How Distributors Can Maximize Their Digital Investment

August 3, 2023

Presented By:
TJ O'Connor
Farmington Consulting Group LLC

Table of Contents

Introduction……...……..3

Top Eight Digital Investments Distributors Can Make……4

Document Automation…….....5-8

Pricing Management & Optimization…….....9-10

Inventory Optimization…….....11-13

Streamlined Communication Platform…….....14

Customer Order Pickup Solution…….....15-16

Product Data & Content…….....17-18

Delivery Routing & Tracking Technology…….....19-20

Warehouse Automation…….....21-22

FCG's Recommended Digital Solutions Providers…….....23

Summary…….....24

Introduction

Farmington Consulting Group (FCG) is the leading market research and growth strategy firm in the Electrical, Plumbing and HVAC/R Distribution Industries since 1982. FCG has worked with over 150 distributors, rep agencies and manufacturers. One key subject matter FCG has gathered insights on is the different areas in which distributors can make digital investments.

This report will cover eight specific digital areas distributors can invest in and highlight a proven third-party solutions provider in each area.

What is Digital Transformation?

A term that has become extremely popular in the Electrical, Plumbing and HVAC/R Distribution Industries over the past decade, digital transformation is simply the act of moving away from traditional forms of doing business. It's looking at how we can be more profitable using different types of new tools that become available to us. Digital transformation is a form of change management. From an internal perspective, it's examining how we can improve efficiencies. From an external perspective, it's identifying ways to better service our customers. Digital transformation is purely a business strategy enabled by technology.

Why Invest in Digital?

More than a recession or labor shortage or consolidation, the biggest threat to distributors today is disintermediation, or in other words, getting cut out of the transaction flow. The COVID Pandemic significantly accelerated customers' use of alternate channels to source products, and that trend has continued post-COVID. Non-traditional disruptors, such as Amazon, SupplyHouse.com, Automation Direct, Grainger, and Big Box Stores have become much more significant and viable competitors to traditional wholesalers. Distributors who do not invest in technology and do not continue to move down the digital transformation path are at risk of getting cut out of the transaction flow, primarily by the new-age buyer who in many cases is trying to eliminate the "middleman".

Distributors must invest in technology in order to:

a) Combat disintermediation by staying relevant to their customers and competing with marketplaces.
b) Become more efficient and proactive through automating internal manual processes to free up their people's time. Distributors must continue to find ways to gain efficiencies in their operations across their business to increase profitability and find additional ways to bring value to the channel, both upstream and downstream.

FARMINGTON CONSULTING GROUP

Top Eight Digital Investments Distributors Can Make

- Document Automation
- Pricing Management & Optimization
- Inventory Optimization
- Streamlined Communication Platform
- Customer Order Pickup Solution
- Product Data & Content
- Delivery Routing & Tracking Technology
- Warehouse Automation

Document Automation

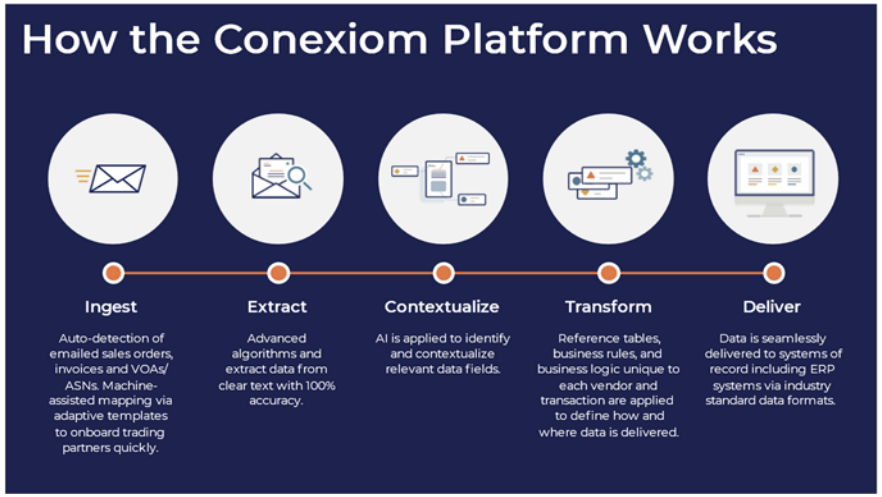
Every distributor has a portion of their sales staff tasked with manual data entry. Document automation is aimed at getting humans out of manually processing transactions and reducing the amount of time your sales staff spends on non-revenue generating activities.

