



The State of the Wholesale Supply Chain Industry

..... 2020



BLUE RIDGE
FOR A MORE FORESEEABLE FUTURE

SmartBrief

EXECUTIVE SUMMARY

The wholesale supply chain industry continues to look for ways to solve challenges around predicting shifting consumer preferences, volatility with suppliers and long lead times, and e-commerce growth that's increasing price transparency. Despite these obstacles, the industry collectively posted year-over-year sales growth of 8% in 2019, similar to the prior year.



This increased revenue has not brought corresponding margin growth. Why? Organizations struggle with managing disruptions from economic trends, cost pressure, new competition, and not having the right systems and processes in place to manage uncertainty.

The industry is still holding more inventory than necessary in response to shifting customer demands and economic trends, with more than 70% of wholesalers keeping more than one month of inventory on hand. This strategy holds even if businesses are worried about issues such as tying up working capital in inventory, expanding assortments to address customer needs and maintaining market differentiation, ensuring high service levels to support customer retention, and other financial effects of inventory investments.

Many companies don't meet their business goals because they have a difficult time planning and managing slow-selling, low-demand, obsolete and seasonal items. The industry also struggles with pricing in an environment where costs are increasing, tariffs are unpredictable and companies have scant ability to pass those increases on to the end consumers.

For the third straight year, Blue Ridge asked wholesale supply industry leaders about their challenges, how they're thinking about solving them and how they're dealing with the pace of technological change. The survey of 155 Blue Ridge customers and NAW SmartBrief readers touched on many of the same topics as previous years, as well as a few new ones to capture the changing industry landscape.

Key findings for 2020:

- Wholesale distributors continue to struggle with inventory planning and understanding how to optimize what they hold to meet shifting consumer demands. How to best manage products on hand continues to be complicated by trends in the economy, such as rising transportation costs, supplier and labor constraints, tariffs and inflation.
- No matter what the challenge or cause for concern, the typical response is to hold more inventory, then discount the excess, which can hinder companies from achieving their business goals. In particular, seasonal items and those that are slow, low-moving or obsolete continue to be significant roadblocks for the majority of distributors.
- Advanced supply chain analytics and technologies, such as artificial intelligence and machine learning, are gaining traction. The 2020 survey revealed an increase in companies using these tools as well as those interested in implementing them for forecasting and supply chain planning.

Volatility in economic conditions and customer demand makes using tools, such as price optimization, scenario evaluation and forecast reconciliation, a critical way for distributors to gain an advantage over the competition.



