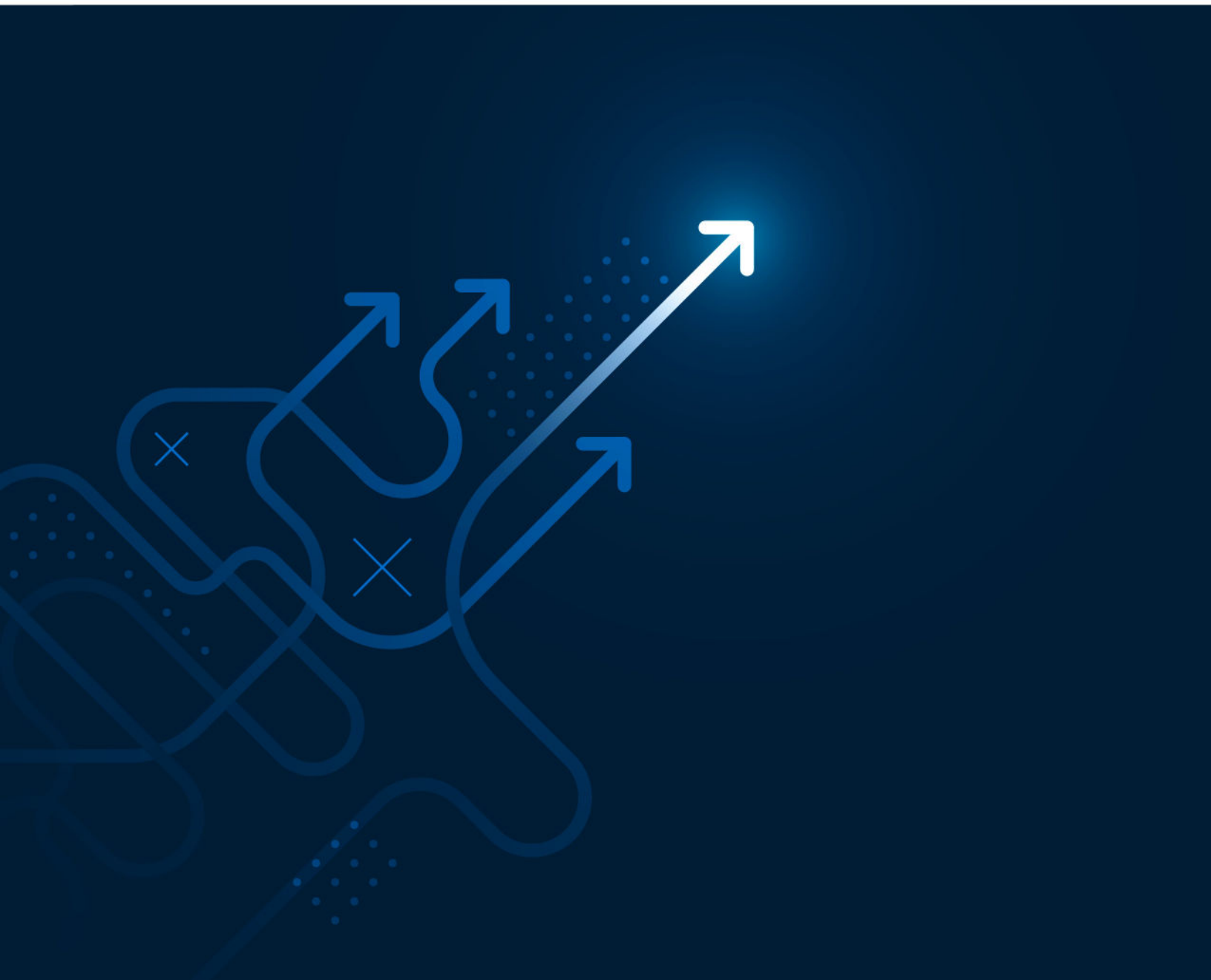# DISTRIBUTION STRATEGY GROUP

2023 State of Technology in Distribution:

Are Distributors at a Tipping Point?

By Jonathan Bein, Ph.D.