FCG's Recommended Document Automation Platform Provider:

conexiom®

Conexiom provides distributors with a proven tool for:

- Sales Order Automation
- Vendor Order Acknowledgement & Advanced Shipment Automation
- Accounts Payable Automation



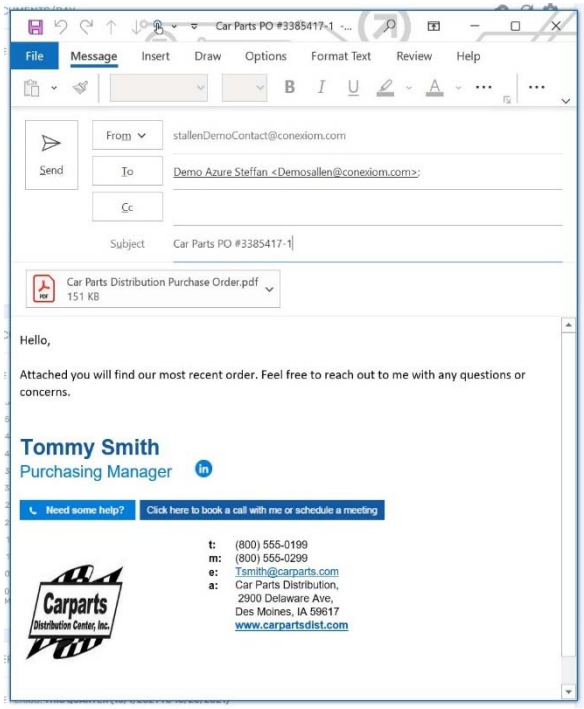
FARMINGTON CONSULTING GROUP

Sales Order Automation

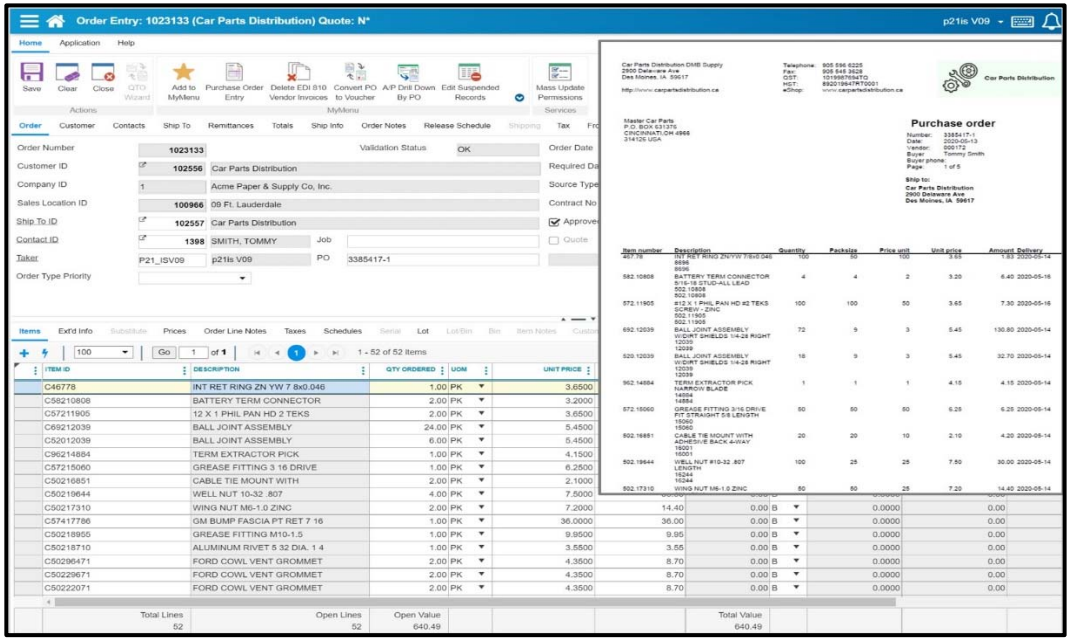
There are three legs of digital transactions – EDI, E-Commerce and Digital Files. Conexiom provides a solution for sales order automation with digital files that removes many order entry tasks from a distributor's sales team and frees up their time to focus on more revenue generating activities.

With the Conexiom platform, when a distributor receives an email from a customer with a PDF order, Conexiom utilizes its proprietary scanning technology to extract the data from the digital documents. Conexiom then converts and harmonizes that data into an order and sends it to the distributor's ERP system. The order is processed with order labels printed in the warehouse in under two minutes. 80% of the time the order is able to be processed with no person getting in the middle. In the cases where Conexiom identifies any discrepancies in the digital file during the conversion phase, the assigned distributor account rep for that particular customer will be notified and can go into the order and review said discrepancies.

conexiom®



1) Receive email with PDF order
2) Proprietary scanning technology extracts data
3) Converts & harmonizes data into an order
4) Sends over to ERP
5) Order processed with order label printed