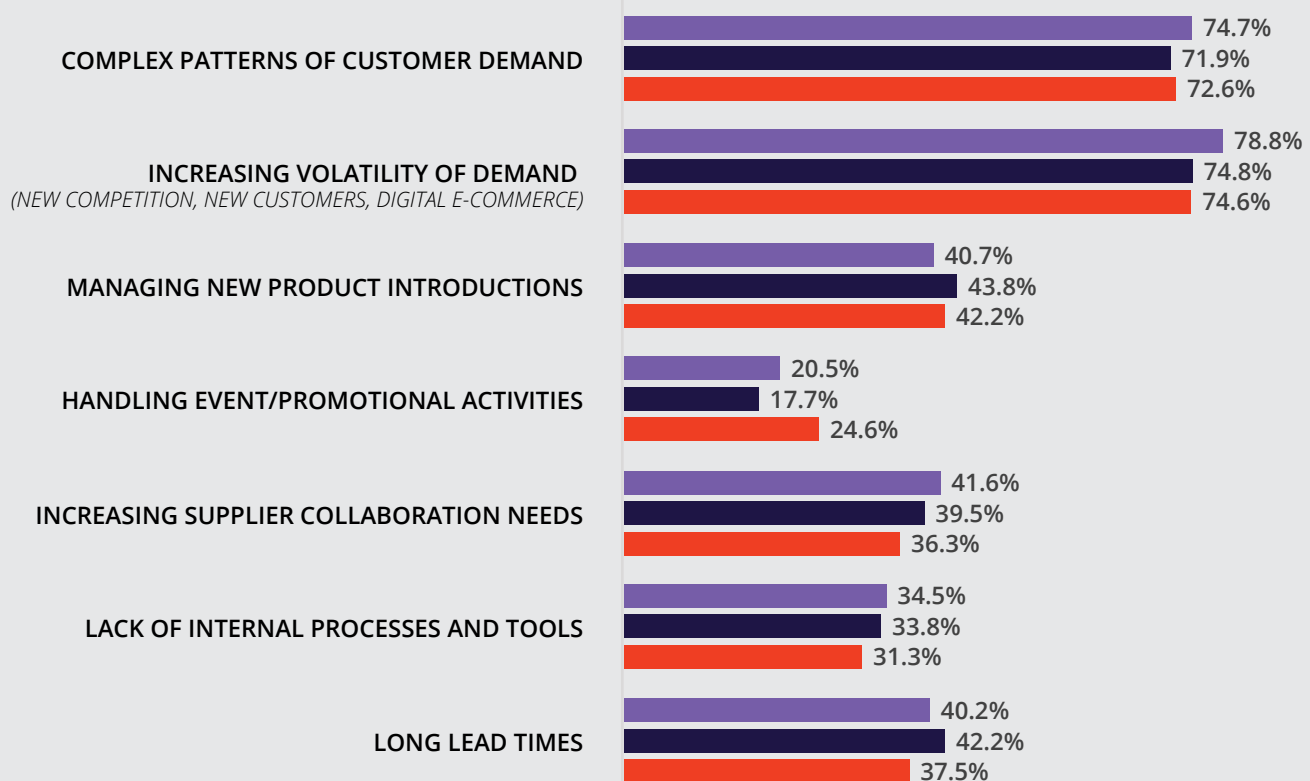


SURVEY DETAILS

Wholesale distributors continue to hold more inventory to try and meet consumer demands, especially as e-commerce rapidly changes what and how people are buying. These companies struggle to find the right tools to manage these challenges and meet business goals.

Top challenges organizations currently face or expect to face in the near-term in inventory planning and forecasting

2018 RESULTS | 2019 RESULTS | 2020 RESULTS



The top three challenges cited in the 2020 survey were:

- Increasing volatility of demand from new customers and competition, including e-commerce (74.63%).
- Complex patterns of consumer demand (72.58%).
- Managing new product introductions (42.19%).

While these responses have been similar over the past three years, companies now consider it more challenging to introduce new products than to manage long lead times, which fell to the fourth spot on the list.

This may indicate that companies need earlier insights into new market opportunities, including what items consumers want, on what channel, how much they should stock, and how much they will pay for these products. The ability to compete in new areas with this level of agility will be the key to unraveling chaos.

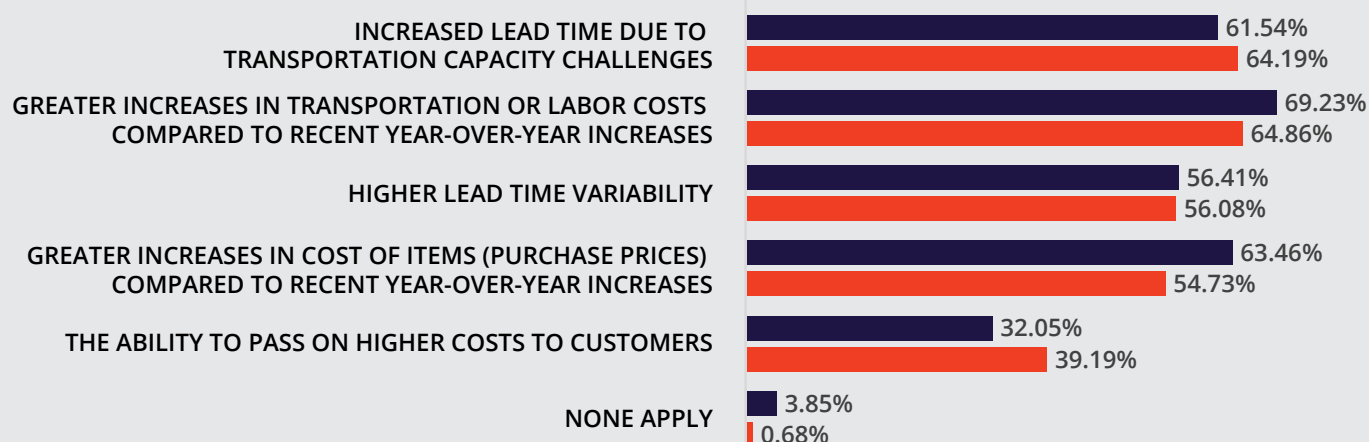
As e-commerce continues to threaten the market with competitive products that are available nearly instantly, shifting consumer trends can make stocking shelves even more challenging.