In 2023, most distributors have adopted technologies to influence the customer journey and streamline workflows from inventory management to invoicing.

The problem is that many distributors are also unhappy with the performance of some of these tools.

At the same time, new options in the form of artificial intelligence (AI), robotics, voice and image recognition, and more are knocking on the door. Distributors may be at a tipping point where new technology adoption accelerates — if not to stay ahead of the curve, to keep up with the competition.

In our annual State of Technology in Distribution research, we asked distributors about their adoption of and attitudes toward the technology tools they use for critical business functions. This year's report explores how these technologies will continue to influence the customer journey now and in the future.

How Satisfied Are Distributors with Their Technology Tools?

The core of a distributor's technology stack, or how they support their core business needs such as financial management, sales and operations, includes:

- **Enterprise resource planning (ERP)** for core business functions and reporting
- **Warehouse management system (WMS)** for inventory management, warehouse capacity and order fulfillment
- **Business intelligence/analytics platforms** for reporting
- **Marketing automation** for lead generation
- **eCommerce** for shopping and ordering
- **Pricing/profit software**
- **Customer relationship management (CRM)** to manage prospect and customer data and interactions

Despite rising adoption, our data finds that most distributors are less than satisfied with the technologies they use. For example:

- 93% of distributors have deployed an ERP, but only 54% are satisfied with their system.
- 75% of distributors use a CRM, but only 37% are satisfied. (We should mention that 20% of distributors use a homegrown CRM provided by their ERP platform provider.)
- Just under 50% of distributors use a pricing/profitability software platform; of that number, 44% say they are satisfied with the tool.
- By the end of 2023, 60% of distributors will deploy a WMS. Less than half (48%) say these tools fully satisfy them.

