Epicor® White Paper

Digital Transformation in Distribution

Why You Need a Cloud ERP To Support Your Digital Transformation
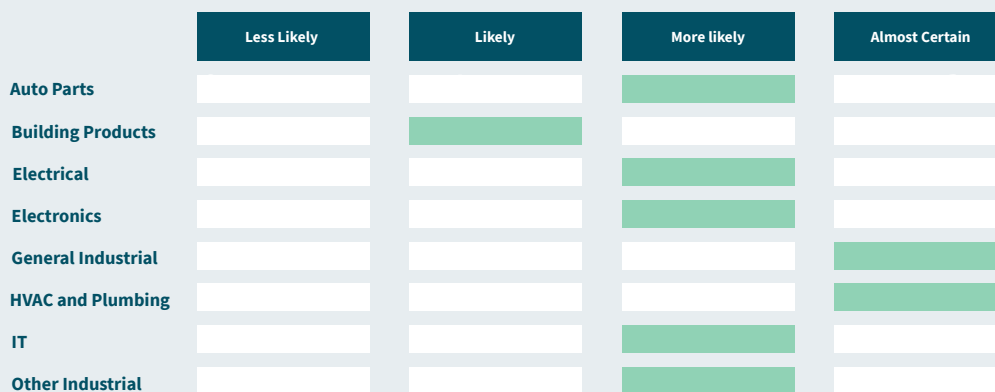
Epicor® White Paper

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Contents

Introduction

Why is digital transformation critical for small to mid-sized distributors? The primary reason is that the distribution industry is facing unprecedented change and distributors must find a way to survive and thrive amid this sea of change. More and more manufacturers are now selling directly to customers and bypassing traditional, multitiered distribution channels, which is eating into distributors' revenues. The Royal Bank of Canada estimates Amazon's business marketplace, where manufacturers can sell directly to businesses, will see revenue reach $31 billion by 2023[1]. According to a recent McKinsey & Company survey, general industrial, HVAC and plumbing segments were most likely to be disintermediated[2] (see Figure 1).

Likelihood to increase reach to end customers in next 2 years, average across respondents, by industry segment

	Less Likely	Likely	More likely	Almost Certain
Auto Parts			�	
Building Products		▰		
Electrical			▰	
Electronics			▰	
General Industrial				▰
HVAC and Plumbing				▰
IT			▰	
Other Industrial			▰	

Source: 2018 McKinsey Industrial Distribution Service Line Manufacturer Survey, n= 100

Figure 1: Disintermediation varies by segment and is highest in general industrial, as well as HVAC and plumbing

In addition, some new entrants are selling primarily with an eCommerce model, which allows them to sell a larger assortment of products in local markets at lower prices. Finally, small to mid-sized distributors face competition from large national organizations, who have local operations, are well capitalized to support investments and have the purchasing power advantage to get volume discounts and translate this advantage into lower prices. In order to survive and thrive in this rapidly evolving landscape, many small and mid-sized distributors are successfully competing by leveraging technology to:

- Make their business practices more efficient to increase margins
- Find ways to achieve broader market reach and grow their business
- Provide more value-added services and better customer experiences to increase customer loyalty

This is the essence of digital transformation and technology plays a central role in this change.

"As digital technologies dramatically reshape industry after industry, many companies are pursuing large-scale change efforts to capture the benefits of these trends or simply to keep up with competitors."

"Unlocking success in digital transformations" October 2018 Survey by McKinsey & Company

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1   CNBC, retrieved March 11, 2020 from https://www.cnbc.com/2019/12/06/amazon-business-a-b2b-unit-to-reach-31-billion-revenue-by-2023-rbc.html

2   McKinsey & Company, retrieved March 11, 2020 from https://www.mckinsey.com/industries/advanced-electronics/our-insights/the-coming-shakeout-in-industrial-distribution

Role of Cloud ERP Technology in Digital Transformation

Digital transformation is a prevalent term in the distribution industry and for small and medium businesses, it can be a challenge to interpret what it means and understand its business implications. Our definition of digital transformation is the integration of technology into all areas of a business, fundamentally changing how you operate and deliver value to your customers. It involves an increased use of technology to improve the experience of your organization's employees, customers, suppliers, partners and stakeholders.

