

Retooling Technology

for Economic Recovery

A study evaluating
technology usage among
distribution professionals

Introduction

In October 2009, **INDUSTRIAL DISTRIBUTION** conducted a study on behalf of Microsoft Dynamics to learn more about industrial distributors business goals, challenges and initiatives. Specifically, the study examined what role technology plays in achieving business profitability and growth.

“Competitive pressures. Retaining vital customers as competition aggressively seeks to lure business with lower prices. Reminding customers of the value they are receiving is increasingly more of a challenge.”

- Owner

“Current economic conditions are obviously a factor. Aside from that, managing excess/dead inventory is the most pressing issue. We need to drive sales to specific products/product lines and have not been able to do that effectively.”

- IT Manager

• “Our customer base is manufacturers, and some of them are moving production out of the country for cheaper labor, reducing our possibilities for sales growth. Customers who remain are frequently downsizing, while competition is not reducing. We are all fighting over a smaller pie.”

- President

A summary of findings show:

- Current economic conditions have led to an environment where there is intense competition for industrial distributors. Sales, customer service and inventory challenges are top of mind as distributors respond to the marketplace.
- Industrial distributors look to increase market share and grow profits by providing exceptional customer service and optimizing sales opportunities with new and existing customers. In addition, they look to introduce new product lines and more effectively manage inventories.
- Industrial distributors see technology as critical to their success in addressing their current challenges and positioning themselves for the future economic recovery. Industrial distributors are investing in CRM, including sales force automation, and e-commerce technologies to grow market share and profits.

Business Climate and Issues Impacting Profitability and Growth

It is not surprising that 2009 has been a challenging year for industrial distributors. The current economic climate presents a challenge for organizations to find a cost-effective way to grow their sales and profits. When comparing business metrics for 2008 and 2009 (see table below), sales have clearly suffered, but more industrial distributors have maintained or increased their profit margins than experienced a decrease. Despite the recession, distributors continue to make an investment in technology, looking to gain efficiencies and position their organizations for the economic recovery.

2008 - 2009 Comparison

	Increase	Decrease	Stay the Same
Sales	15%	68%	17%
Profit Margin	20%	35%	45%
Investment in Technology	33%	11%	56%

Industrial Distributors cite the economic climate as the most challenging business issue impacting business profitability and growth. Industrial distributors are confronted with a lack of business opportunity in the marketplace as companies look to consolidate operations or move manufacturing off shore. Excess inventory poses a major challenge, coupled with intense pricing pressure, as the same number of distributors competes for less business and more products are considered commodities.

Business Goals in the Next 18-24 Months

As the end of 2009 approaches and industrial distributors look ahead to the next 18 to 24 months, there are three main areas of focus. Most importantly, distributors look to increase market share, profits and sales margins. Next, improved customer sales and service will retain current customers and facilitate new client relationships. Finally, distributors plan to introduce new product lines while continuing to manage inventory.

Areas of Business Looking to Improve Efficiencies

Respondents are looking to improve efficiencies in areas of their business that help to achieve their sales-related goals. These include sales and marketing, customer service and support, inventory management and forecasting, warehousing and distribution and e-commerce.

Top Business Goals



Areas Identified to Improve Efficiencies



Usage of Technologies

“CRM software to track customer industries, opportunities and contact database. Strategic pricing and customer stratification through our ERP software.”

- Vice President

“Currently re-tooling our Web sites for increased exposure (e-commerce). Looking at email and Web as a medium for bringing specials and new product lines to market. Very strong emphasis on SEO.”

- Sales Manager

Currently, the prevailing software technologies among industrial distributors are financial management, CRM, e-commerce, warehouse management and sales force automation. CRM, including sales force automation, and e-commerce are the applications not presently being used by many organizations, but are most frequently cited as a technology they plan to adopt within the next two years. Industrial distributors clearly rate CRM as the most critical to their business operations.

E-Commerce Strategy

“We have developed a pilot site and are investing in SEO and SEM programs. The lessons we learn on the pilot site are quickly implemented on our main site. We will be completing a major upgrade on our primary site that will allow us to change content more efficiently, provide video streaming capability and manage a blog.”

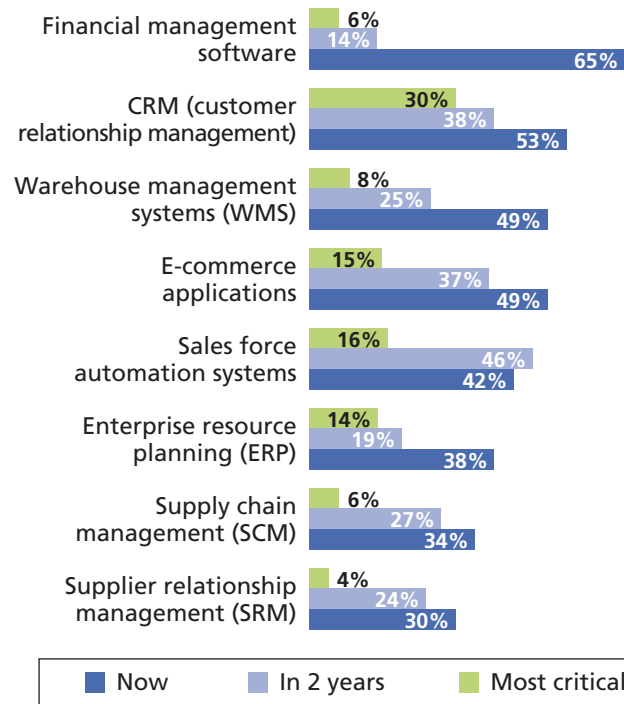
- CEO

Overall, industrial distributors feel e-commerce is of strategic interest, with 85% indicating that it has some level of importance within their organization.