Finding the right tools is essential. ERPs were the center of the distributor's universe for a long time, but CRM adoption is increasing. Now we're seeing distributors place equal emphasis on CRM and ERP as a one-two punch for driving efficiency and opportunities.
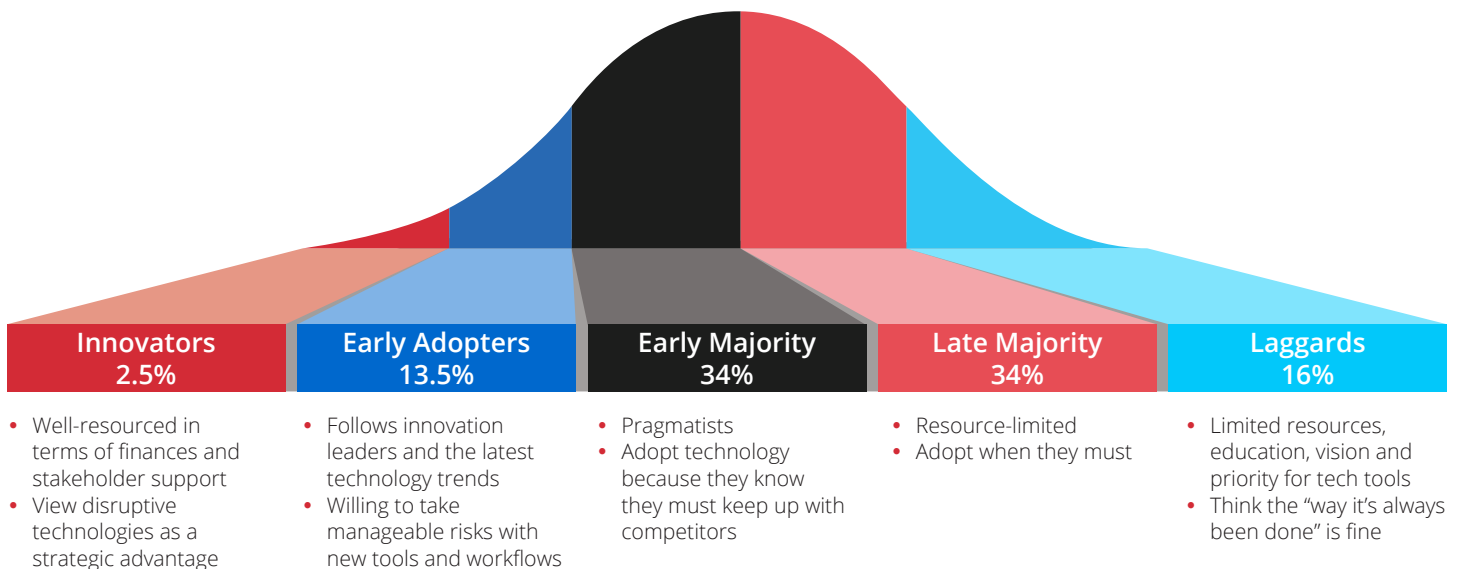
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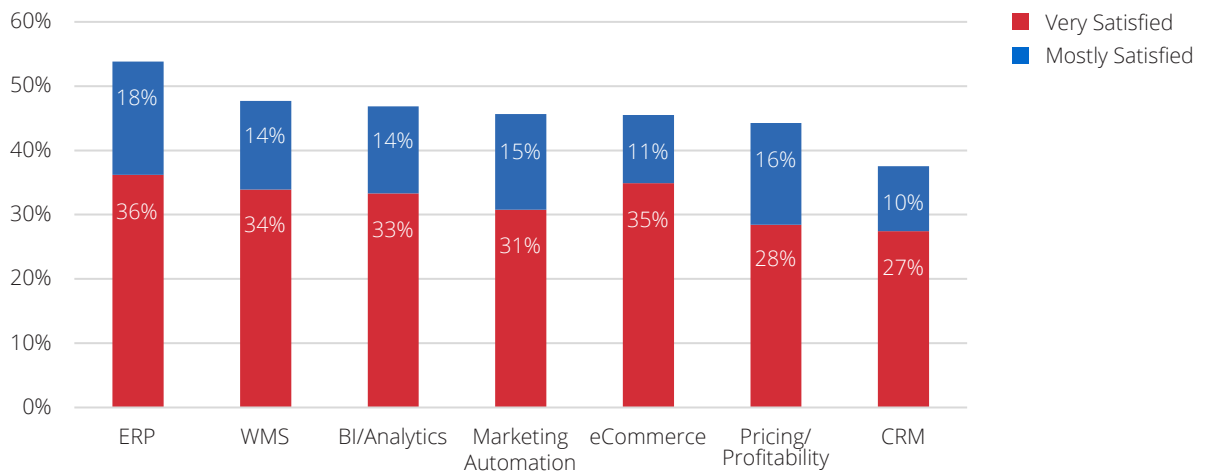
Folding in new tools within the overarching framework of an ERP is a delicate balancing act of interoperability. Poor integration between tools is likely hurting distributor satisfaction levels.

The Technology Adoption Lifecycle

The technology adoption curve is a lifecycle measurement. Like the customer journey, technology adoption is a process characterized by different stages. In the case of distributors, your spot on the spectrum of technology advancement depends on your goals, budgets and stakeholder buy-in.

The Technology Adoption Curve

| Innovators 2.5%	Early Adopters 13.5%	Early Majority 34%	Late Majority 34%	Laggards 16%
• Well-resourced in terms of finances and stakeholder support • View disruptive technologies as a strategic advantage	• Follows innovation leaders and the latest technology trends • Willing to take manageable risks with new tools and workflows	• Pragmatists • Adopt technology because they know they must keep up with competitors	• Resource-limited • Adopt when they must	• Limited resources, education, vision and priority for tech tools • Think the "way it's always been done" is fine

The distribution industry traditionally has been slow to adopt new technology. But according to a recent McKinsey survey of nearly 900 executives, COVID may have pushed companies over a "tipping point." The technology adoption cycle of the surveyed companies was 25 times faster than usual during that time.

More importantly, companies that were quick to adopt new technologies during the pandemic were more successful during the crisis than those that were slow to change.

One company reinforced the idea of the crisis fueling a technology tipping point: moving from assessing the value of technology on a cost/benefit basis to assessing its impact on competitive advantage.

