

2022 State of Analytics in Distribution:
Turning Data Into Dollars

By Senthil Gunasekaran



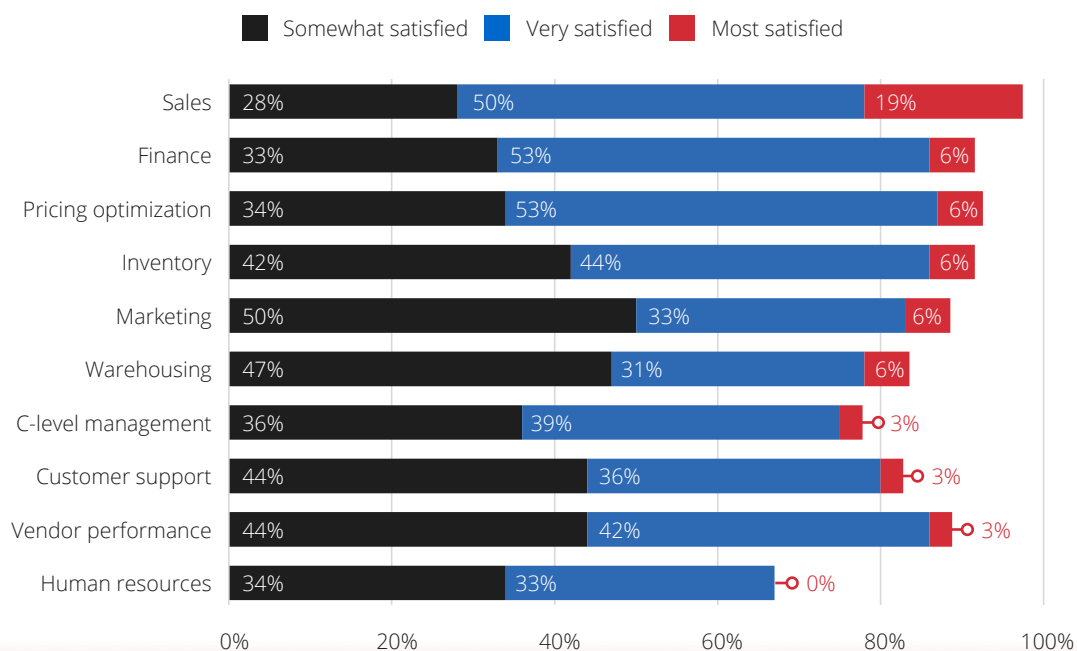
Distributors are quickly gaining ground on their journeys to drive improvements in their organizations with data.

For example, in this year's State of Analytics in Distribution survey, 69% said they were either very or most satisfied with the use of analytics in Sales; a year ago, that number was just 40%. This year, 59% of distributors in our research were very or most satisfied with analytics in finance; last year that number was 29%.

What's your analytics success story? My team has worked with several distributors and seen some incredible examples of the power of data. Here are a few:

- An industrial distributor leverages sales and inventory transaction data to overhaul stocking decisions across its networking, resulting in improved working-capital efficiency and customer service.
- A healthcare distributor helps med-supply manufacturers and pharmaceutical companies improve patient outcomes by improving speed and agility for data and analytics to create value more rapidly – days or weeks, rather than months.

Chart 1: Distributors' satisfaction with analytics



- A lubricants distributor provides prescriptive customer guidance to improve the business acumen of their sales team, resulting in lower cost-to-serve, greater wallet share and better customer experience.
- An HVAC distributor aligns pricing decisions across the organization with their value proposition, resulting in significant bottom-line improvements.
- A pet supplies distributor gets creative using purchase-order data to provide strategic suppliers with uncommon channel insights. As a result, they grab more mindshare and better inventory allocations.

Shifting to data-driven decision-making is key to remaining competitive and unlocking growth in your business. How will your analytics success story be written?