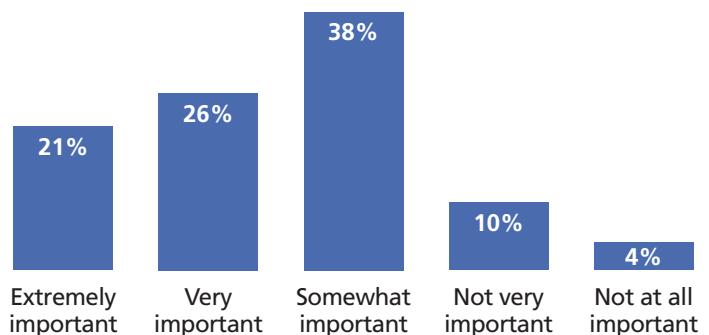
E-commerce offers the advantages of increased sales and decreased costs through the use of electronic media, especially the Web. Due to the global reach of the Internet, organizations are able to communicate worldwide, exploring new markets and opportunities. E-commerce also helps organizations to decrease

costs associated with creating, processing, distributing, storing and retrieving information. Extended trading hours is another benefit, allowing businesses to cost effectively be “open” 24 hours a day, 7 days a week. Another advantage is the flow of information to customers including up-to-date company materials, current product information and inventories. Customers benefit from improved customer service, better communication, and increased operating and trading flexibility. Interestingly, when respondents were asked if there was anything their competitors were doing that they would like to implement, the most frequent mentions were e-commerce initiatives.

Current and Future Use of Technologies



Importance of E-Commerce Strategy



Return on Technology Investment

“Increased efficiencies, increased sales, decreased COGS, impact on morale.”

- Manager, New Business Development

“Gross profit dollars divided by the investment over the depreciation term.”

- Owner

“It’s not an easy measurement due to the many soft costs associated with it. The best measurement is customer satisfaction and growth of business.”

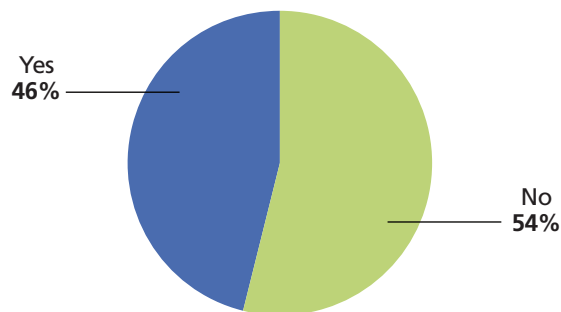
- Sales Manager

“Specific programs are targeted for specific ROI measures, with goals and targets set for either increased efficiencies or increased sales, etc. All costs associated with the program before and after the initiatives are considered, to obtain a more accurate measure of success.”

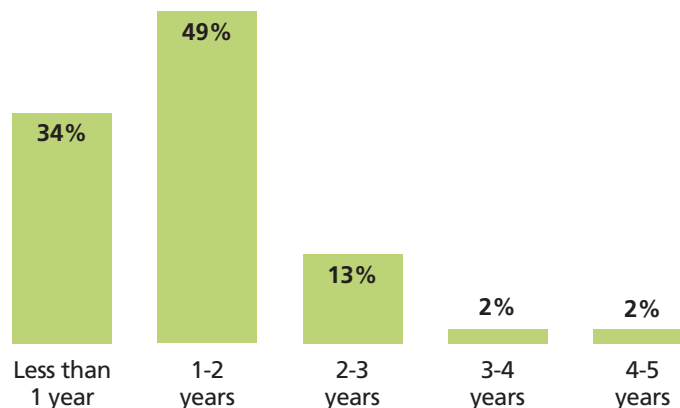
- Senior Account Manager

Industrial distributors are divided on how to measure return on technology investments. There does not appear to be a “standard formula” used within the industry, with a wide array of views on what factors contribute to the measurement. Fewer than half of industrial distribution organizations are currently attempting to measure ROI. The return on investment is expected to be realized within 2 years by most companies, otherwise it becomes a capital expenditure.

Industrial Distributors Measuring ROI



Estimated Time to Realize Benefit and Payback



Preparing for Better Economic Times

We are looking to shift our focus on new customer segments and products.

- Chairman of the Board

Focused marketing effort on specific identified target industry sectors.