The Customer Journey

| Shopping | Buying | Fulfillment | Invoicing/Payment | Support |
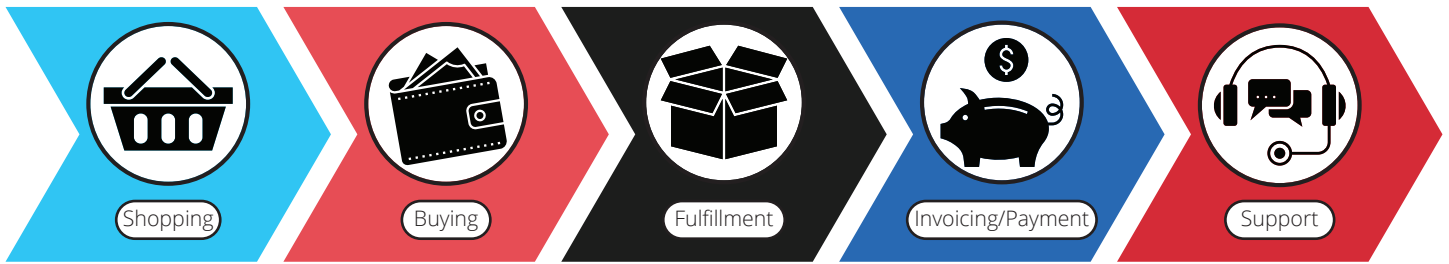
Adoption at Every Stage of the Customer Journey

Stage 1: Shopping

Shopping is the stage where the customer uses various resources including sales reps, customer service reps and online resources to evaluate and select the right products and solutions. At this stage, the technology you offer has a massive impact. Your goal is to present the right product at the right time with a minimum amount of friction. Typically, this may be handled through an ecommerce website with SKU or keyword search, or perhaps through a customer service representative (CSR) or field sales rep.

The distributor's mission should be to bridge gaps in solving customer needs in this phase. The more seamless the shopping experience, the quicker the customer can solve their problems.

What's changing, though, is that intelligent software can present the right solution without human intervention, so the people part of the process either comes much later in the journey or sometimes not at all.

New technologies in the shopping stage include:

Interactive chatbots and virtual assistants: These reduce dependence on human customer service reps for the most common shopping questions. Done well, these self-service tools can free up product and service experts to solve higher-value problems and questions. Seventeen percent of distributors in our survey use virtual assistants and chatbots to interact with customers. We expect that the emergence of products like ChatGPT will have significant impact on the shopping stage of the customer journey within a few years.

Item recognition: This allows shoppers to use photos to find items online. For instance, a person could take a picture of a particular drill-press model, upload it through their mobile device and automatically match the photo to the same model for sale across different websites. Today, 16% of distributors use product image recognition in their ordering software.