Obstacles to Success

But distributors continue to struggle to drive value with analytics in all areas of their companies. And even when they are satisfied, they still see room for improvement. Distributors named some obstacles:

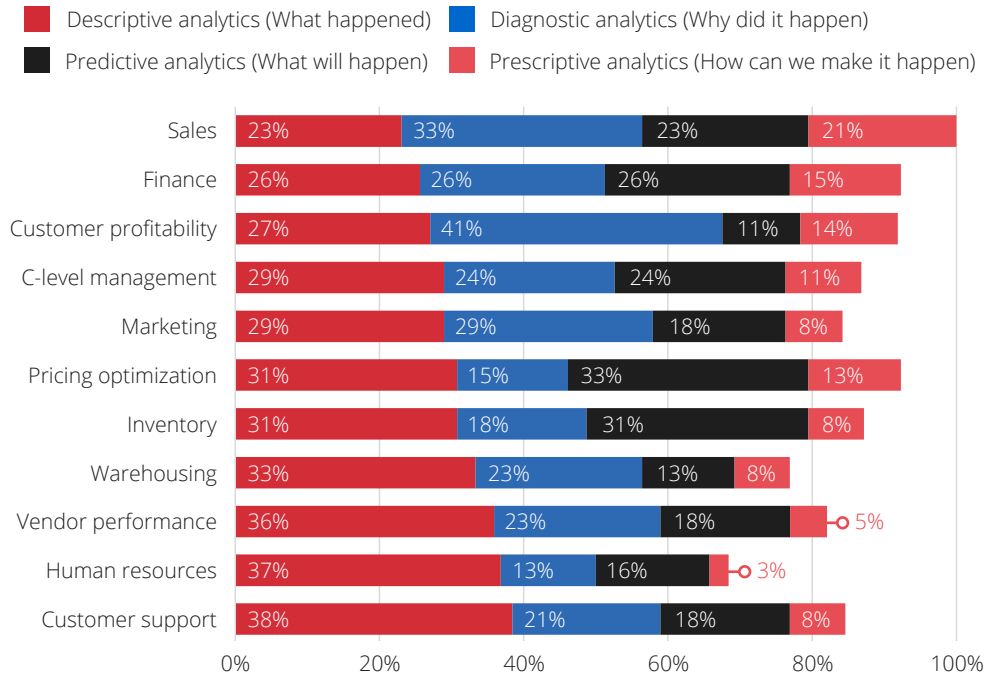
- Too much focus on the descriptive analytics (reporting) and less on action-driving data
- Finding the right person to drive the analytics initiative
- Investing the right amount to ensure an ROI
- “Basic analytics” in place today aren’t driving enough value

The areas in which distributors are most satisfied are also those in which they have more robust analytics available.

These are the four types of analytics popularized by Gartner:

- Descriptive Analytics (What happened)
- Diagnostic Analytics (Why did it happen)
- Predictive analytics (What will happen)
- Prescriptive Analytics (How can we make it happen)

Chart 2: Analytics maturity



There are parallels between the importance of analytics and analytics maturity. When it comes to maturity, distributors said sales and finance are at the top. The more important analytics have more investment in predictive and prescriptive analytics. The lower-priority categories have more descriptive analytics.

The use of predictive analytics has grown significantly in distribution, particularly when applied to inventory and pricing. That said, there's still a lot of room to grow. Just a fifth are using prescriptive analytics, and another 23% use predictive analytics in the sales function today.

Many distributors are still focused on core reporting dashboards that are based on historical data. Distributors need a more dynamic and holistic approach. This report looks at how distributors can think about the use of analytics in their own organizations.

3 Lenses for Understanding and Acting on the State of Analytics

Lens One: Why do we engage analytics?

What is your purpose, or vision, for analytics? Is that purpose more tactical or strategic? This 'why' will determine 'what' analytics and methods you will use, and 'how' you will build analytics as a capability.

Most distributors start with analytics as a tactical tool. Over the past five to 10 years, advancements in technology, data availability and analytics have made it more accessible to approach analytics as a strategic capability.

