk
- Forecasting

The benefits of using analytics to optimize operations include:

- Accurate forecasting for key customers
- Effective management across multiple locations
- Improve inventory turnover rate
- Improve order accuracy rate
- Avoid back-ordered inventory and loss of business
- Avoid dead stock, obsolete stock and related costs
- Optimize supply costs
- Optimize picking for accuracy and rate
- Reduce average delivery days



## Customer Support Analytics

Distributors are using customer service analytics for:

- Customer onboarding
- Customer retention and churn analysis
- Customer lifecycle
- Purchase history
- Customer problem reporting analysis
- Customer satisfaction
- CSR response times and success rates
- Self-service customer experience analytics

The benefits of using analytics to improve customer service function include:

- More efficient customer onboarding and productivity
- Improve customer loyalty, satisfaction and retention (higher NPS and referrals)
- Customer lifecycle and CLV (higher order rates and AOV)
- Higher customer experience ratings



## Finance Analytics

Distributors are using analytics in the finance function for:

- Financial accounting analysis, including variance analysis and accounting close
- Financial planning and forecasting, including risk analysis
- Compliance, regulatory and exceptions, including fraud and theft detection
- Procure to AP and payment analysis, such as approvals and exceptions, discounts and financing optimizations
- Order-to-cash collection analysis, including DSO and credit and risk

Benefits include:

- Rapid and accurate financial reporting
- Accurate financial forecasting
- Cash flow and working capital utilization
- Risk reduction
- Optimal financing costs
- Improve profitability
- Sustainable and predictable growth
- Improved investor relations



## C-Level Management

The C suite is using analytics for a greater view of the business, including:

- High-level visualizations of company performance, including manage by exception and trends monitoring and analysis
- Discovery and exploratory analysis for new products, services and markets
- Predictive analytics for contingency and risk planning; opportunity analysis; growth and scale; and financing needs
- Buy-side analytics
- Exit planning

Benefits to the C suite include:

- Manage growth and scale
- Adapt to market dynamics
- Respond to opportunities
- Better strategy planning
- Better acquisition success
- Maximize enterprise value for stakeholders