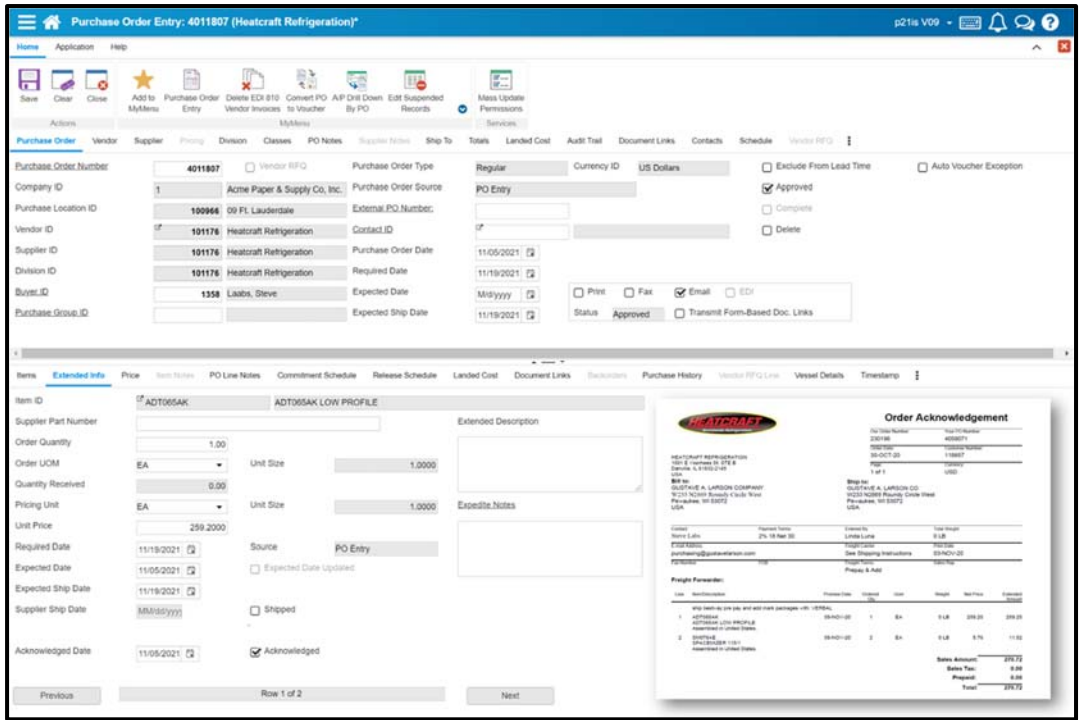
FARMINGTON CONSULTING GROUP

Vendor Order Acknowledgement Automation

Another service that Conexiom provides for distributors is the automation of vendor order acknowledgements and advanced ship notifications in order to reduce operational discrepancies and free up distributor employee time. Distributors who are not consistently looking at order acknowledgements are leaving themselves wide open to errors, and distributors who are looking at them are having their people spend a lot of time on a non-revenue generating task that can be automated.

With the Conexiom platform, when a distributor cuts a purchase order to a vendor and the manufacturer sends back an order acknowledgement, Conexiom's technology checks for discrepancies between the order acknowledgement and the PO, and then updates the ERP system and notifies the user. When an advanced shipment notification is sent from the manufacturer to the distributor, Conexiom automatically updates the expected delivery dates in the distributor's system and notifies the user.