- Roughly 60% of survey respondents said costs for transportation, labor and goods were rising more quickly than in previous years.
- Increased lead times due to transportation problems also rose, making it challenging to respond to demand swings as quickly as online distributors and retailers.
- And while operation expenses continue to climb, distributors are not able to pass those on to customers. These higher costs coupled with the need to compete against e-commerce sites offering greater price transparency are putting pressure on operating margins. While distributors are managing through these challenges, it remains to be seen how long they can sustain this without some price optimization becoming necessary.



Which of the following business trends have you seen in your supply chain in the last year?

2019 RESULTS | 2020 RESULTS



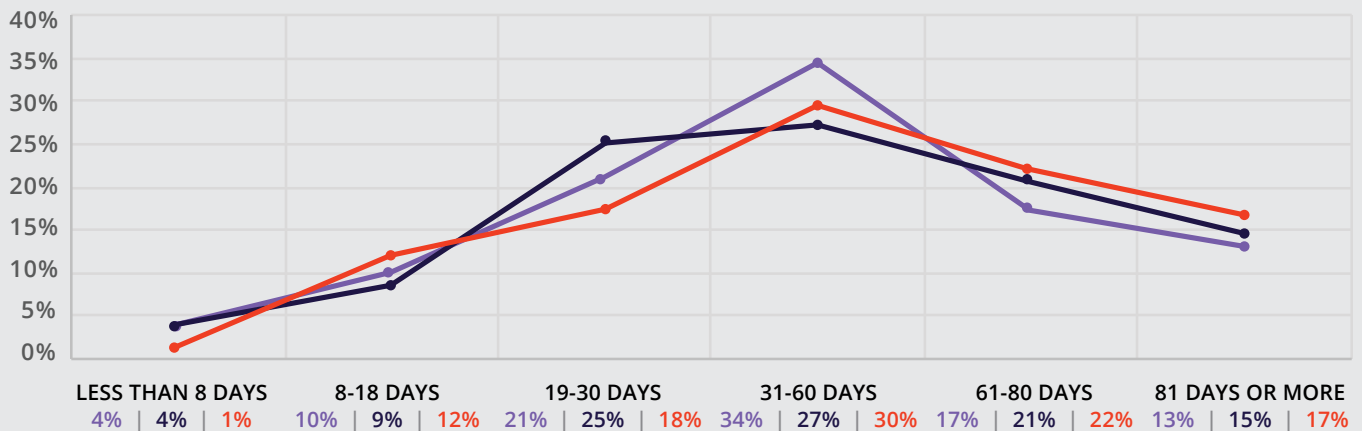


THE INVENTORY PICTURE

Inventory management continues to be the biggest challenge for the industry. The number of companies holding 61 days or more of inventory has slowly ticked up over the past three years, while the number holding 19 to 60 days of supply has declined. This indicates that the inventory management process is increasingly cumbersome as assortment breadth has become wider.