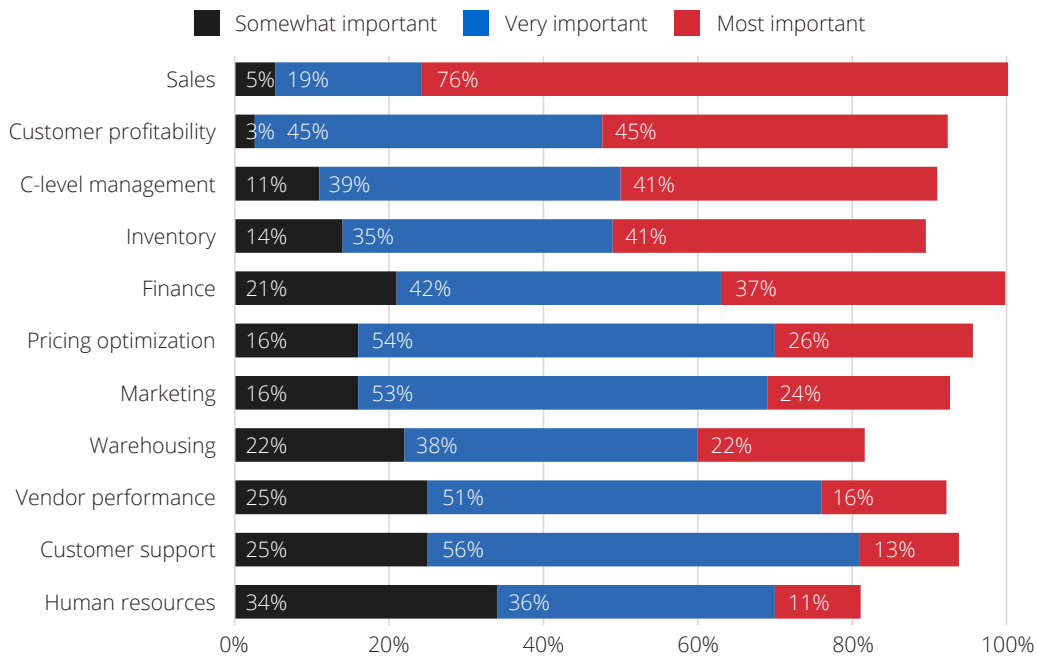
Here's what distributors told us about how why they use analytics:

Analytics as a Tactical Tool	Analytics as a Strategic Capability
"Wide range of information"	"Analytics provide a better ability to keep customer informed of his business and our service."
"Analytics & BI helps us automate reports that would normally take us hours or days to do otherwise."	"Analytics play a huge part in our company across departments. From analyzing the customer life cycle, to how efficient we are in the warehouse. It provides us a way to see what happened and how we can improve. What we could do better is using that information to drive behavior."
"It's certainly easier for us to extract data from tool 1 vs tool 2."	"Ability to pivot quicker."
"Minimal benefits at the moment. Part of the issue is resources needed to gather and interpret."	"We see the great potential that analytics can offer us to improve our efforts to serve our customers by better executing our internal processes and identifying opportunities in the market."

From these examples, you can see that when analytics is used as a strategic capability, it involves themes such as keeping the customer at the center, considering the impact across departments, focusing on the customer lifecycle and driving behavior.

The strategic approach asks: What are we learning about our customer from the data? Where do opportunities lie in the market?

Chart 3: Importance of analytics



To help you assess where you stand, here are some important elements of a strategic approach:

- Analytics cannot be purely IT-centric. It must be business-centric and IT-enabled. The business groups that will use the analytics, such as sales or inventory, should drive the strategy.
- Analytics isn't just about the tool itself or beautiful dashboards. Those are the means to an end, not the goal. The goal is: What decision (buying, stocking, pricing, customer outreach) are you trying to optimize? What are the insights and action you can apply?
- Analytics-based decisions are intertwined with other areas of your business. For instance, you can't make an inventory decision without affecting sales. You must consider how one decision influences another.
- Though many distributors started out focused on internal issues, such as improving inventory or margin, they should now be shifting to a bigger-picture approach: How are we benefiting and influencing the customer experience?