ERP technology is the first investment that distributors need to make as they embark on their digital transformation journey. ERP becomes the foundation of your digital transformation by allowing all your departments including marketing, sales, procurement, inventory management, warehousing and finance to work off one system. Suddenly everyone within the organization is on the same page; siloes and paper are eliminated, especially if you are moving from a combination of old systems, manual processes and disconnected spreadsheets. Business managers get a 360-degree view of their operations, allowing them to quickly identify issues from data insights, improve efficiency and promote more data-driven decision making. Integrated eCommerce capabilities allow you to cost effectively extend your reach to new customers and grow. Advanced capabilities in inventory management, warehousing or pricing optimization allow you to provide more value-added services to your customers and in the process, create deeper and more service-oriented relationships with them, while reducing your internal cost of operations.

However, the cloud architecture of your ERP system plays a critical role in digital transformation. If your ERP system is built on and delivered via cloud, then you can run and grow your business without having to worry about some very important issues such as:

- Can your ERP system (software, hardware, networks etc.) scale appropriately and support your growth as you add more locations or increase the number of categories/ products you sell or drive a significantly higher volume of business?
- Will your eCommerce customers experience downtime when there is very high volume on your website due to a promotion being announced?
- Is your business going to be affected by exposures to malware or data security breaches?

Benefits after implementing Epicor Prophet 21®

34%
rise in sales while staff grew by 5%

Hydraulic and Pneumatic Equipment Parts and Supplies Distributor

8.5%
increase in revenue and 5% rise in Internet sales

Medical Supplies and Services Distributor

40%
increase in sales with less than 10% increase in headcount

Large Industrial Distributor

During high season weeks or a financial quarter close, will your system always be up and running during business hours?

Can your IT hours be freed up to focus on business productivity versus spending time and money on hardware refreshes?

If you are not running your ERP system in the cloud, then you have to worry about resources and time spent upgrading your hardware and your network capacity to take on more workload; or ensuring your hardware and software are running on the latest versions so your ERP system is not subject to disruptions from security breaches; or ensuring you are making the appropriate network configuration adjustments to share demand or supply information easily with your suppliers or customers without opening it to hackers.

Cloud ERP takes care of these issues for you. Your ERP system becomes easily scalable, operates at the highest levels of performance, is secure and reliable, as well as enables easy connectivity. You can focus on running your business and driving your digital transformation.

