



## The Growing Use of Business Intelligence and Analytics in Wholesale

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PERSPECTIVE

#GRI225644

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### IN THIS PERSPECTIVE

This IDC Retail Insights Perspective looks at the growing applicability of business intelligence and analytics for the wholesale industry.

Manufacturers and retailers, across all industry segments, are increasingly looking at their supply chain organizations as *intelligent value chains*. These companies are recognizing the need for timely and implementable intelligence about their business, and particularly their supply chains: making the right decision with the right information at the right time, and at the right level.

Analytics was viewed as the province of large organizations with the means to hire skilled consultants or to maintain large internal software development staff. But this is no longer true. An IDC survey of over 2,700 IT managers shows that 91% of large enterprises (over 5,000 employees) have implemented an analytics solution, while 83% of medium-sized enterprises (500–5,000 employees) have done so. This reflects a lessening of the skills gap in organizations on the implementation and application of analytics to business decisions. One of the reasons is the greater availability of prebuilt or packaged applications.

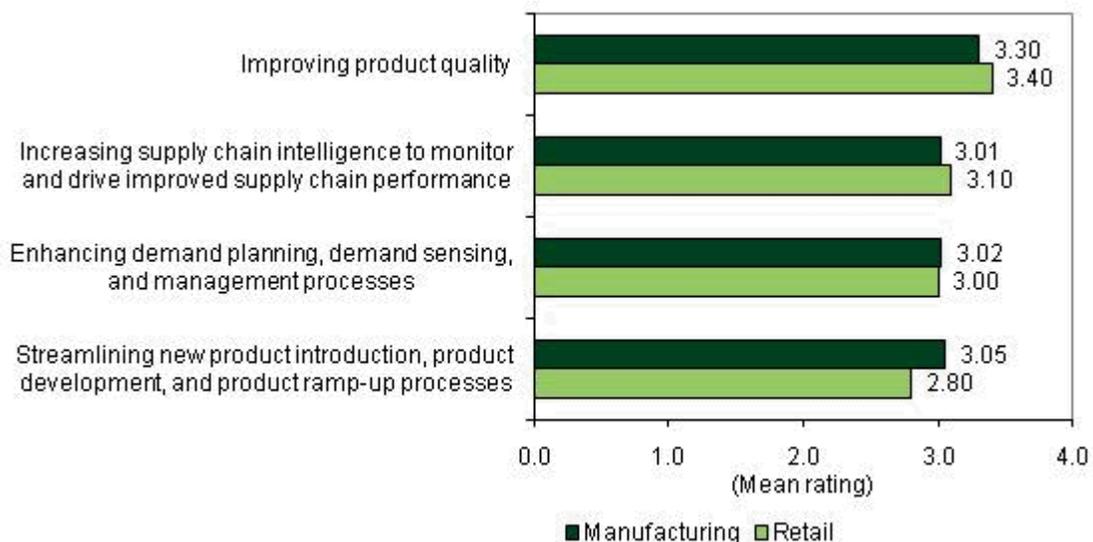
Initially, these analytic applications were created for horizontal processes that applied equally across multiple industries; however, in recent years applications for specific segments like wholesale have been extensive. Starting with financial analytics, the inventory of prebuilt analytic applications that were sold in the software marketplace expanded over time to include all major horizontal processes and the decisions required to run and manage them. But in recent years, there has been real progress in the availability of analytic applications for a broad set of industry-specific processes. For the wholesale industry, analytics capabilities available for key business processes like customer data management, charge-back management, and supply and demand planning illustrate this progress. Although this area remains the most fertile area for innovation, it is still the most underserved sector of the analytics marketplace.

Clearly, manufacturers, wholesalers, and retailers are adopting business intelligence across their enterprises. In a recent survey, 415 respondents, when asked about their top supply chain initiatives, rated "increasing supply chain intelligence to monitor and drive improved supply chain performance" in their top 4 initiatives. In fact retail (which is where we include wholesalers) rated business intelligence as second only to product quality. The results are illustrated in Figure 1.