Your mindset and vision for analytics influence how much you'll invest, which resources you'll use, and how you'll manage and monitor analytics to ensure the greatest benefits and return on investment.

Lens 2: What analytics do we want to engage?

Distributors named sales and customer profitability as their top two applications of analytics this year – for good reason. Sales is the reason distributors exist in the channel, and customer profitability is tightly tied to sales. Inventory is also in the top five, which makes sense as it is the largest asset on the books.

Surprisingly, optimizing customer support, vendor performance and human resources is low on the analytics priority list. This is surprising because in distribution we are always saying our key stakeholders are our customers, suppliers and employees. Yet, though the data is there, distributors aren't using it to enhance experiences for and relationships with these stakeholders.

Knowing where to prioritize can be a challenge:

- “Feels like we are just scratching the surface and it's hard to know where to start to get the most leverage. We are currently involved in major IT projects including ERP and ecommerce re-platforming.”
- “We are trying to justify (and figure out) the potential ROI for investing in an analytics and BI tool.”
- “We are seeing very little benefits from the basic analytics we are employing today. We have a very strong desire to move very quickly to implement more.”

Distributors have access to a large amount of data, and many functional areas are seeking priority. The problem: Many distributors have limited resources to dedicate to the cause.

The best approach is to create a business case for analytics. Doing so requires you to slide two additional lenses over the data: strategic and financial.

Strategic Business Case Drivers

Strategically, consider:

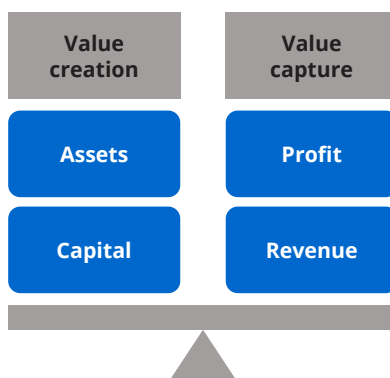
- Customer value proposition and journey: What is your value proposition? And how will the analytics you pursue influence the customer?
- Non-traditional competition: Non-traditional competitors have different go-to-market and business strategies. How they leverage data will also be different.

- Channel dynamics: Vendors' expectations of distributors have changed over the past 12 to 18 months. All distributors want inventory, but few provide the manufacturer with analytics to give them channel visibility, which would give them more mindshare.

Balancing Value Creation and Value Capture

You are creating value using your assets (inventory, location, transportation, knowledge base, capital deployed). Analytics that improve value creation are equally important to those that improve value capture, which is the value you receive for the service you generate.

Sometimes, distributors over-invest in one of these two buckets, forgetting the other. It's important to balance value creation and value capture. Looking through this lens to determine where to invest is another way to prioritize analytics.

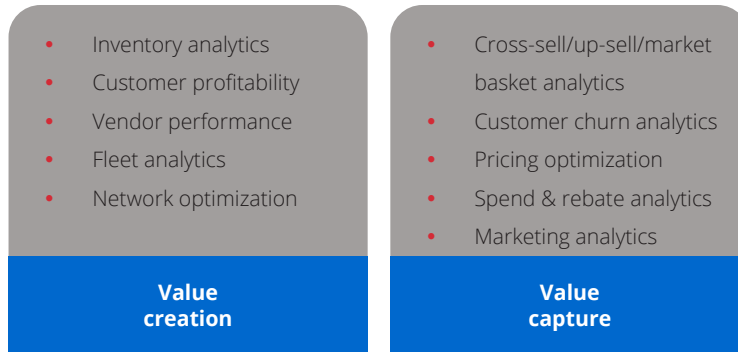


Value Creation = Assets and Capital

- Inventory analytics
- Customer profitability
- Vendor performance
- Fleet analytics
- Network optimization

Value Capture = Profits and Revenue

- Cross-sell/upsell/market-basket analytics
- Customer churn analytics
- Pricing optimization
- Spend & rebate analytics
- Marketing analytics



Analytics Benefits

Another strategic way to determine which to prioritize is to analyze the benefits you're getting from analytics. In our survey, we asked respondents what they perceived as benefits.