Three Capabilities of Cloud ERP Technology that Enable Digital Transformation

As we discussed earlier, a cloud ERP solution enables digital transformation by enabling you to become more competitive and drive growth by reducing your costs, as well as delivering new value-added services and improving customer experiences, while ensuring your systems are scalable, reliable and secure. It enables digital transformation through these three broad set of capabilities (see Figure 2).
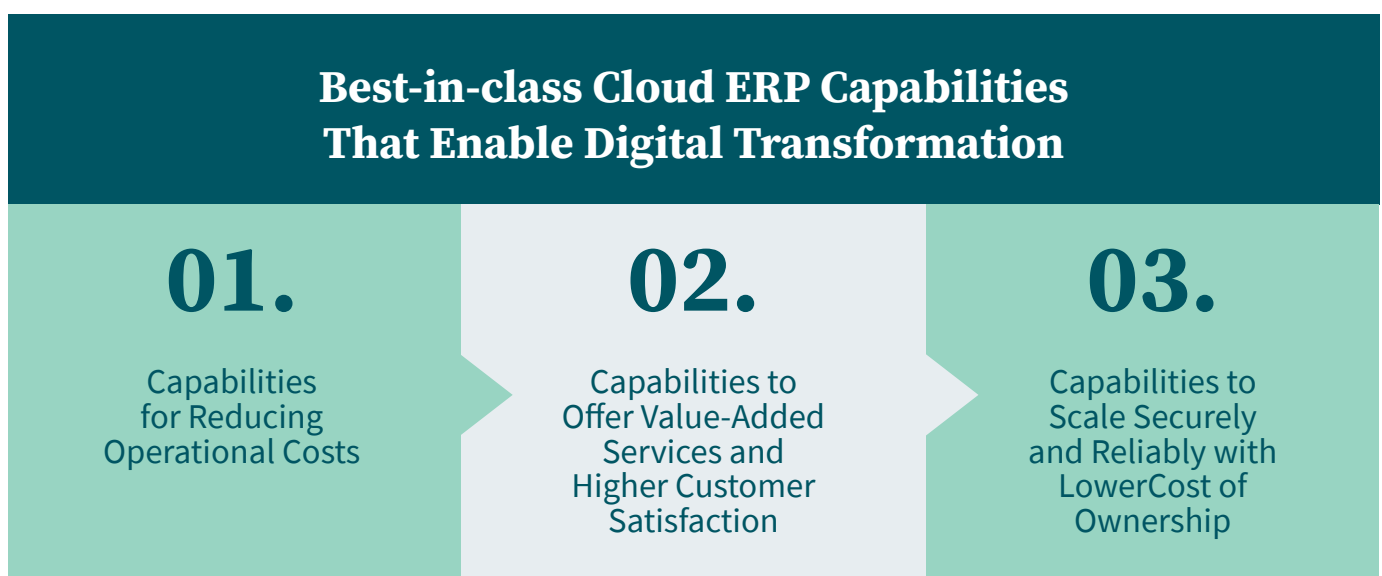
Best-in-class Cloud ERP Capabilities That Enable Digital Transformation

01.
Capabilities for Reducing Operational Costs

02.
Capabilities to Offer Value-Added Services and Higher Customer Satisfaction

03.
Capabilities to Scale Securely and Reliably with LowerCost of Ownership

Figure 2: Three Cloud ERP Capabilities for Digital Transformation in Distribution Industry

Cloud Capability One: Reduce Operational Costs

A cloud ERP system provides you with a complete and integrated view of your operations, so you can improve efficiency and increase data-driven decision making. The breadth of its capabilities (i.e. covering all departments such as sales, marketing, finance, procurement, inventory, warehouse etc.) allows you to integrate all your company-wide business processes into a cohesive organization. As you grow from one location to multiple locations, you can continue to maintain visibility across sites and not create organizational silos. However, it is a cloud ERP solution's depth of industry features that allows you to automate your unique industry-specific processes and embark on your digital transformational journey. You won't benefit from the same results by choosing vendors that offer generic ERP capabilities in their ERP system but then need extensive customization or integration with other products for industry-specific capabilities.

Some of the key capabilities that help you reduce costs include quick, easy access to meaningful reports and key performance indicators (KPIs) out-of-the-box, so you can quickly see important information about your business, identify issues in areas such as inventory or customer orders or facilities and sales, analyze them and address them to improve company performance. When your ERP delivers intelligent, actionable insights into your operations, you can make more informed decisions and take actions that drive growth. You can see where your business is going based on what is happening within it today and determine what could happen if you made business decisions based on those insights.

The right cloud ERP system can help you optimize your inventory by identifying slow and fast-moving inventory, more accurately forecast customer demand and use to it set optimal min/max levels to improve inventory turns and reduce over/ under stock. The system can make your warehouse picking, as well as labeling, more efficient and error-free through support for automated picking. If your warehouse processes are manual and inefficient, it is harder to fulfill customer demand faster without adding more people. A manual process can cause the wrong products to be picked, which affects customer satisfaction and triggers returns, increasing your costs. The right cloud ERP system can also help you manage and track manufacturer rep orders and scheduled sales orders (with multiple releases to align with your customers' schedules) as a part of your standard order management process, so you are not having to track them manually via spreadsheets—a time consuming process.

The below examples show how a cloud ERP system enables you to embark on your digital transformation journey and reduce your operational costs to become more competitive.