conexiom®

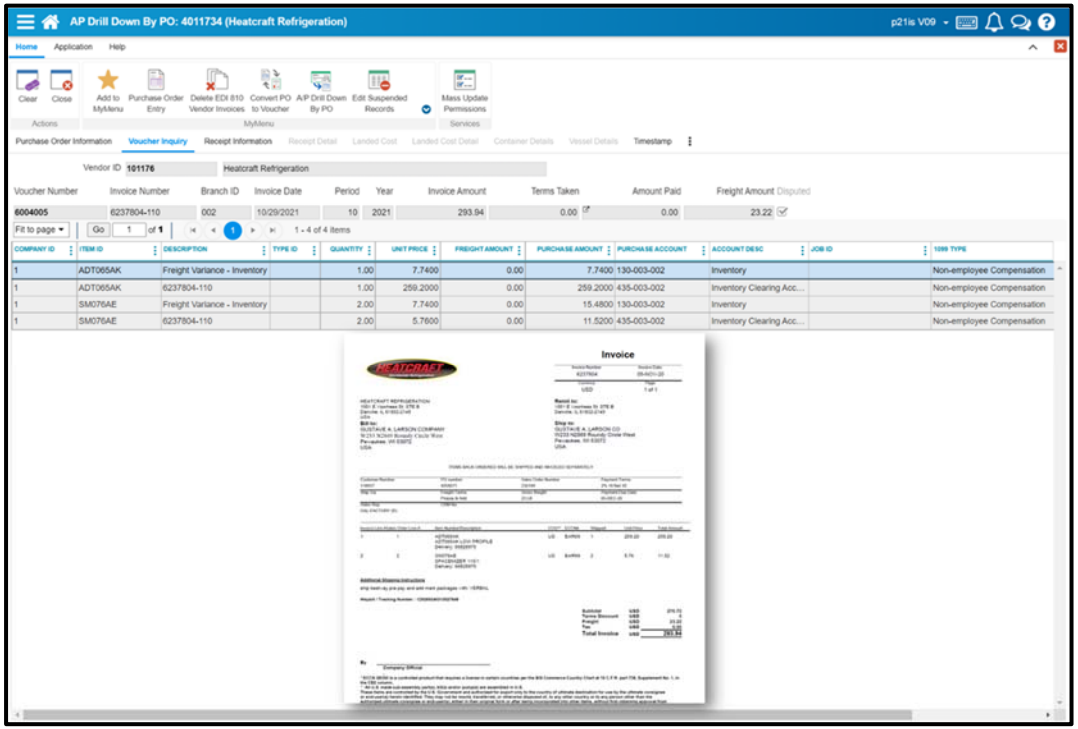


FARMINGTON CONSULTING GROUP

Accounts Payable Automation

The final document automation service Conexiom provides for distributors is accounts payable automation. With the Conexiom platform, when an invoice comes in from a vendor, Conexiom extracts the data off of the invoice and bumps it up against the PO to ensure everything matches. The invoice then goes into the distributor's ERP system and waits until receipt of the product. If everything matches, then payment is put in status to be processed. However, the user will be notified if the distributor either over or under-received.

conexiom®

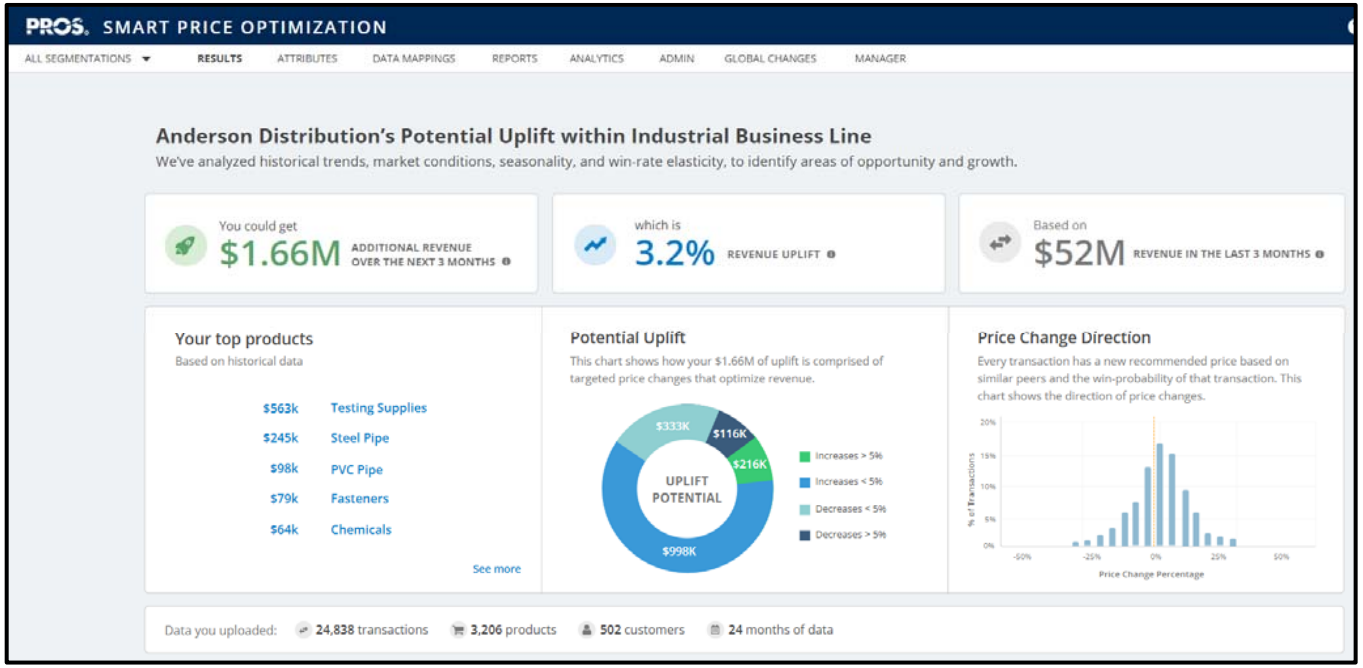


Pricing Management & Optimization

Pricing is a critical aspect of any distribution company. Pricing Management & Optimization is targeted at taking the manual process out of pricing, centralizing all pricing information and developing customer-specific pricing strategies that are supported by data.