- Vice President

Anticipating the recession, we went completely debt-free. This has allowed us the ability to increase our customer base so that during a recovery we will better positioned for greater gains.

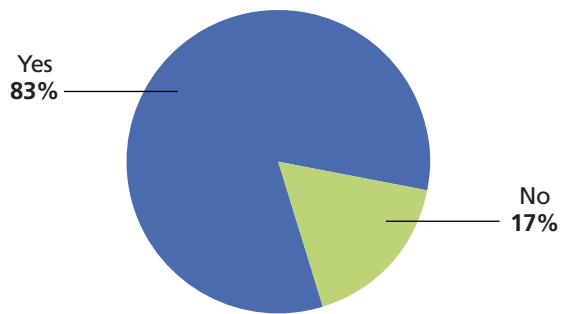
- Manager of Domestic and International Sales, Advertising and IT

Building brand new building 5x current facility and adding staff.

- President-

In anticipation of an economic recovery, industrial distributors are taking steps to prepare. Respondents are preparing by investing in technology (i.e. computer hardware and/or software), increasing staff and reinstating employee benefits. At present, partaking in sustainability/green initiatives is not at the top of the priority list for industrial distributors.

Taking Steps to Prepare for Better Economic Times



Actions Being Evaluated, Considered, Adopted

Investing in technology (computer hardware/software applications)

48%

Increasing staff/Reinstating employee benefits

40%

Expanding inventory

31%

Green/Sustainability initiatives (vendor selection, etc.)

29%

Evaluating/Buying capital equipment

27%

Methodology

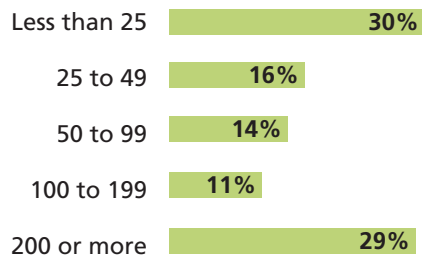
This research was conducted by RBInteractive Research Group on behalf of INDUSTRIAL DISTRIBUTION magazine for Microsoft Dynamics, an enterprise resource planning (ERP) and customer relationship management (CRM) solutions application vendor. The study was conducted in October, 2009 among subscribers to INDUSTRIAL DISTRIBUTION using an online survey.

In order to qualify to participate in the survey, respondents' companies needed to currently use information system technology systems to manage or coordinate any of their business resources, information and functions or to interact with customers or suppliers.

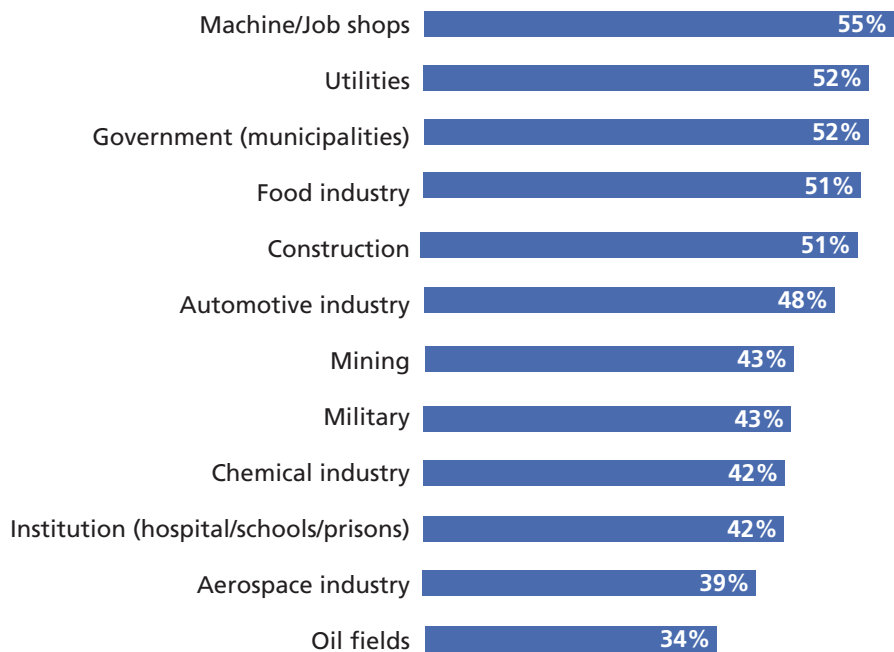
In total, 303 industrial distributors qualified for this study.

Respondents to the survey represent industrial distributors of various sizes. These industrial distributors employ an average of 176 employees for their entire distribution network. Respondents sell to a wide array of industrial sectors. More than 40% have executive-level titles.

Number of Employees for Distribution Network



Industrial Sectors Sold To



About Microsoft Dynamics

Microsoft Dynamics is a line of familiar, adaptable enterprise resource planning (ERP) and customer relationship management (CRM) solutions designed to meet the business needs of distributors and manufacturers. Microsoft Dynamics works like and with familiar Microsoft software—easing adoption and reducing the risks of implementing a new solution. To learn more visit www.Microsoft.com/Dynamics