**FIGURE 1**

**U.S. Manufacturing and Retail Supply Chain Initiatives**

Q. Please think about other initiatives you may pursue in your supply chain. For each, please rate the level of importance on a scale of 1–4 where 1 means not at all important and 4 means very important.



n = 415

Note: Respondents rated 14 supply chain initiatives.

Source: IDC Retail Insights' and IDC Manufacturing Insights' SCM Survey, February 2010

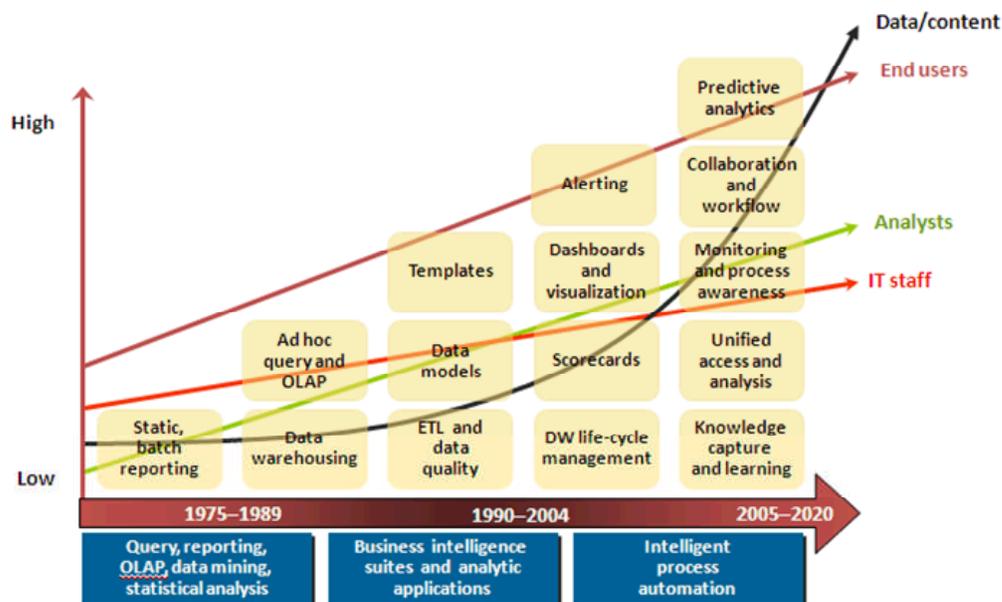
There is also little question that manufacturers, wholesalers, and retailers are maturing internal business processes such that they can better take advantage of business analytics. Indeed, as the availability of data has skyrocketed, so has the degree to which end users are putting that data to use. The importance of prebuilt applications cannot be overstated here, as they are crucial if an ever-shrinking number of "eyeballs" in the supply chain are to keep up with, let alone extract value from, the blizzard of data.

It's not just a question of getting more information, but bringing together and analyzing *relevant* information. And what defines relevance? The key to relevance is context: identifying the information that is needed for a specific *decision*, enabling the determination of optimal and suboptimal alternatives. In the wholesale industry, where there has been an explosion of available data in recent years, this concept of relevance is particularly important.

As manufacturing and retail mature in their use of business intelligence capabilities, we see an evolution toward intelligent process automation. Illustrated in Figure 2, this is of particular note for the wholesale industry, which is routinely dealing with very large numbers of products and customers.

**FIGURE 2**

The Growing Influence of Business Intelligence



Source: IDC Retail Insights, 2010

Yet there are some "watchouts" as companies implement business intelligence and analytics, which require some care in moving forward. IDC Retail Insights suggests considering the following things:

- Define the business problem clearly.

- There is a massive range of analytics tools available, so don't try to "boil the ocean." Identify an area to start where you believe a deficiency in business intelligence is a problem.
- It's all about the data. No matter how sophisticated the analytics application, "garbage in, garbage out" still applies.
- Don't be afraid of "analytics as a service." Although, ultimately, analytics may be best done behind the firewall, there are some very interesting software-as-a-service applications of BI in the marketplace.