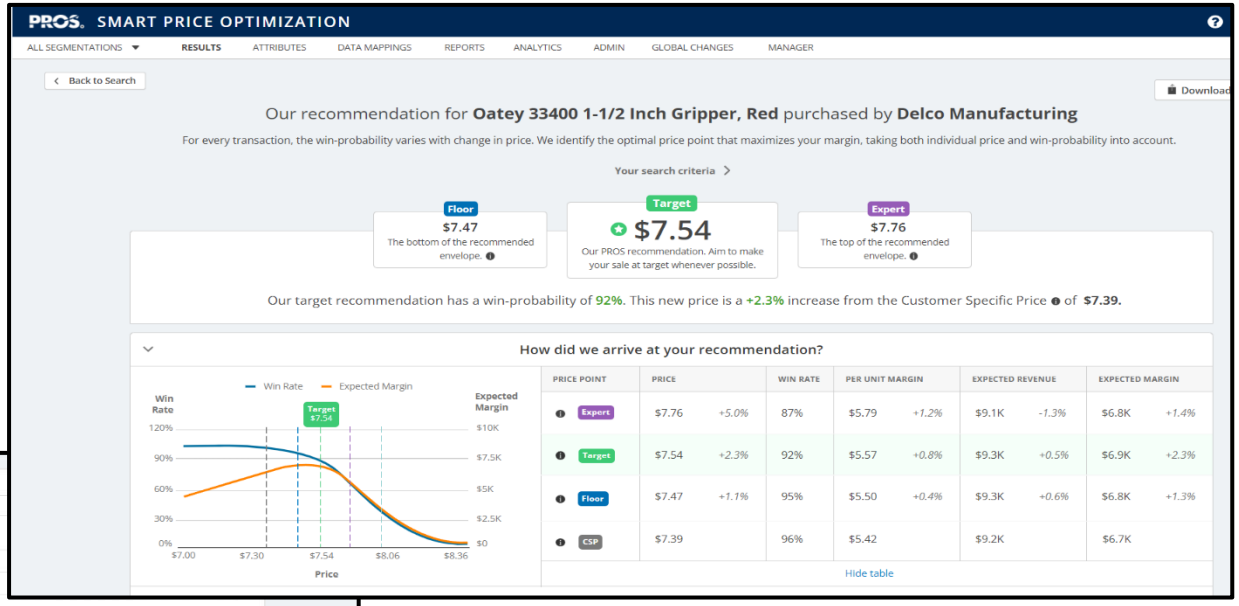
FCG's Recommended Pricing Management & Optimization Provider:

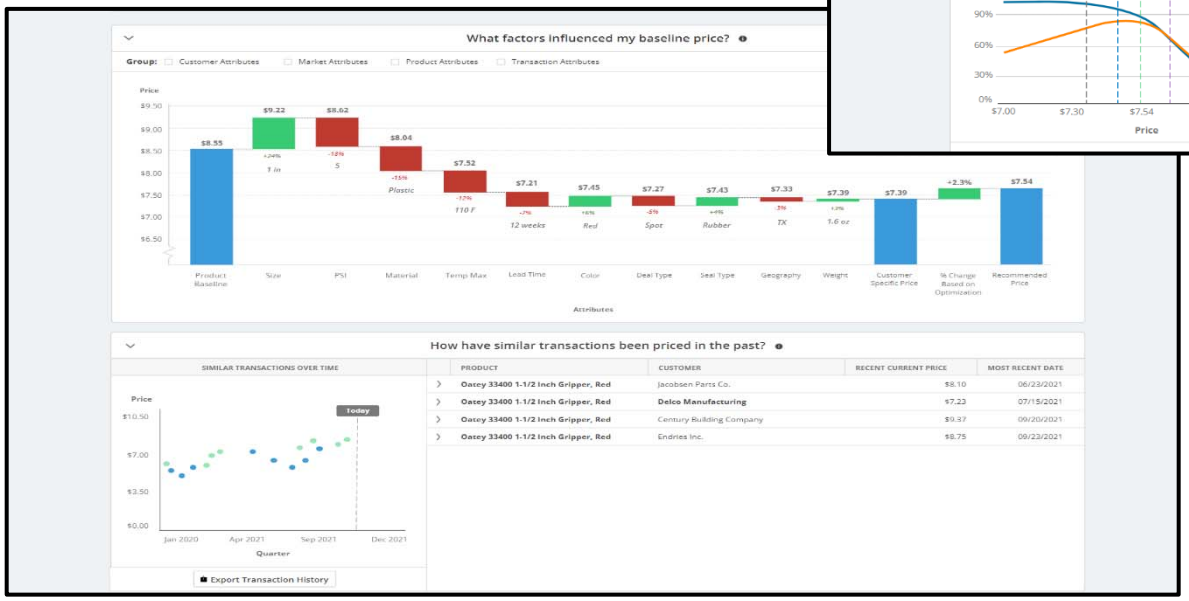
PROS is a pricing management & optimization tool that provides distributors with data to make better pricing decisions through AI-based price recommendations. With this software, distributors can centralize all of their pricing information with their intuitive cloud-based system, as well as have it integrate with their ERP system on both inbound and outbound.