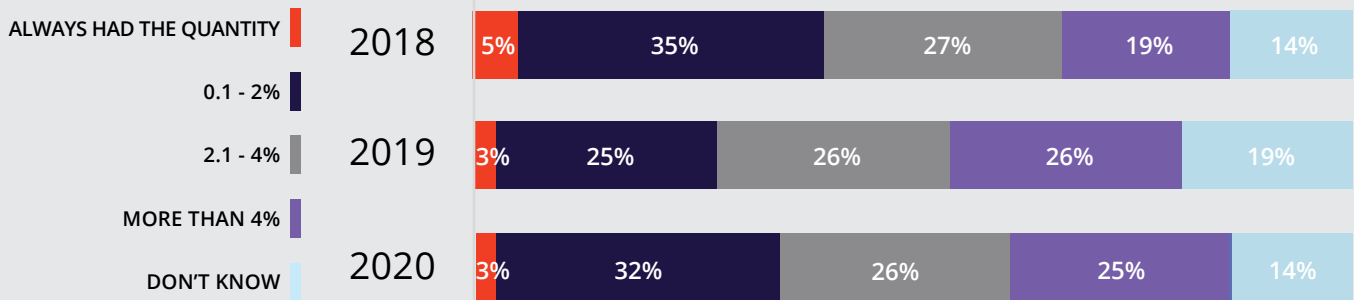
Current days of supply on-hand

2018 RESULTS | 2019 RESULTS | 2020 RESULTS



This trend is consistent when you look at the amount of demand companies can't fulfill with on-hand inventory. While these numbers have been fairly steady over the past three years, only 3.36% of companies said they could meet all their demand, with 24.83% falling short more than 4% of the time.

Percentage of demand that couldn't be filled by inventory



Interestingly, holding more inventory doesn't necessarily mean better customer experience. Eighty-two percent of distributors holding 31 to 60 days of products couldn't meet demand more than 2% of the time, with 46% unable to meet orders more than 4% of the time.

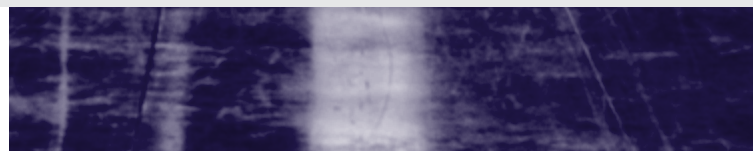
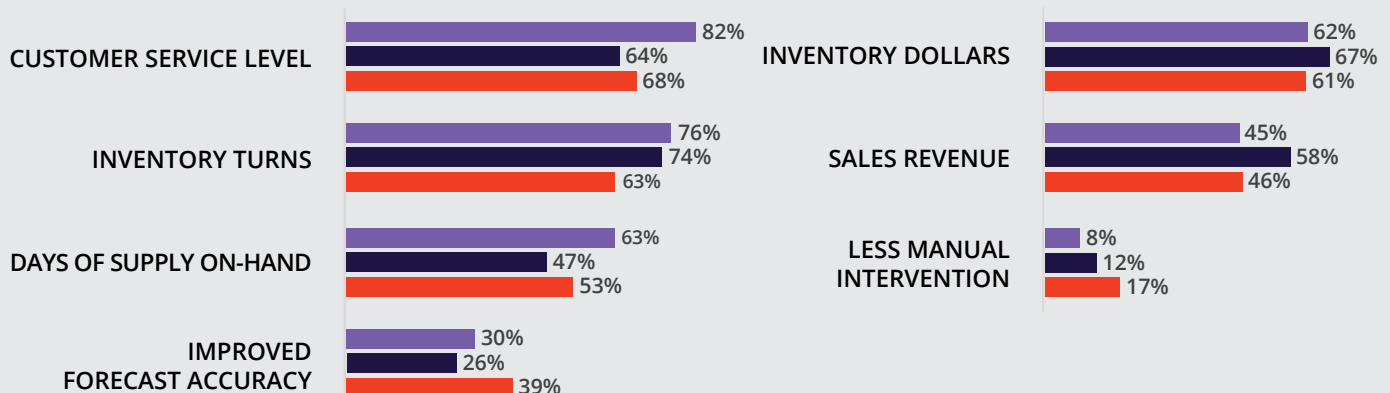
Often, companies will sink more money into inventory to improve service, but the data shows that all products aren't the same. For example, if a wholesale distributor increases inventory across the board when something is out of stock, they're complicating inventory issues by adding items they don't need or won't sell. The U.S. Census Bureau reported that, as of October 2019, wholesale merchants were sitting on \$1.27 of inventory for every \$1 they sell.