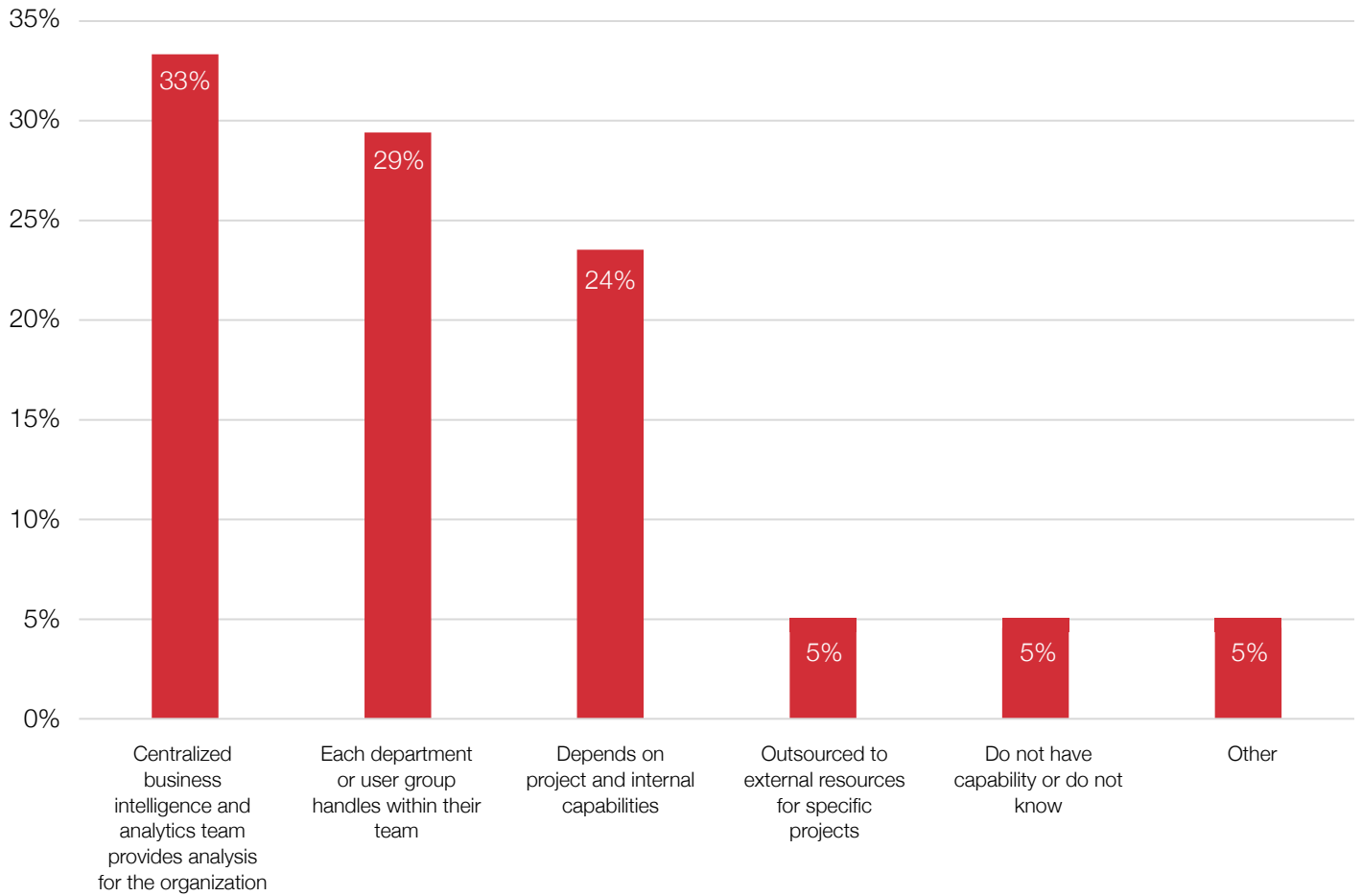


## Human Resources Analytics

Some distributors are using analytics to support human resource functions, such as:

- Hiring, including candidate assessments and screening (predictive index), job matching and time to hire
- Employee performance, such as measurement against goals and expectations; improvement programs; and termination rates vs promotions and career growth
- Cost analysis, including FTEs by department over time vs. benchmarks, and compensation vs. benchmarks
- Diversity and compliance
- Employee satisfaction, measuring absenteeism and turnover, and ENPS/referrals

Chart 4: Where and How Analytics is Handled Within The Organization



## How distributors are implementing analytics

According to the survey and our interviews with respondents, distributors with active analytics functions usually have a team either from within the IT organization, or within individual departments, such as sales, marketing or finance (Chart 4 on page 12). These departments are leading the way on which tools they want to use. Some analytics tools are built within existing systems, and some are purchased separately and plugged in.

Most commonly, distributors are leveraging analytics tools within ERP systems, including built-in or customizable reports. In this way, the ERP has become a repository, as well as a hub for connecting functions across the organizations. Distributors are also using CRM-provided analytics, and custom or home-grown solutions. Many distributors are also using spreadsheets.