Product selectors and configurators: These provide a simple, interactive way to drill down into your catalog of products and product categories with models, variations and options with 3D visualizations of the products and details about the product specifications. Twenty-one percent of distributors use automated product selectors and configurators to increase self-service. By 2026, we forecast that will be 36%.
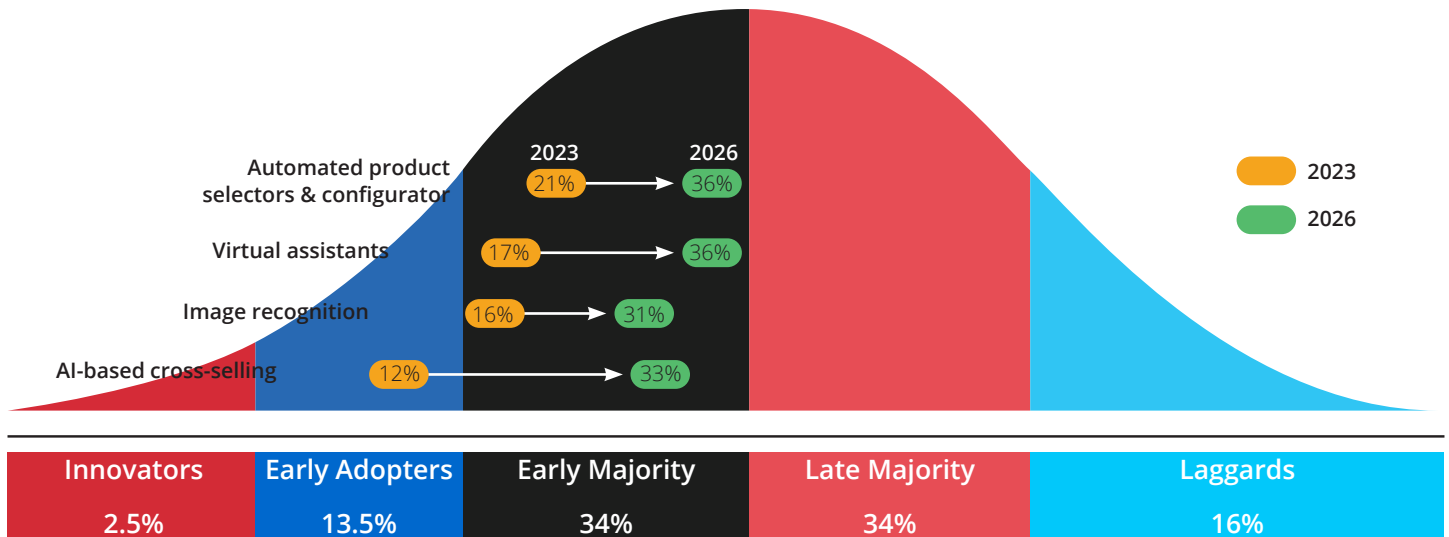
AI-driven cross-selling: AI models can analyze customer behavior and shopping preferences and compare this data to similar buyers to make highly relevant upsell and cross-sell recommendations. Marketers can also use AI to improve digital marketing effectiveness with personalized promotions. Twelve percent of distributors use AI-based cross-selling to influence customer shopping patterns. The use of these industry tools may climb to 33% by 2026.

While AI is already playing a role in the shopping process today, expect its place in shopping to rapidly evolve, even supporting more complex purchases as models grow smarter over time.

Note that these emerging shopping technologies all require a great PIM loaded up with product data, and that data needs to be well maintained to get the most from these tools.

Shopping Technologies Adoption Curve: 2023 vs. 2026

		2023	2026
Automated product selectors & configurator		21%	36%
Virtual assistants		17%	36%
Image recognition		16%	31%
AI-based cross-selling		12%	33%

Legend: 2023 / 2026

Innovators	Early Adopters	Early Majority	Late Majority	Laggards
2.5%	13.5%	34%	34%	16%

Stage 2: Buying

The buying stage is the turning point, where the rest of the steps in the customer journey are assured. Buying involves actually making a purchase rather than just evaluating as in the shopping phase. A customer submits an order and completes a transaction by phone, in-person or even through a cashier-less checkout. Customers may also transact by ecommerce or on marketplaces, or complete a transaction through automatic reorder or replenishment by contract. Increasingly, buying is touchless.

The purchase point is an ideal time to expand a relationship with a customer, by upselling complementary products and adding on services. Software also exists now that can help you analyze buying patterns, and leverage that for more productive sales and marketing.

New technologies in the shopping stage include:

Touchless Technologies: These include email, EDI and PunchOut ordering. These solutions are in the laggard phase of adoption and will likely be mature by 2026.

Voice Ordering: Voice ordering, such as asking Alexa to place an order, is still relatively new in B2B markets and is currently in the early adopter phase. We estimate adoption may reach the early majority phase by the mid-decade.