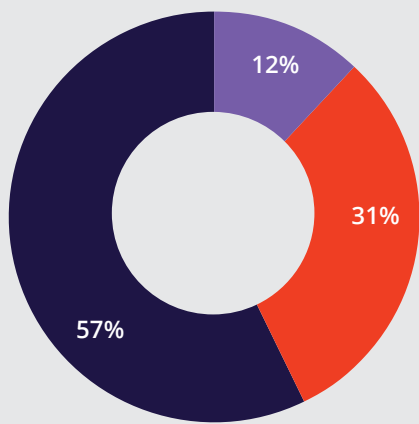
To prevent having so much money tied up in inventory, there's a growing interest in improving forecasting accuracy and having less manual intervention. When asked about optimizing business processes, 38.93% of respondents said they wanted better forecasting, up from 25.64% in 2019. Yet, generating more accurate forecasts is increasingly difficult with larger assortments and more items in inventory, and is especially challenging when slow-moving or low-demand items are added to the evaluation. While the majority of wholesalers want to improve their service levels (67.79%), that figure is down from its peak in 2018 of 82.8%. Many are shifting their focus from one type of optimization to wanting better inventory management.



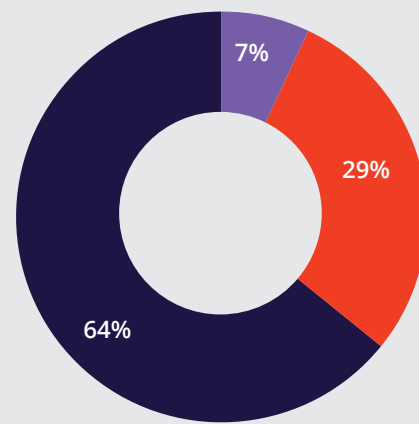
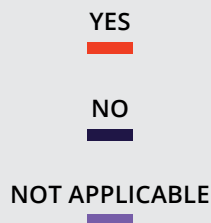
How do you currently measure supply chain planning and inventory optimization success?

2018 RESULTS | 2019 RESULTS | 2020 RESULTS





Does your current SCP software provide holistic actionable insights on the state of your business, customer metrics, financial and service implications?



Do your current processes and tools provide capabilities to successfully strategize the right product pricing considering business outcomes such as how to maximize market share, maximize profit, etc?

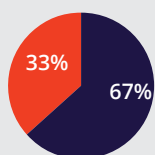


And while many are tracking multiple performance metrics, only 31% felt their current software was giving them the actionable insights needed to understand the state of their businesses, customer metrics, and the financial and service implications of their decisions. When asked if they have processes in place to combat current business trends, only 29% of respondents said they had the tools and processes to successfully plan and run their businesses.

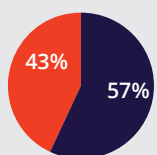
MEETING BUSINESS GOALS

Despite the lack of appropriate inventory management tools, companies were still able to achieve some of their business goals from the previous year. Of those surveyed, 33.59% met or exceeded all of their objectives, 42.75% topped sales targets, and 40.46% met their inventory projections. Return on investment continues to be a pain point, with only 22.14% able to meet their objectives, indicating that profitability is lagging for many companies.