Operational Improvement Benefits with Epicor Prophet 21

133%
increase in profits with a 58% increase in sales over 3 years for Duncan-Parnell

30%
improved inventory turns for G,L, Huyett

$15,000
saved in training costs annually and a faster learning curve for new employees and warehouse interns for DeeTag LTD

60%
increase in picking speeds and efficiency with Wireless Warehouse Management for Kipper Tool Company

$40,000
saved for not needing to implement a separate CRM solution for ICC

Cloud Capability Two: Grow Business

A cloud ERP system contains embedded capabilities that help distributors drive growth by enabling them to extend their customer reach, deliver value-added services to their customers, as well as provide superior customer experiences.

For example, using such systems, you can provide managed inventory for a customer at their site or integrate with their tool cribs or vending machines for remote inventory management. By providing such value-added services, you can increase customer loyalty and retain existing business, as well as win new business. Similarly, you can integrate eCommerce capabilities into your sales operations and transact business with your customers irrespective of the work hours at your location. The customers can not only buy products 24X7, but also check inventory, product prices or the status of their orders. As a result, you can successfully compete and win against larger distributors, as well as manufacturers who may be trying to sell direct in your local area. You can also charge premium pricing or increase customer loyalty by offering same day order and shipment by implementing an automated wireless warehouse.

If you want to add a value-added maintenance service to your business (or already have such a service but are managing it manually), you can use the cloud ERP solution to build or scale business that includes tracking maintenance schedules, dispatch of workers, and managing warranties. You can compete with the 'big boys'!

It's critical that you consider the availability of distribution industryspecific capabilities in your cloud ERP that allow you to provide such services. Most cloud ERPs don't offer such capabilities since they are built to cover a broad array of industries. They instead recommend partners who have these specific capabilities, but then you must bear the costs of system integration and future upgrades, which add to your cost of ownership.

Cloud Capability Three: Scale Securely at Lower Cost

A digital transformation initiative must be affordable for small and mid-sized distributors to compete with larger players. At the same time, your ERP system that enables digital transformation must be scalable (i.e. your system cost effectively scales as your operation and data volume grow), more reliable and secure than if managed internally by IT, have a lower cost of ownership and allow your employees, customers and partners to access information that they need to access - securely, anywhere and on any device, including mobile devices. A cloud ERP delivers on all these requirements and allows you to embark on your digital transformation journey without worrying about scalability, reliability, security, connectivity or total cost of ownership (See Figure 3).

"Since integrating vending machines with Epicor Prophet 21 software, the company has experienced 30% improved productivity—which represents millions of dollars in cost savings. We always want to give customers a reason to keep giving us their business rather than switching to new competitors, and in this case that was a smart, 'sticky,' just-in-time inventory management solution that offers ultimate convenience and can scale as they grow."
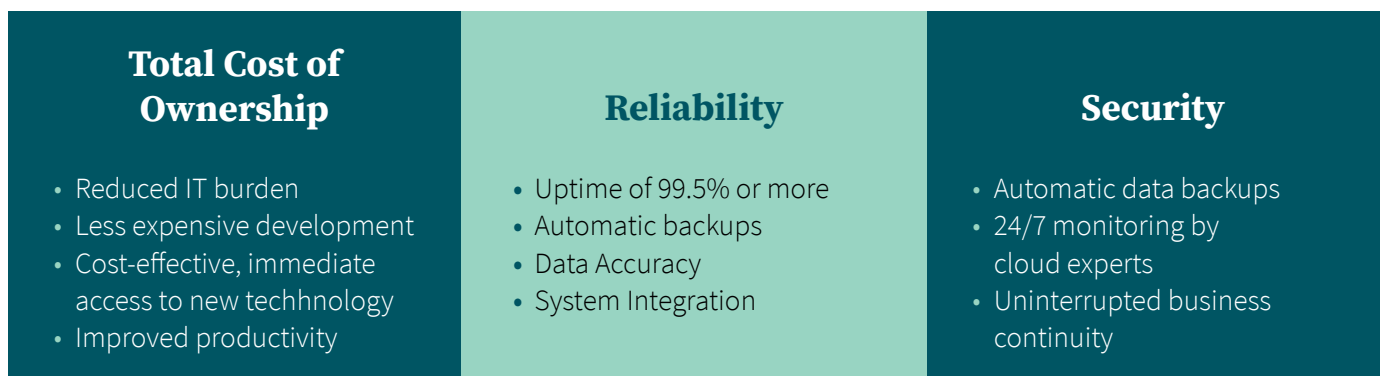
Jergens Industrial