Buying Technologies Adoption Curve: 2023 vs. 2026

Innovators	Early Adopters	Early Majority	Late Majority	Laggards
2.5%	13.5%	34%	34%	16%
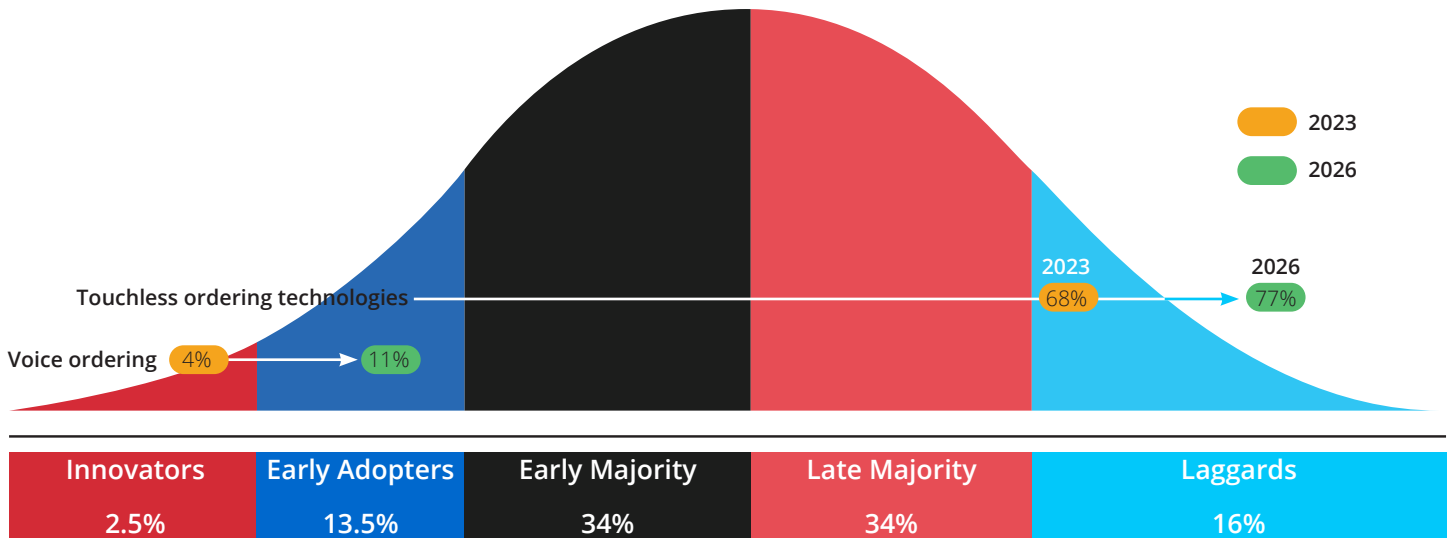
Stage 3: Fulfillment

The fulfillment stage of the customer journey is primarily about product delivery. For more complex purchases, the fulfillment stage is where the distributor provides implementation or customization. Internally, distributors must optimize their operations to lower costs and increase quality in this stage. This stage of the journey can precede, occur in parallel with or after the invoicing/payment stage of the journey.

Most companies already use transportation management systems (TMS), telemetry routing and automation to optimize last-mile delivery.

New technologies in the fulfillment stage include:

Drones/autonomous vehicles for delivery: Drones are capable of rapidly delivering critical products. They can bypass congested traffic areas and are more environmentally responsible than traditional alternatives. At the moment, their size limits drones to small packages. Self-driving vehicles and curbside delivery solutions are also improving transportation and delivery.

Warehouse drones: More frequently today, drones are being used as the eyes of a distributor for inventory counts or checking inventory in hard-to-reach places in a warehouse. Adoption of warehouse drones, though not currently used by any in our survey, should expand to 7% of the industry by 2026.

Warehouse robots: "Cobots," or Collaborative Robots, are an emerging technology warehouse managers can use to automate picking and loading. Just 5% of warehouses use robotic technology, but adoption will expand to 16% by 2026.

RFID or similar for inventory/warehouse ops: 22% of distributors use RFID or similar tracking mechanisms for inventory/warehouse operations.

AI/machine learning for inventory/warehouse ops: AI and machine learning can drive better inventory management, reducing overstock and ensuring you have the right inventory where you need it. AI-enabled applications can also help improve space planning, optimize picking and enable better routing within the warehouse and for delivery. Just 10% of distributors use AI software to support inventory/warehouse operations. By 2026, adoption will grow to 27%.