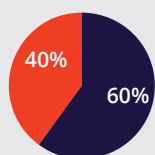
Have you achieved last year's business goal? YES | NO



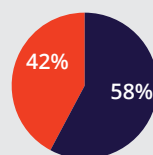
EXCEEDED ALL OUR BUSINESS GOALS



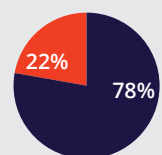
MET/EXCEEDED SALES GOALS



ACHIEVED INVENTORY GOALS



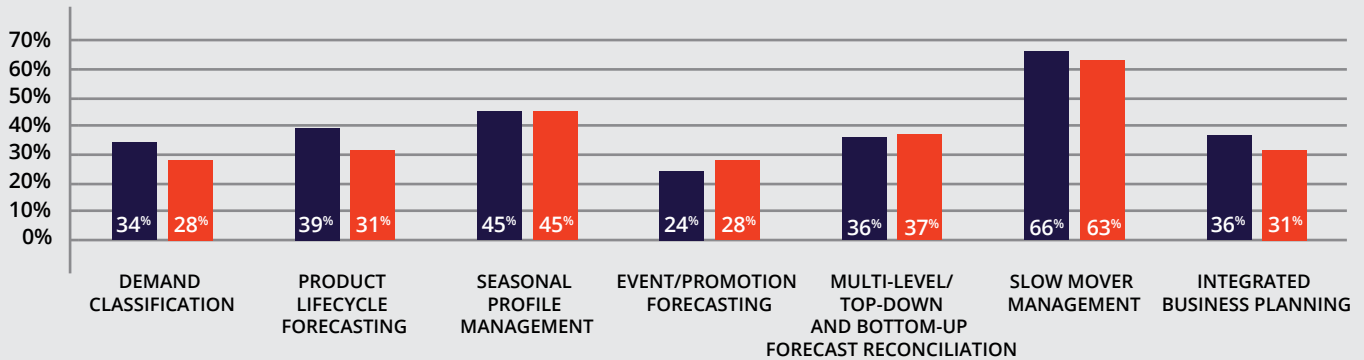
ACHIEVED CUSTOMER SERVICE GOALS



ACHIEVED RETURN ON INVESTMENT GOALS

Pain points in achieving business goals

2019 RESULTS | 2020 RESULTS



The top processes wholesalers cited as keeping them from meeting their goals are managing slow-moving products (62.59%) and seasonal items (44.9%). But many continue to focus elsewhere, with only 38.93% of respondents saying their top measure of success was improving forecast accuracy. More than 60% of those surveyed measured success based on customer service (67.79%), inventory turns (63.09%) and inventory dollars (61.07%). Many distributors would be better served to change how they measure success and invest in new tools that will help them get a better handle on demand and inventory forecasting to better meet their business objectives.

Interestingly, the survey found that of those who said they met their inventory goals last year, the average growth in inventory was 3.66% less than the average growth in sales. Those who missed inventory goals saw inventory increase alongside sales at about the same rate. Those who managed inventory better had fewer products on hand, likely indicating that they freed cash to optimize other areas of their businesses.