PROS takes historical transactions and applies models to recommend customer-specific pricing and product-specific pricing. Factors such as product size, material type, lead time, and historical sales are factored in the pricing calculations. The software provides distributors with three different price levels by SKU, by customer – a Floor Price, a Target Price and an Expert Price – and gives the win probability, expected margin and sales rep commission earnings at each price level. Distributors then have visibility to how often each sales rep in their company is pricing at the Floor, Target and Expert levels.

Distributors utilizing PROS experience a 2-5% margin improvement and a 3% average revenue uplift.





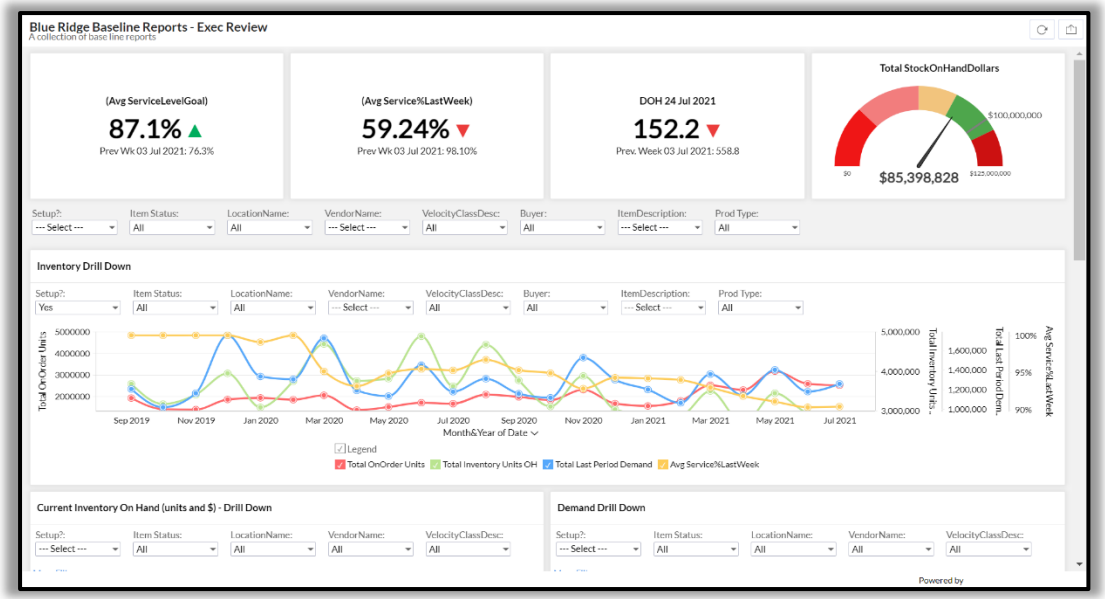
Inventory Optimization

A distributor's second greatest asset is the inventory of products that it stocks. More and more distributors are looking for ways to become more dialed in and strategic when it comes to managing their inventory. Inventory Optimization is critical in order to effectively manage and leverage inventory through demand forecasting and replenishment planning.

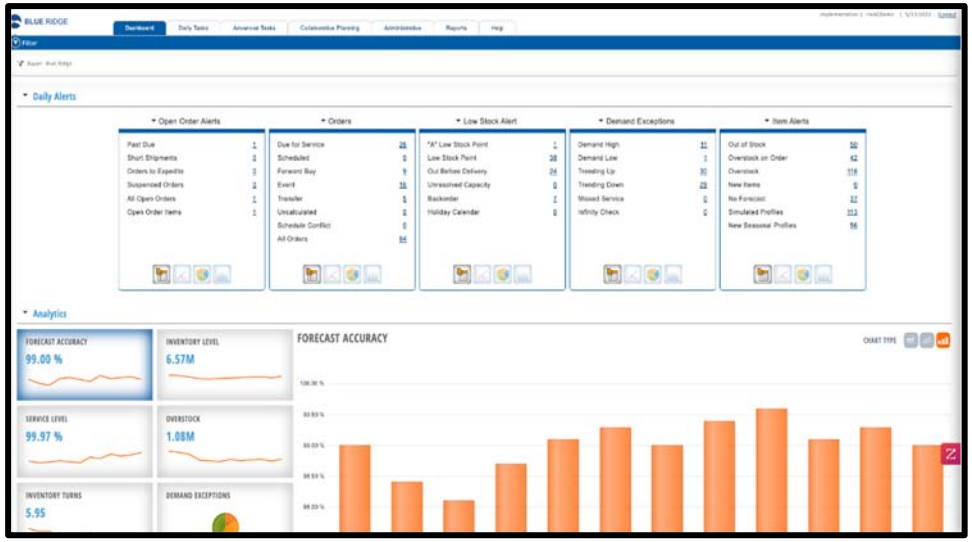
FCG's Recommended Inventory Optimization Provider:

BLUE RIDGE

Blue Ridge is an integrated business intelligence tool with KPI modeling and reporting that helps distributors increase forecasting accuracy & turns, reduce transfers, eliminate gut buying and improve safety stock strategy/exception management. This proven inventory optimization solution gives distributors real-time visibility to their on-hand inventory, items that are on order, average service levels and demand forecasting.