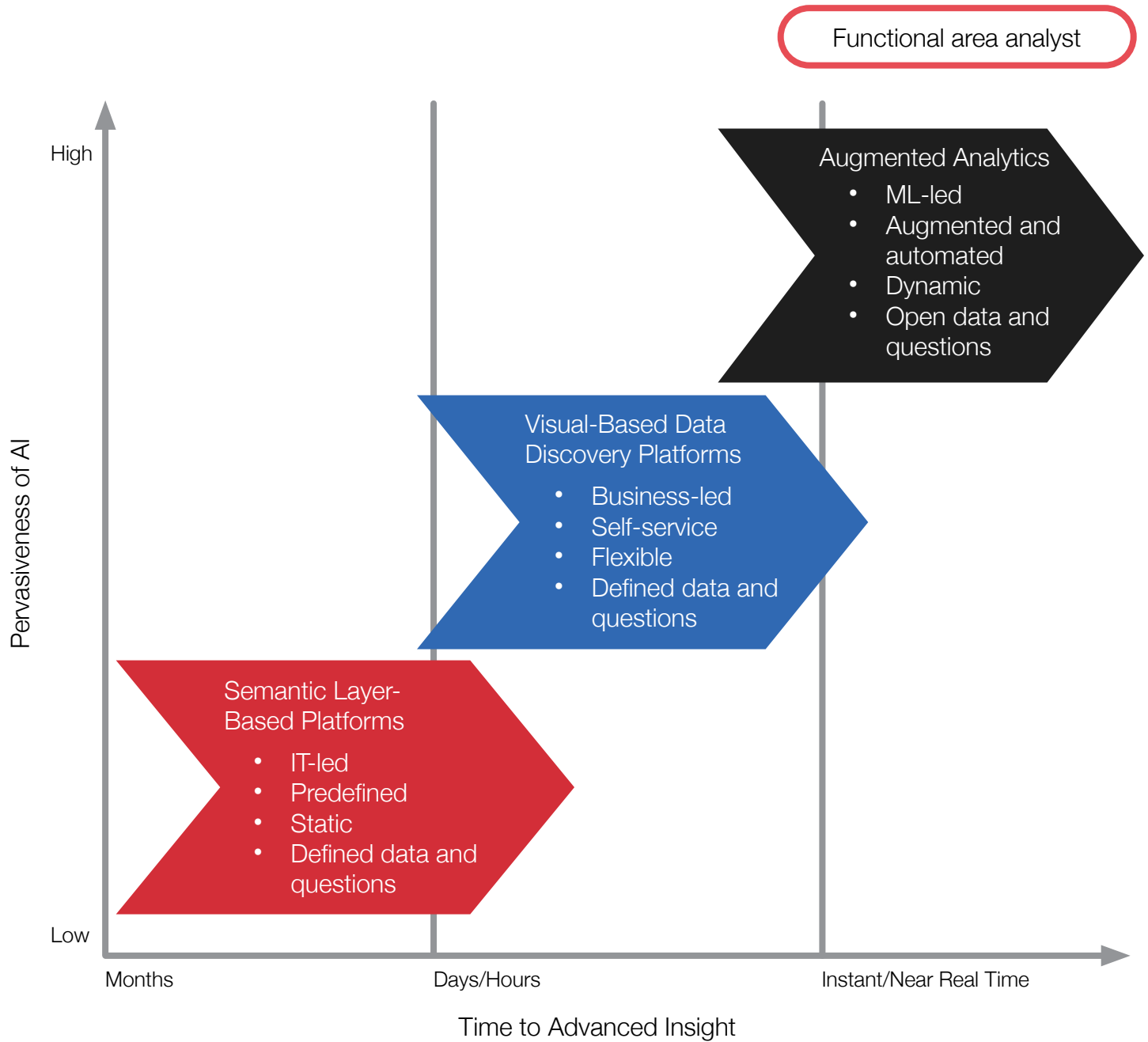
We are seeing a move toward powerful and easy-to-use out-of-the-box analytics and dashboard solutions such as Microsoft Power BI and other tools that are built to run as desktop or cloud-based tools. A small number of third-party solutions are being deployed for distributors, serving as data warehouse or decision-support. For example, proton.ai (AI-powered sales tools) and Waypoint Analytics (cost and profit analytics) provide specialized functionality that does a much better job of quickly parsing complex data to deliver insights for distributors that can significantly boost the bottom line.

## Where analytics was – and where it's going

The maturity of technology over the past several decades has changed how and where companies can use analytics. In the early days, most analytics depended on what you could pull out of your database and input into simple reporting tools. The view was static, and early analytics tools required IT resources to implement – a different talent pool than the people asking the questions. (Chart 5)

Over time, technology matured in a way that put more of that power into the hands of department and company leaders so that they could get an answer to important questions. These capabilities are now built into applications – within an ERP system, for example – and are self-service and flexible. They still require defined data and are limited in what they can answer.

Chart 5: Evolution of Analytics



As computing power improved – both in terms of speed and capacity – the ability to take huge amounts of structured or unstructured data that traditional solutions can't handle and analyze it for patterns improved significantly. Artificial intelligence and machine learning are driving the latest developments in analytics. Machine learning-led analytics are augmented and automated and can facilitate open questions. AI has the potential to transform distributors' organizations when applied strategically to functional areas such as sales, marketing and operations for greater efficiency and productivity.

## How to think about analytics in your organization

Everybody has high expectations for analytics. And everybody would like to get more out of their tools and systems than what they're getting today. Over the next few years, we expect to see more advances around analytics in the distribution industry. Prescriptive analytics – which direct distributors to act – are the wave of the future, and a critical component of digital transformation efforts in distribution.

Analytics are key for performance and can provide a clear competitive advantage. The companies that are embracing analytics today are making real money. Companies that are analytically driven are valued higher than those who aren't.