Of course, there are clear business and financial benefits, but respondents answered more specifically, citing:

- Improved inventory management
- Improved forecasting
- Improved customer management
- Margins
- Pricing
- Profitability
- Growth

These responses show a mix of process and financial benefits.

Financial Business Case Drivers

Financially, consider:

- **Shareholder value:** How do the analytics create shareholder value?
- **Ownership priorities:** Most distribution companies are privately owned. Within that, there are strategic and private equity ownerships, usually with different goals. These can determine which analytics you'll focus on.

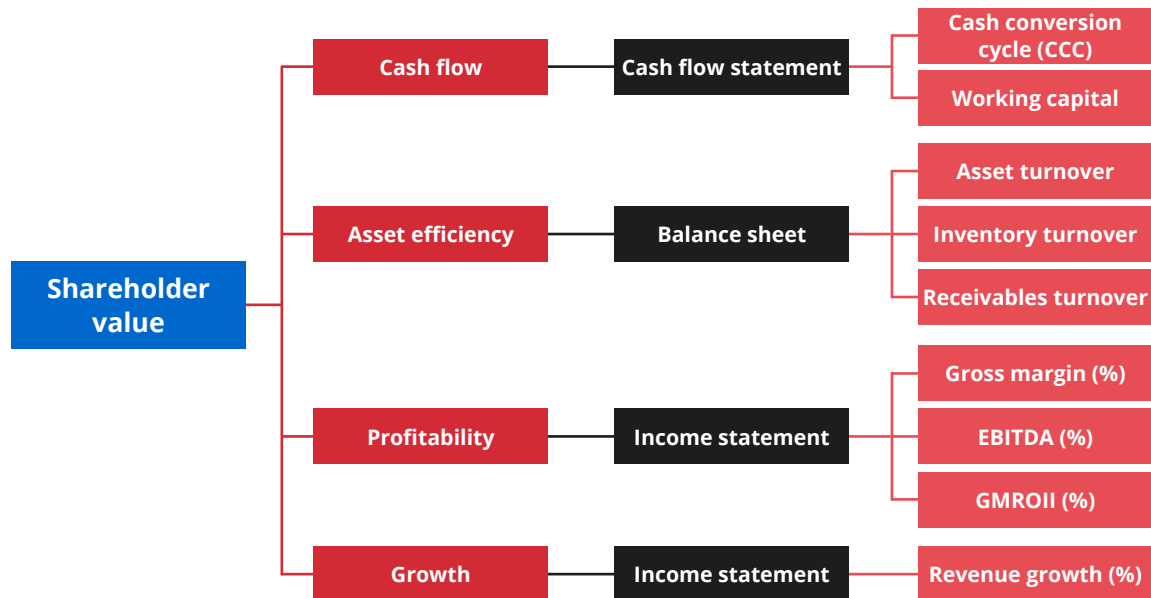
Shareholder Value

What are the four major drivers of shareholder value from financial data?

- Growth – income statement – revenue growth (%)
- Profitability – income statement – gross margin / EBITDA / GMROII
- Cash flow – balance sheet – asset turnover / inventory turnover / receivables turnover
- Asset efficiency – cash flow statement – cash conversion cycle (CCC) / working capital

For this framework (Chart 4), we aligned KPIs to those four drivers and the bridges for each, which indicate what lens people use to view the major drivers. The idea is to use a specific KPI and step back to see which is an opportunity for you. This framework helps build a business case because it helps bridge the gap with, say, a CFO or controller. You can state the business case in terms of cash flow or another driver.