Pick to voice: Hands-free voice picking uses real-time communication and natural language to direct workers to specific locations in a warehouse; the technology then directs those workers to pick orders. The technology increases accuracy and speed in the warehouse. Less than 10% of distributors use paperless voice-picking technology to communicate to the human picker/packer. Expect that to grow to 15% in the next three years.

Fulfillment Technologies Adoption Curve: 2023 vs. 2026

| Innovators	Early Adopters	Early Majority	Late Majority	Laggards
2.5%	13.5%	34%	34%	16%
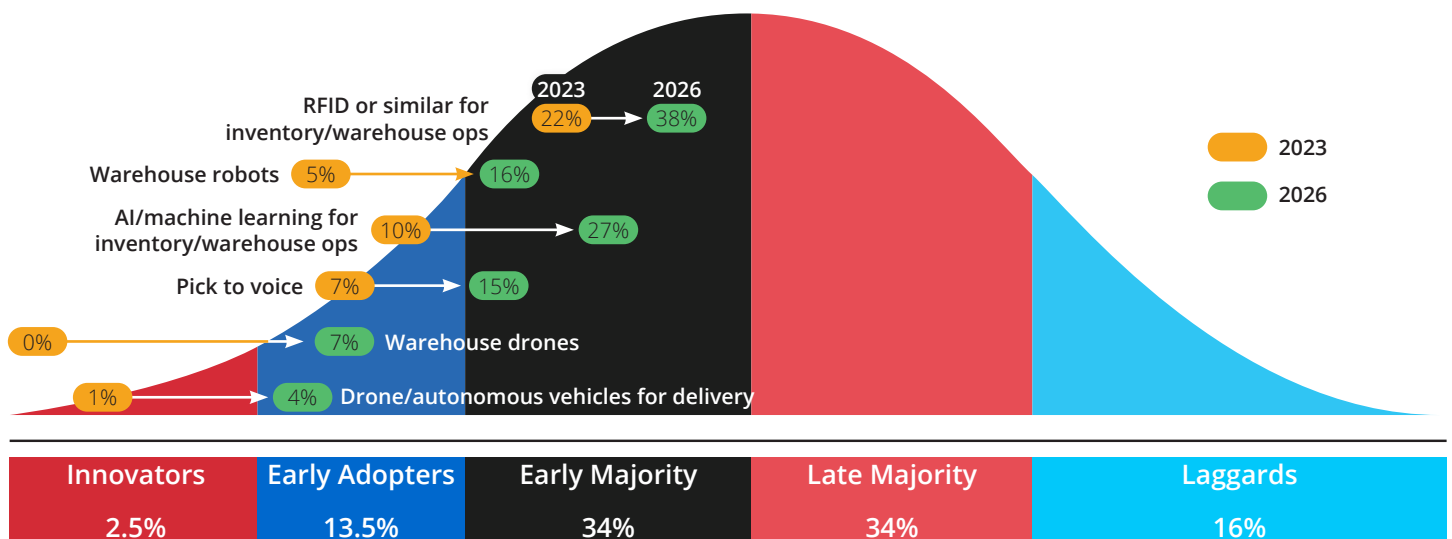
Stage 4: Invoicing and Payment

The invoicing and payment stage is often cluttered and unnecessarily complex because cross-functional teams in accounting, finance and operations "own" this process. New technologies promise significant improvements in capabilities, productivity and accuracy in this stage of the customer journey through:

- Accepting payment using whatever means are convenient for the customer
- Eliminating redundant paper or documents
- Minimizing steps and potential delays from human interactions
- Eliminating potential risk of fraud
- Take advantage of financing leverage and finance terms such as discount incentives

New technology in the invoicing and payment stage includes:

Automated order processing/invoicing: This solution automatically creates all financial and accounting artifacts and submits invoices upon fulfillment. This also includes automated AR payment receipts with financial partners, blockchain smart contracts for traceability and automation, and accepting cryptocurrency through payment gateways. Automated invoicing and payment collection adoption is nearing 50% and could increase to 64% by 2026.