Invest in these core analytics functions before moving to predictive and prescriptive analytics tools. Leverage ready-made third-party solutions. And set clear goals with your analytics initiatives, such as improve sales by 10% a year, improve repeat business, reduce churn or drive small-order profitability to keep your initiatives focused.

And, remember, analytics is a journey, not a destination. The right analytics tools give you the capacity to take a step back and start managing the business in terms of where it's going and how it's growing, and to get unstuck from managing day-to-day.

## About This Research

This research was conducted by Distribution Strategy Group. The research included an online survey taken by 172 participants across a variety of sectors. There was greater participation from industrial, electrical, safety, HVACR, building materials, hardware, chemical and plastics, oil and gas products, and plumbing. Other participating sectors include: power transmission/bearings, pharmaceutical, grocery/foodservice, jan-san, pulp and paper, electronics, along with several others.

About 38% of respondents represent small companies with less than \$50 million revenue. About 43% are mid-market with \$50 million to \$500 million, 12% are large with more than \$500 million revenue. The remaining 8% did not disclose the revenue range.

This report would not be possible without our survey participants.

Further thanks goes out to our sponsors Proton.ai, Epicor and WayPoint Analytics.



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## Proactive, AI-Powered Sales for Distributors

**Integrate in 4-6 weeks and drive 10%+ increase in sales.**

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**Email us:** [jill@proton.ai](mailto:jill@proton.ai)

Founder Benj Cohen wanted to see that companies like his family's 90-year-old distribution business could use technology – instead of getting squeezed out by it. He teamed up with a group of engineers to build Proton, a cutting-edge AI-powered platform designed for B2B.

### Your Challenges

- Reactive sales channels
- Siloed sales activities
- High cost to serve

### How Proton Helps

- Gives sales reps the tools to be proactive
- Coordinates channels for cross-sell/upsell
- Increases profits, average order value and wallet share

## Identify and target sales opportunities across every sales channel

**Customer Service: Turn reps into revenue-generators on customer calls**

**Inside Sales: Guide reps on who to call, and what to sell them**

**Outside Sales: Put data at field sales reps' fingertips in a mobile app**

**eCommerce: Personalize customers' experience with AI-driven recommendations**

### How it Works

We create a complete view of every customer by consolidating data across channels. This gives us data-driven predictions about who is going to buy what and when. We use those to push a coordinated sales strategy so you can make targeted upsell and cross-sell pitches with every interaction, across every channel. **The result: Simply put, you'll sell more.**

### Success Stories



A lawn and garden parts distributor increased ecommerce revenue per customer by 27%.



Turning telesales reps into order-makers, a dental distributor increased revenue per pitch by 13X.



An industrial MRO distributor added \$115K annual incremental revenue per Customer Service Rep



# How Distributors Use Technology to Drive Growth

The 2020 Epicor® Global Growth Report surveyed over 2,000 businesses across the globe. Here are the quick facts on business growth in distribution and how technology influences it.

## Growth Stats



**Almost 70%** of distribution companies **saw growth** in the last 12 months.



Distribution leaders cite **planning and strategy** as the most significant positive influences on growth.



Distribution businesses believe **working more efficiently** and **having better technology** will help overcome growth challenges in the next 12 months.

## Tech Facts



**58%** of distribution leaders believe they **can hire less experienced workers** by using modern technology.



**Smart Supply Chain, Cloud Technology** and **5G** are the top technologies the industry believes will have a direct impact on positive growth over the next 12-18 months.



**85%** of distribution companies report that **AI helped drive business growth**.



Roughly **50%** of distribution companies polled have been using **AI for 1-5 years**.



**50%** report that AI helps **reduce costs** and **40%** said it delivered **business value** in 6-12 months.

To read the full 2020 Global Growth Index report, visit [epicor.com/growth](https://epicor.com/growth).

For information about Epicor Distribution ERP solutions, go to [epicor.com/distribution](https://epicor.com/distribution).

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# DISTRIBUTION STRATEGY **GROUP**

## About Distribution Strategy Group

Distribution Strategy Group's thought leadership, research and consulting services are led by a team with decades of experience as senior operators in the distribution industry. They have since worked with more than 70 distribution companies to build a solid foundation to win in today's changing market.

Distribution Strategy Group offers strategic guidance for distributors in the face of disruption, including:

- Digital and ecommerce strategy
- Customer lifecycle management strategy
- Customer analytics
- Sales channel strategy

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