Chart 4: Financial perspective



Lens 3: How to Build Analytics as a Capability

If you're thinking of analytics as a tactical tool, you may not even be thinking about this question of how to build analytics as a core capability in your company. You're not spending resources. You're just thinking, put these reports together and send them to me. This is common in distribution.

When you get serious about analytics, you want to consider how you organize your resources. Is it a decentralized group, or is it centralized? Do you have specific resources to handle analytics? Or is it more of a hybrid? There is no right answer.

Analytics may be centralized at a higher level and decentralized at a department or function level. Let's look at what's required at a functional level to execute on analytics:

Stage 1: Extract data from the system and get it ready, via data warehouse or lake.

Stage 2: Make the data usable for simple reports.

Stage 3: Go deeper and more advanced.

Growth in the Use of AI

Survey responses showed more distributors are embracing emerging technologies such as AI to drive analytics initiatives forward.

Here are some of the ways they're using AI:

"We are using BI mostly on the sales and marketing side now but realize we can utilize AI/BI to vastly improve inventory management/warehousing, too."

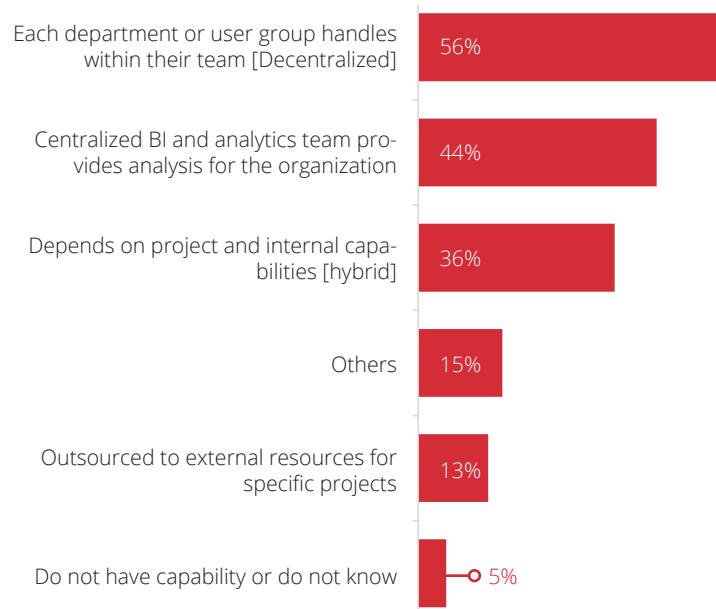
"AI to alert our sales team to potential opportunities."

"Automation will continue to be the key. How do we continue to build reports and information that reduce work for people in the company? Further, reports need to focus on highlighting exceptions quickly so they can be managed in an efficient manner."

"Identify new trends in categories, as well as customers. Manage our ever-growing inventory listings to optimize stock across multiple warehouses."

"Ability to isolate profitability by employee/customer/sales territory and product line inside of our seven profit centers."

Chart 5: How analytics is handled within organization



You can centralize stage one. This consolidates the data so it's available for the rest of the team. But for stages two and three, it is often more productive to have decentralized analytics, so the department isn't waiting on an IT person to deliver a report.

Who owns analytics is just one part of the equation (Chart 5).

Many distributors aren't happy with the performance of their analytics initiatives. This is likely because they are missing key ingredients to analytics implementation:

- Weak infrastructure
- Incomplete data
- Not enough resources to develop the required analytics
- Don't have the right talent to support analytics
- Executives don't understand or support analytics initiatives
- They don't know where to begin

Here are next steps if you want to build out an effective analytics capability in your organization:

Stop waiting for the perfect setup.

- Analytics is not a traditional expense or CAPEX. That is not the mindset you want to bring to analytics. View it through the lens of “test and learn” rather than as a big investment.
- It takes time to build analytics as a capability since it involves people, data and culture.

Start small and build from there.

- There is no “right” moment when it comes to developing analytics because we will never have enough resources as distributors. Distributors often get caught on the bandwidth issue and wait.
- There’s no such thing as complete data. Start with the transaction data, rather than waiting for perfectly prepared data.
- Look for the quick wins.