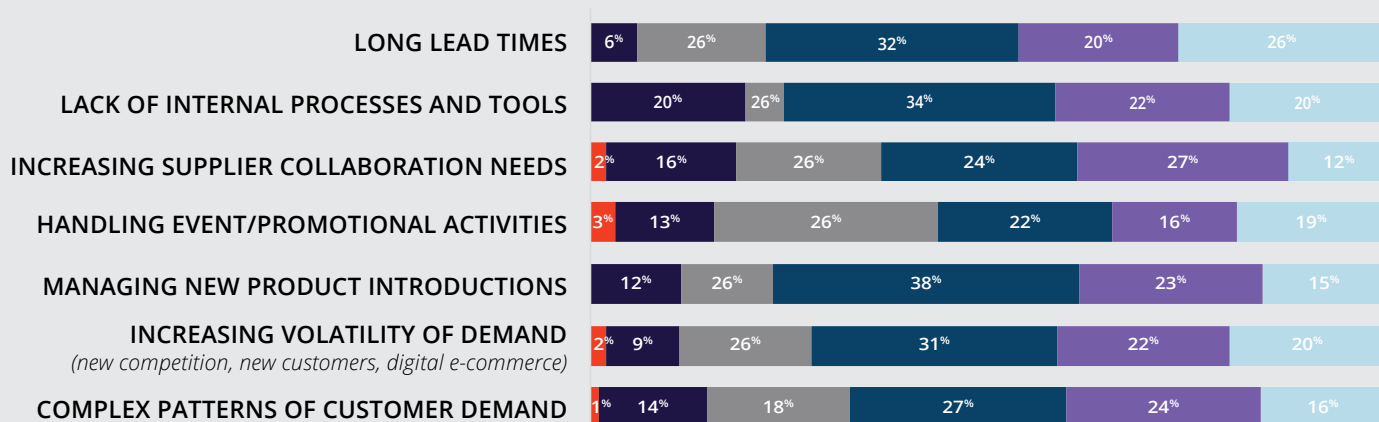


Sales Growth vs. Inventory growth



Forecasting/planning challenges addressed through increased inventory

OH-LESS THAN 7 DAYS | OH-8 TO 18 DAYS | OH-19 TO 30 DAYS
OH-31 TO 60 DAYS | OH-61 TO 80 DAYS | OH-81 DAYS OR MORE



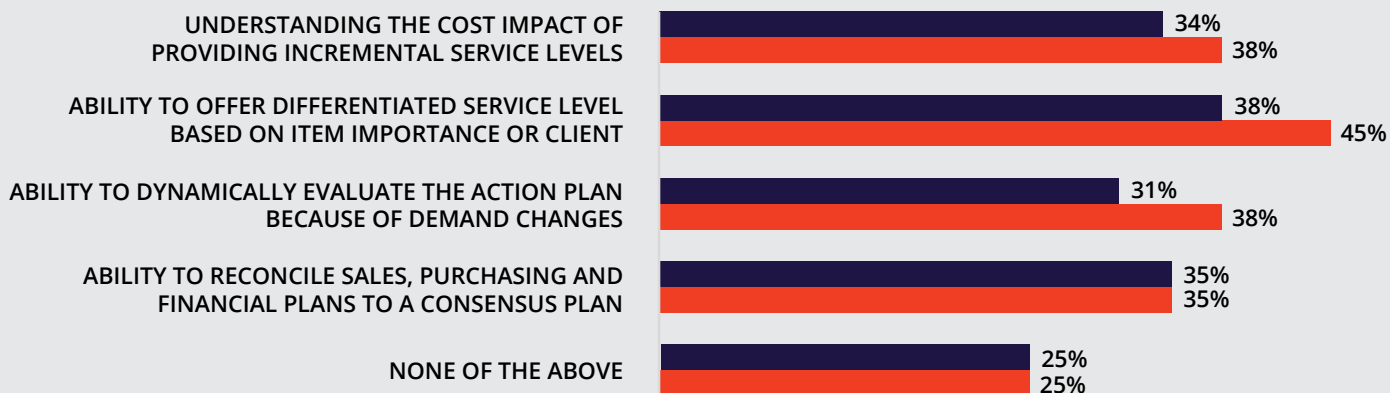
IMPLEMENTING TECHNOLOGY

With 63.49% of respondents citing revenue improvement as their main goal in 2020, better forecasting and inventory management will be an important way to do so. Companies will need to evaluate their current technology and measurement tools to discover where they need to improve and invest to achieve desired results.

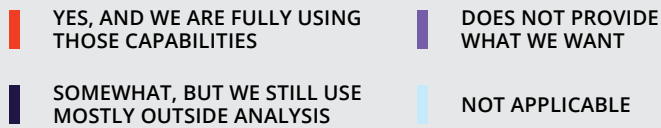
When it comes to inventory, 45.27% of companies have the ability to offer different service levels based on the importance of items or clients. Others use tools that evaluate plans based on demand changes (37.84%) and reconcile sales, purchases and other financials with budgets (37.84%). A quarter of those surveyed didn't use any of these tools.

Which of these inventory planning capabilities do you currently have and use?

2019 RESULTS | 2020 RESULTS



Does your current SCP software provide holistic actionable insights on the state of your business, customer metrics, financial and service implications?