Total Cost of Ownership	Reliability	Security
• Reduced IT burden • Less expensive development • Cost-effective, immediate access to new techhnology • Improved productivity	• Uptime of 99.5% or more • Automatic backups • Data Accuracy • System Integration	• Automatic data backups • 24/7 monitoring by cloud experts • Uninterrupted business continuity

Figure 3: Three Core Pillars of SaaS Capabilities

Cloud makes it easier for you to connect with your customers and suppliers outside the four walls of your company offices. With cloud ERP your employees can also access the system anywhere, anytime, on any device, including mobile phones, without the need to log in to a VPN. For example, sales reps can give quotes, book orders or check order status while meeting with customers at their sites. Or managers can check KPIs or run reports to identify issues or approve invoices or discounts even when they are on the road. The non-typical ERP user can access the data within the ERP system through voice technology for anytime, anywhere connections. You can deliver connections across teams from within the ERP system to improve communications, find answers and collaborate on projects.

Maintenance users can easily check warranty or order spares while at your customer's site. With cloud ERP, integration with tool cribs and vending machines at customer sites becomes simpler. Connectivity with customers and suppliers to accelerate flow of information across the supply chain also becomes simpler. For example, you can import demand and supply data as XML or CSV documents from your customers or suppliers into the system and completely bypass the complexity and expense of an Electronic Data Interchange.

You can reduce cost of sales and purchasing by connecting your ERP application to applications and systems outside the business.

Cloud enables you to reduce your IT burden, so you can refocus your resources on higher-value initiatives. Right now, your IT department is likely bogged down with administrative tasks, analyzing and justifying technology upgrades, updating hardware, and sifting through bugs,

patches, and fixes. Imagine what they can accomplish if they instead focus on digital transformation initiatives mentioned above that drive growth or improve profitability and competitiveness. As a bonus, when you're on a cloud ERP, your software can be easily upgraded by your vendor, so you can take advantage of their latest innovation, without needing to justify an upgrade expense.

Cloud ERP solutions typically offer greater than 99.5 percent or higher uptime, a number much higher than if you ran the system on your own premises. These systems come with highly redundant designs that offer continuity and disaster recovery, so you can avoid business interruption. You can focus on running your business and the system is always there for you. Cloud ERP providers also ensure that security is maintained through taking the ownership of patching any vulnerabilities that might have been discovered in the operating system, database or ERP application, ensuring the most robust environment for you. Cloud ERP vendors should use encryption technology as well as a dedicated database, so that no unauthorized person can access your data. Cloud architecture is highly scalable, and as you grow i.e. add more locations, increase the number of employees who use your system, add more modules, increase the number of products you sell or even add more value-added services that you provide to your customers, your system can scale without database or software performance becoming a problem.

An ERP system, using cloud architecture, enables you to embark on your digital transformation journey knowing your systems are scalable, secure, reliable, cost effective and it can help you improve connectivity within your supply chain.

How Epicor Prophet 21 Cloud ERP Technology Supports Your Digital Transformation

Epicor Prophet 21, a cloud ERP solution, is purpose built for small and mid-sized distributors. Thousands of distributors have successfully used Epicor to embark on their digital transformation journey. They have streamlined their operations to increase efficiency and improve margins, as well as offer new value-added services to their customers to drive customer loyalty and growth. Epicor's distribution customers include over half of the Electrical Wholesaling's Top 200 and Supply House Times' Premier 150, as well as over a third of the Industrial Distribution's Big 50 and The Wholesaler's Top 100. Key modules of Epicor Prophet 21 include customer relationship management, order management, procurement, inventory management, warehouse management, ecommerce, reporting and rentals management (see Figure 4).