Blue Ridge extract data from a distributors ERP every night and provides a daily dashboard for the Purchasing Department that prioritizes workflow for each buyer (i.e. open order alerts, low stock alerts, demand alerts) based off of service level goals, stock status, etc.

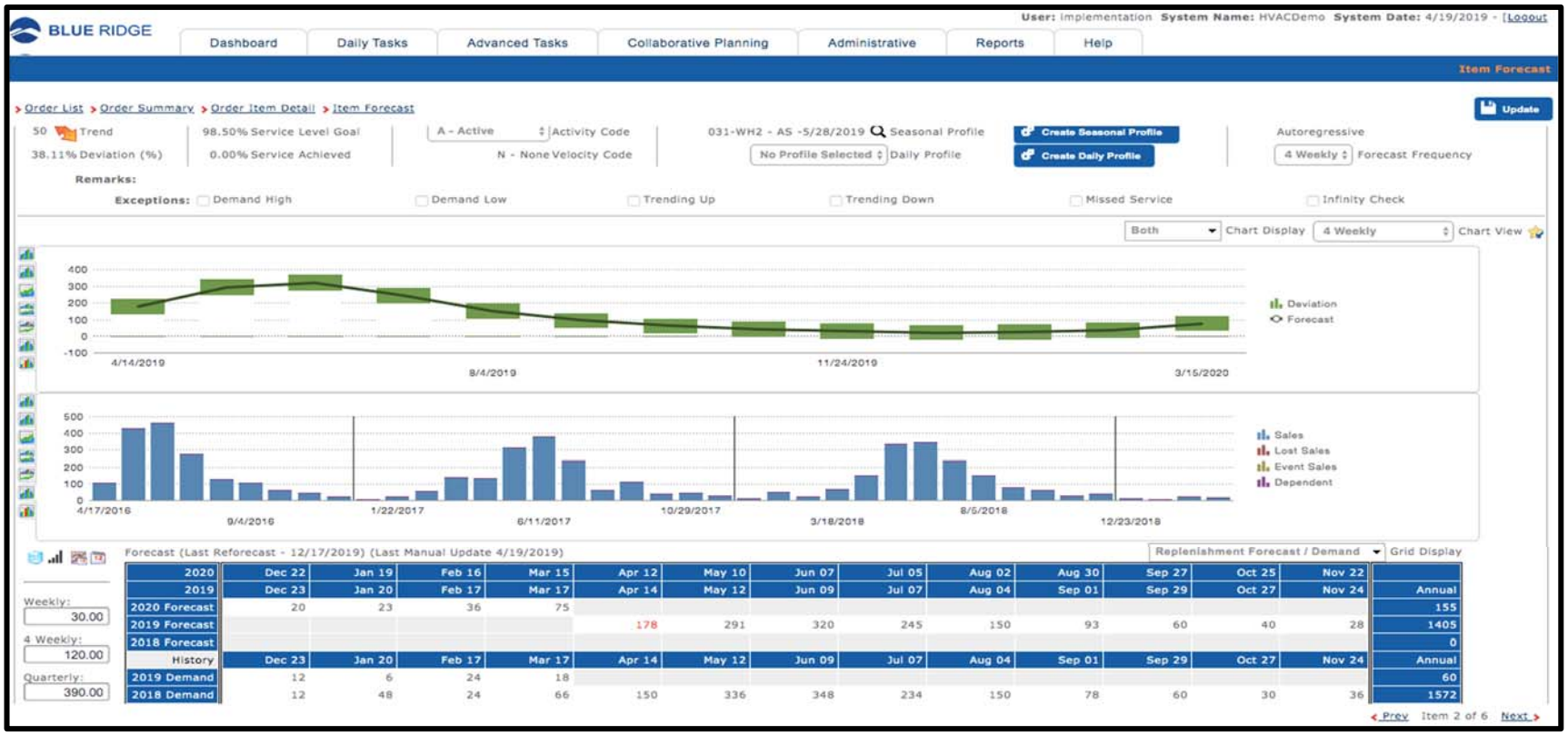


BLUE RIDGE

Blue Ridge's Order Item Detail gives the user a full view of how an item's Suggested Order Quantity (SOQ) is calculated. Dynamic safety stock and reorder points are updated nightly based on order cycles, forecasts, deviation of demand, buying multiples, and lead times. Distributors can utilize this inventory optimization solution to have awareness of 52-week forward-looking projections.

FARMINGTON CONSULTING GROUP

The Blue Ridge system uses pattern recognition logic and historical trends to forecast product demand. This enables the distributor to move away from a reactive approach and move towards proactive purchasing/inventory management.