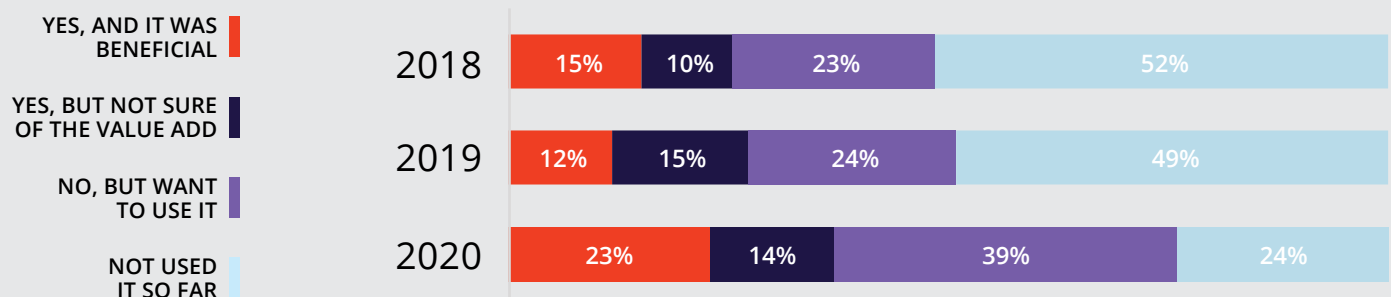
When it comes to inventory planning software, 25.34% said their systems don't provide the information they want; another 31.51% said despite having software, they continued to use outside analysis to better understand their businesses.

Many are beginning to realize that continuing with this level of information won't be enough to get them ahead. The number of wholesale distributors saying they are interested in trying machine learning techniques for forecasting and planning jumped to 39.19% in the 2020 survey from 23.87% in 2019. Those who have used these tools and found them beneficial climbed to 22.97% in the 2020 survey from 11.61% in 2019.

As machine learning gains more traction, those who are not considering using this technology will likely be left behind. Many companies realize this too, with only 23.65% saying they had no plans to try these tools, down from 49% in the 2019 report. This potentially indicates that the hype of machine learning hasn't found direct application solving the supply chain challenges of distributors. This may change as real-world benefits of AI and machine learning prove out in use.



Have you tried using machine learning techniques within forecasting and supply chain planning processes?



CONCLUSION

Successful wholesale distribution organizations are using supply chain planning software to their advantage and leveraging best practices, such as demand forecasting of intermittent demand items, price optimization, machine learning, scenario planning, cost-of-service evaluation, multi-echelon inventory optimization and forecast reconciliation to better manage inventory and meet their business goals.



Companies with better data and predictions have more control over their businesses, helping them focus on moving forward instead of reacting to economic trends and shifts in consumer demand. Improved supply chain analytics can also offer insights on where additional costs are being incurred and how these could be managed or passed on to customers.

While the majority of those who responded to the survey still don't have the systems or tools in place to optimize their operations, many realize the value these types of investments yield. Those looking to improve revenue and better control costs understand that they need to get a better handle on inventory levels. The use of supply chain planning software, coupled with price optimization, better demand forecasting and integrated business-planning technology will improve service and revive margins.

Investing in data analysis tools and other technologies will put companies ahead of the competition, particularly as economic uncertainties continue to create chaos and shift consumer demand.

ABOUT



BLUE RIDGE
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Blue Ridge Supply Chain Planning and Price Optimization solutions empower distributors and retailers to tap into undiscovered margin through enterprise-wide inventory intelligence, automation and synchronization. Blue Ridge uniquely combines demand forecasting with pricing strategy, so that businesses can proactively understand the unpredictable and allocate the right inventory – right-priced across the entire mix – to accelerate top- and bottom-line results. In a world where the only constant is change, Blue Ridge provides more certainty, more speed, and more assurance – so companies can see the why behind the buy, and respond faster to the unexpected. That's why major retailers and distributors rely on Blue Ridge for a more foreseeable future. For more information, go to www.blueridgeglobal.com.

ABOUT

SmartBrief

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