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## **The Wholesale Industry**

Wholesalers play an important role in the movement of goods and merchandise from manufacturers to retailers, resellers, and restaurants — or, in fact, any downstream customer. The wholesale industry is complex, with a large number of products and customers, and has a significant presence in a number of product segments, including food and beverage, healthcare, and industrial products. The industry has a particularly notable role in developing countries where smaller, more numerous trade outlets predominate. Wholesalers are an intermediary step in the distribution of goods or merchandise from manufacturers to retailers. This distribution is predominantly "resale" — where the sale occurs without transformation or modification — with services ranging from sorting, assembling, bulk-break repackaging, and redistribution into smaller sizes. We also see wholesalers increasingly looking to value-added services as a way to drive incremental revenue and profit. This can be upstream in the supply chain through light manufacturing or as a contract manufacturer for in-store displays or custom pallets. It can also be downstream in the form of limited retailing, from either physical locations or online.

The role of the wholesaler can vary considerably:

- In some cases, the wholesaler may be contracted by a large retailer to handle all or some of its distribution and warehousing needs, but the retailer retains a direct working relationship with the original manufacturer for activities like innovation delivery, trade promotion planning, and assortment planning.
- In other cases, the wholesaler acts as a full intermediary, managing the relationship with the manufacturer and providing comprehensive account management capabilities in the process of reselling to retail. In this latter case, retailers are generally small and either cannot meet the terms of sale required to do business directly with the manufacturer or would pay a higher bracket price directly.

- In still other cases, the wholesaler's role might also be as a master distributor, or as a fulfillment house for a consumer group purchasing organization.

Because of the intermediary role of the wholesaler, it is not unusual for companies to be managing massive catalogs of products, and selling to large numbers of customers, ranging in size and complexity. The logistical and data management challenges endemic to such a model can be, and are, considerable.

In addition, the wholesale industry is encountering numerous challenges from manufacturers looking for more direct contact with customers and consumers, and from retailers focusing more intently on private label. Wholesalers exist on slim margins — in the 2–5% of sales range — with a focus on lowering operational costs, improving productivity, and effective financial management. There are also pressures on wholesalers to increase asset/capacity productivity and reduce inventory levels while driving differentiation through enhanced customer service and value-added services.

Although there has been a general recognition that wholesalers have been slow to adopt modern technology, the particular industry challenges of reducing costs and improving cash flow lend themselves ideally to the adoption of business intelligence and analytics.

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### **Business Intelligence in Wholesale**

In support of this Perspective, IDC Retail Insights spoke with three prominent wholesalers about their experience with business intelligence, and the degree to which improved analytics have also improved business performance. These wholesalers reflect different segments in the marketplace (electronics and industrial products, laboratory products, and office products), and operate in different parts of the globe (North America and Asia). Broadly, we asked each wholesaler to comment in four areas:

- What business problems have steered you to implement improved BI/analytics?
- Why did you select the tools you are using?
- Have you seen the business benefits you anticipated? What have they been?
- Were there any notable impediments?

Given those questions, here is what we heard.

### ***The Business Problem***

Clearly the business problem will vary by wholesaler, and by wholesaling industry, but the issues faced by the three companies we spoke with have universal applicability:

- Regional fragmentation, with regional managers running the business as they see fit, without any substantial central coordination or application of overall strategy
- Lack of centralized access to business documents, scorecards, data, and/or key performance reports
- The need for a centralized, standardized set of data and reports to enable a more consistent, coherent implementation of the company strategy
- Problems managing product and customer masters, for both product and product catalog distribution
- Communication of plans, forecasts, and inventory policies across warehouse locations and, in many cases, to owned retail locations

These kinds of issues are not unique to these companies, clearly, and can be greatly facilitated through the use of business intelligence analytics.

### ***Selection of IT Tools***

Although there are a number of useful IT tools available in the marketplace, it would be disingenuous to suggest that these, in and of themselves, are a "magic bullet." All three of the wholesalers we spoke with had prepared their organization by ensuring that the right people and business processes were in place prior to the adoption of a BI tool. Clearly this is an iterative process, and companies cannot be expected to have the perfect balance of people-process-technology from day 1, but it is critical to think about the first two before investing in the third.