Prioritize change management and training.

- Many distributors come to the point where they have beautiful dashboards, but nobody is opening them. They spend a lot of energy on analytics creation and neglect analytics consumption at a branch/regional level or middle-management level.
- Make a case for why you need these individuals to use the analytics. Creation and consumption will drive ROI.

Establish support from top management from the start.

- Support from top management is crucial. You need a champion, or analytics translator who explains why individuals should use the analytics. Without top management support, you may not gain traction.

About this survey

Distribution Strategy Group surveyed distributors and manufacturers in June and July 2022. About 70% of respondents were distributors, representing 17 sectors. Top five sectors were Industrial, Electronics, Electrical, Building Materials/Construction and HVACR. Responses also reflect diverse company sizes, from less than \$10 million to more than \$1 billion.



About the Author

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Senthil Gunasekaran is co-founder of ActVantage, which helps distributors drive profitable growth through analytics and talent development. He has more than 19 years of experience helping hundreds of distributors and manufacturers, while co-authoring seven books for the NAW. He also delivers executive education and speaks at distribution industry forums. Prior to ActVantage, Senthil led research and industry projects at Texas A&M's Industrial Distribution program.

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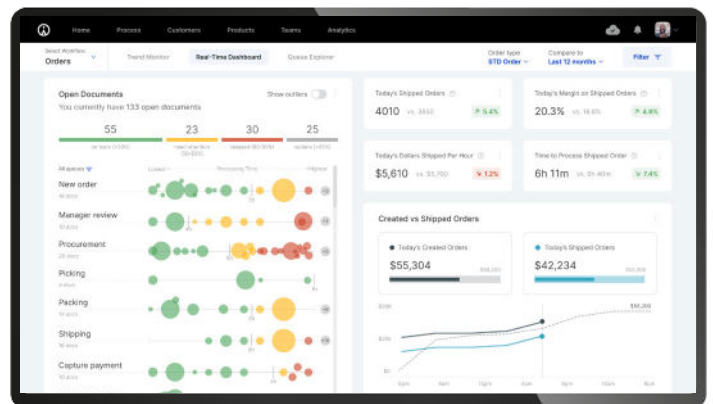
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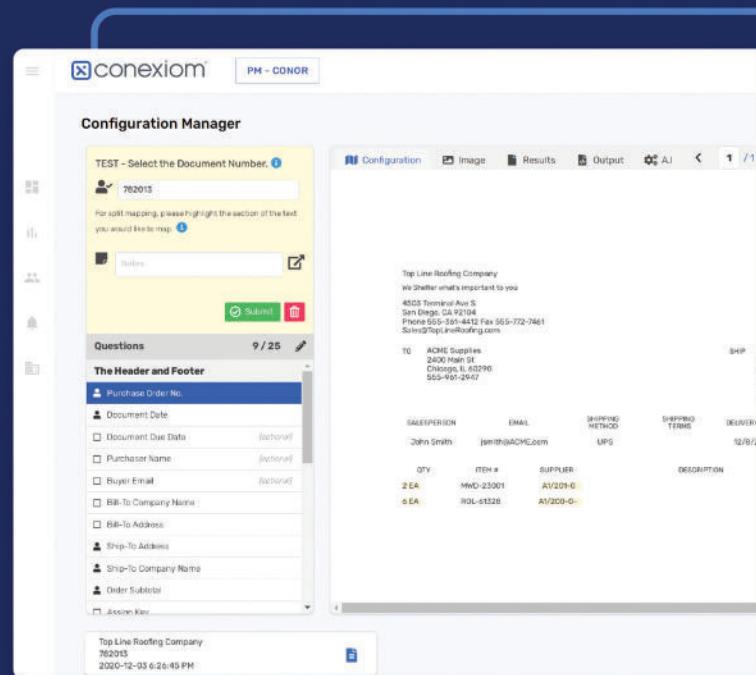
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