Epicor Prophet 21 is one of the most competently architected cloud solutions available in the marketplace. It uses industryleading Microsoft Azure Cloud at its core. Its highly redundant design delivers industry-leading uptime and performance. It is engineered to cost-effectively scale as your company grows – anywhere across the globe. It is built to secure your company and your customer data. And the system is available 24X7 with over 99.95% availability.
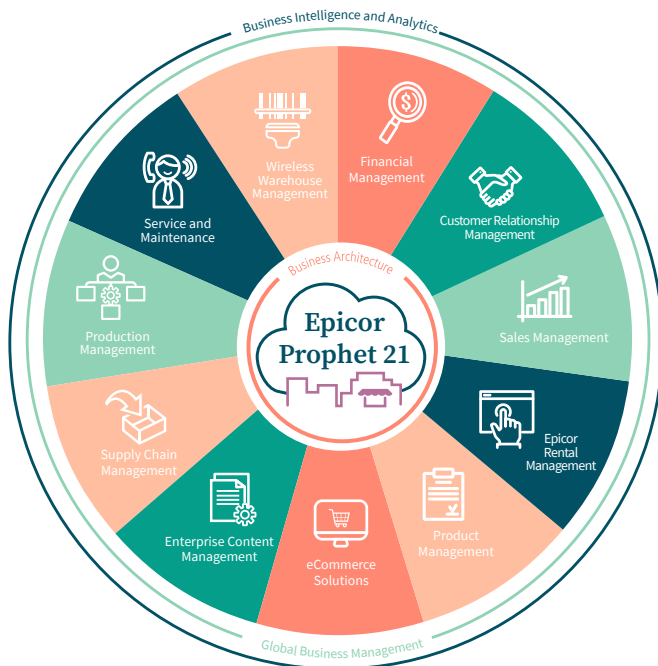

Figure 4: Key Modules of Epicor Prophet 21

Kregg Cheek, President | LH Industrial Supplies

Measurable Benefits of Epicor Prophet 21

- A distributor of hydraulic and pneumatic equipment, parts, and supplies reported a 34% rise in sales, while staff grew by 5% and merchandise returns dropped by 40%.
- A distributor of products, services, and components to users and manufacturers of industrial automation equipment tracked a 5–10% increase in sales and 300% to 400% improvement in speed of sales data entry.
- A distributor of medical supplies, equipment and services measured an 8.5% increase in revenue and 5% rise in internet sales with better backorder fulfillment efficiency — orders now stay open for just a day or two instead of up to six months.
- An industrial distributor shared that their sales increased 40% with less than 10% increase in headcount.
- A distributor of welding machinery, supplies and service maintained profit margins with increased discounts and better cash flow.

Summary

The distribution industry is facing unprecedented change and you need to find a way to survive and thrive amid this sea of change. Already many small and mid-sized distributors are finding success through digital transformation - by streamlining their business practices to increase margins, finding ways to achieve broader reach, as well as providing more value-added services and better customer experiences. Ability to achieve these objectives is significantly enhanced if your ERP solution is built using cloud architecture and contains distribution industry specific capabilities. Epicor Prophet 21 Cloud ERP is playing a central role in helping small and mid-sized distributors embrace digital transformation.

EPICOR

We're here for the hard-working businesses that keep the world turning. They're the companies who make, deliver, and sell the things we all need. They trust Epicor to help them do business better. Their industries are our industries, and we understand them better than anyone. By working hand-in-hand with our customers, we get to know their business almost as well as they do. Our innovative solution sets are carefully curated to fit their needs, and built to respond flexibly to their fast-changing reality. We accelerate every customer's ambitions, whether to grow and transform, or simply become more productive and effective. That's what makes us the essential partners for the world's most essential businesses.

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