It is also notable that the wholesalers we spoke with for their BI report are all running SAP Business Objects. SAP is not the only software vendor selling BI tools to the wholesaling industry; however, SAP does appear to have a leadership position with a number of purpose-built business analytic applications. Other vendors to watch in this space are JDA and Oracle.

The selection of BI tools within wholesale is consistent with most other software evaluations and implementations:

- Key functionality

- Industry-specific capabilities
- Ease of implementation and use

Interestingly, one of the wholesalers did specifically mention the importance of integration with existing tools, "Although we did not ultimately need to, we were willing to concede a slight functionality shortfall, if necessary, for an easier integration process."

But there is an added wrinkle that all three of the wholesalers interviewed mentioned specifically. As BI analytics tools are primarily about facilitating decision making, particularly translating strategic intent into operational tactics, it is important to do due diligence at a detailed level in the evaluation process to ensure the tool selected can facilitate the specific decisions that will resolve key business challenges. This seems obvious, perhaps, but it is common for expected capability and actual capability to be misaligned.

### ***Business Benefits***

There are some really interesting benefits that wholesalers can get from the implementation of business intelligence analytics. These benefits can also be had elsewhere; however, as we observed previously in this Perspective, wholesalers are dealing with a level of complexity that may exceed the experience of most other manufacturing and retail industries. A few of the more notable results from the three wholesalers we interviewed are as follows:

- "It was very apparent we had high levels of variation in productivity metrics across our 250 business locations. Some of this was the result of regional business mix differences; however, we generally run a pretty consistent product and customer mix that would not fully explain productivity variations. The implementation of BI has allowed managers to be much more effective about where they may have a problem. They have established performance targets, and have raised performance and reduced standard deviation. Targets have moved in the right direction, and we've seen improvements in almost 100% of the locations at the low end of the performance scale — sales are higher and customer service levels are improved."
- "For many of our catalog customers, we had over 100 ways to spell their company name, with a high level of inaccuracy in company addresses. At \$15 per catalog, and an average revenue of \$500 per book, unnecessary mailings and returned books due to address errors were impacting the business significantly in excess shipping costs and lost sales. Through the use of BI, we have been able to standardize our customer data across the business, significantly reduce the number of returned catalogs, and drive incremental sales."

- "Our business needed better planning and forecasting capability, with robust analytics, ease of use, and a lot of offline features to enable usage by field-based employees. We also needed the ability to communicate this information across a distributed, complex organization. Inventory levels were much too high, but once we had a BI tool in place, people realized we no longer had to overstock. We have been able to maintain service levels with significantly less inventory."

The most interesting thing here is that while the business benefits of implementing improved business intelligence analytics were very different across the three businesses, all ultimately came down to better availability of data and improved decision making.

### **Implementation Impediments**

There is always somebody, somewhere wedded to the status quo. Any discussion of a BI analytics implementation is incomplete without at least a brief discussion of impediments or challenges. In the case of the discussion around wholesale in this research document, all three of the wholesalers were quite positive about their experiences. All, however, stressed the importance of change management in the implementation of BI, and the need to educate users about the benefits of a new approach. In all three cases, the BI tools made people's jobs easier, and more productive. Perhaps the most telling comment was "Of the 1,000 or so users, 75% are using it daily. All the executives know how to use the tool and drill down to root-cause analysis, so the rest of the employees are motivated to do so as well."

## **LEARN MORE**

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### **Related Research**

- *Business Strategy: 2010 Supply Chain (Innovation) Survey Results* (IDC Manufacturing Insights #MI224073, July 2010)
- *Strategic, Tactical, and Operational Decision Management: Exploring Opportunities in Vertical Industries* (IDC #DR2010\_T4\_HM, March 2010)
- *Worldwide Retail Industry 2010 Top 10 Predictions* (IDC Retail Insights #GRI221481, January 2010)
- *Worldwide Supply Chain 2010 Top 10 Predictions* (IDC Manufacturing Insights #MI221291, December 2009)
- *Best Practices: Management of Chargeback Claims in Wholesaling* (IDC Manufacturing Insights #MI219901, September 2009)

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