Invoicing/Payment Technologies Adoption Curve: 2023 vs. 2026

Innovators	Early Adopters	Early Majority	Late Majority	Laggards
2.5%	13.5%	34%	34%	16%
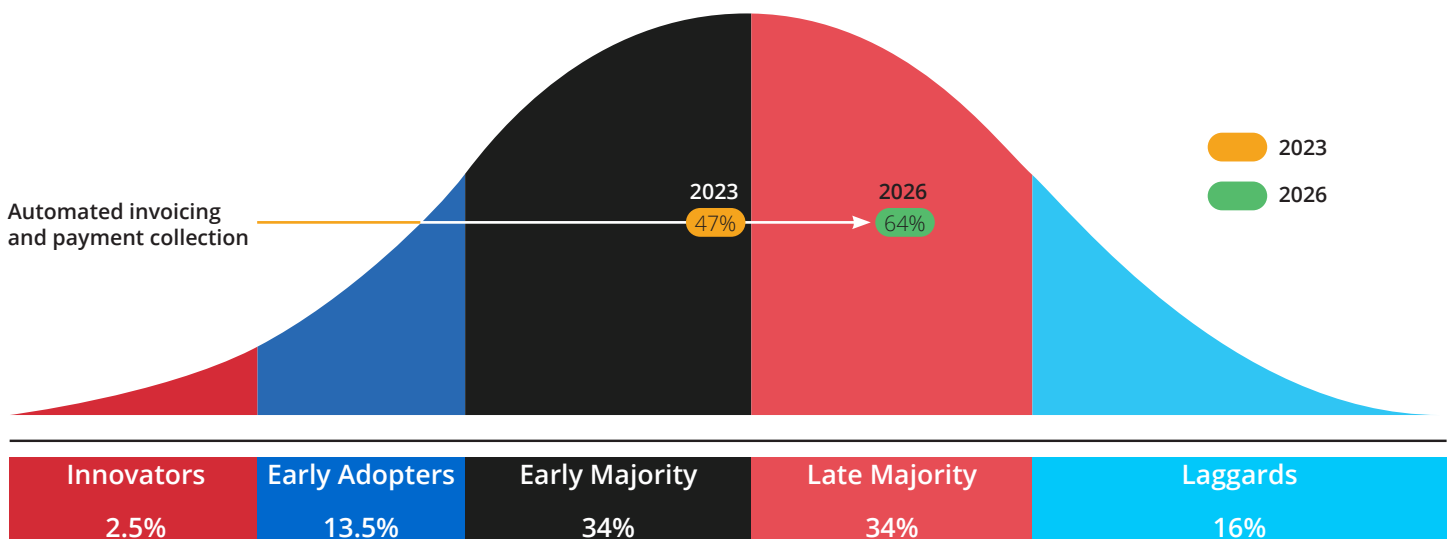
Why Now, Not Later, is the Time to Invest

A hurdle to investing in these new technologies is that the payoff is always later. Too many organizations need bigger margins to tackle an extensive technology overhaul.

But distributors must find a way to capitalize on the technologies that streamline the customer experience and create internal efficiencies in a tight labor market.

Customer experience is the new business battleground. Blame it on B2C online interactions if you must, but today's customers demand a seamless, easy shopping experience on every channel. The good news for distributors is that the majority of customers will pay more for a better experience with your company.

Technology is key to establishing, maintaining and improving that experience for customers. Prioritize a strategic deployment of the technologies outlined in this report in line with the value you deliver and the journey your customers prefer to go on with your business. While the latest tools may not solve all your business problems, and, admittedly, may cause disruption during implementation, the reality for distributors is that the world is moving in the direction of more technology, not less. Competitive advantage requires increasing use of automation, self-service and even drones for greater customer convenience.

Your business must balance cost and competitiveness to enable a better customer experience for a bigger bottom line.

About the Author

Jonathan Bein, Ph.D. has worked with many distributors to make their marketing a profit center. He has developed and applied analytic approaches for customer segmentation, customer lifecycle management, positioning and messaging, pricing, and channel strategy for distributors.

DISTRIBUTION STRATEGY GROUP

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