2020	Dec 22	Jan 19	Feb 16	Mar 15	Apr 12	May 10	Jun 07	Jul 05	Aug 02	Aug 30	Sep 27	Oct 25	Nov 22	
2019	Dec 23	Jan 20	Feb 17	Mar 17	Apr 14	May 12	Jun 09	Jul 07	Aug 04	Sep 01	Sep 29	Oct 27	Nov 24	Annual
2020 Forecast	20	23	36	75										155
2019 Forecast					178	291	320	245	150	93	60	40	28	1405
2018 Forecast														0
History	Dec 23	Jan 20	Feb 17	Mar 17	Apr 14	May 12	Jun 09	Jul 07	Aug 04	Sep 01	Sep 29	Oct 27	Nov 24	Annual
2019 Demand	12	6	24	18										60
2018 Demand	12	48	24	66	150	336	348	234	150	78	60	30	36	1572

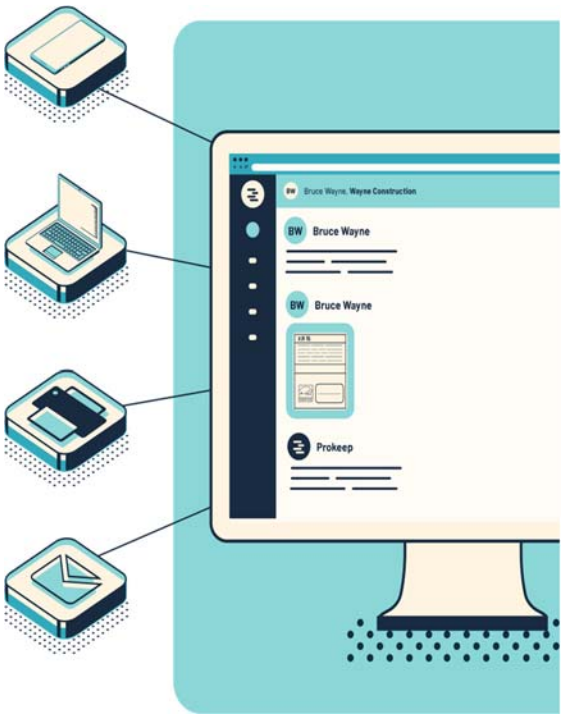
BLUE RIDGE

Streamlined Communication Platform

In today's world, distributors communicate internally with their employees and externally with their customers in a number of different ways. Managing all those different forms of communication can be quite difficult and many distributors are turning to a Streamlined Communication Platform in order to bring all communication into one central inbox.

FCG's Recommended Streamlined Communication Platform Provider:

PROKEEP



Prokeep provides distributors with centralized communication and a unified inbox for text, email, webchat and internal messaging. So that instead of having to manage multiple communication avenues, it's all streamlined into a single messaging platform. Prokeep has functionality for 3rd party integrations to sync data/contacts and provide customers with automated order updates. Distributors can take advantage of this software to create communication automation both internally and externally.

It is imperative to communicate with your customers in the way that they want to be communicated with. As the world becomes increasingly mobile-centric, one of the most effective functions of Prokeep is the capability for broadcast text promotions. Distributors can text out marketing campaigns, deals, event invites, or incentive opportunities to as many (or as few) of their customers as they like. Prokeep allows customers to reply to your announcement. Their response goes directly into the Prokeep platform where the distributor's team can continue the conversation.

On top of the ability for proactive messaging, Prokeep provides a distributor with centralized communication records and customer service reporting that your company can look back on to call out data on messaging frequency and average response times.

Customer Order Pickup Solution

Time is money and distributors must find ways to get their customers in and out of their branches as quickly as possible. Well, what if the customer doesn't even need to come into the distributor's building to pick up their product? Product pickup lockers are becoming a more and more popular alternative delivery method.

FCG's Recommended Customer Order Pickup Solution Provider:

With Apex's web-based product lockers and cages, distributors can reduce lines/congestion at their counters, increase productivity of their staff and give their customers fast 24/7 access to pick up their products. Apex integrates into a distributor's ERP and has its own ship via. The locker notifies the ERP when product has been loaded and a unique locker code is sent to the customer to let them know that their order is ready to be picked up in the secure locker – no need for the customer to stand in line and wait for an associate to become available.

In addition to reducing the customer's wait time to pick up items, it's great for those customers who want to pick up product after hours. With Apex's locker pickup software, distributors also have the ability to pre-stage/pre-load top-use products for potential after-hours or weekend emergencies. These lockers/cages can also be set up on-site at customer locations for delivery of product.

Product Data & Content

The largest digital investment most distributors make is in their website. The two biggest factors that determine whether a distributor's website is effective and user-friendly are: a) search filters and b) product data & content. How rich and clean a distributor's online product data & content is can make a distributor's E-Commerce offering.

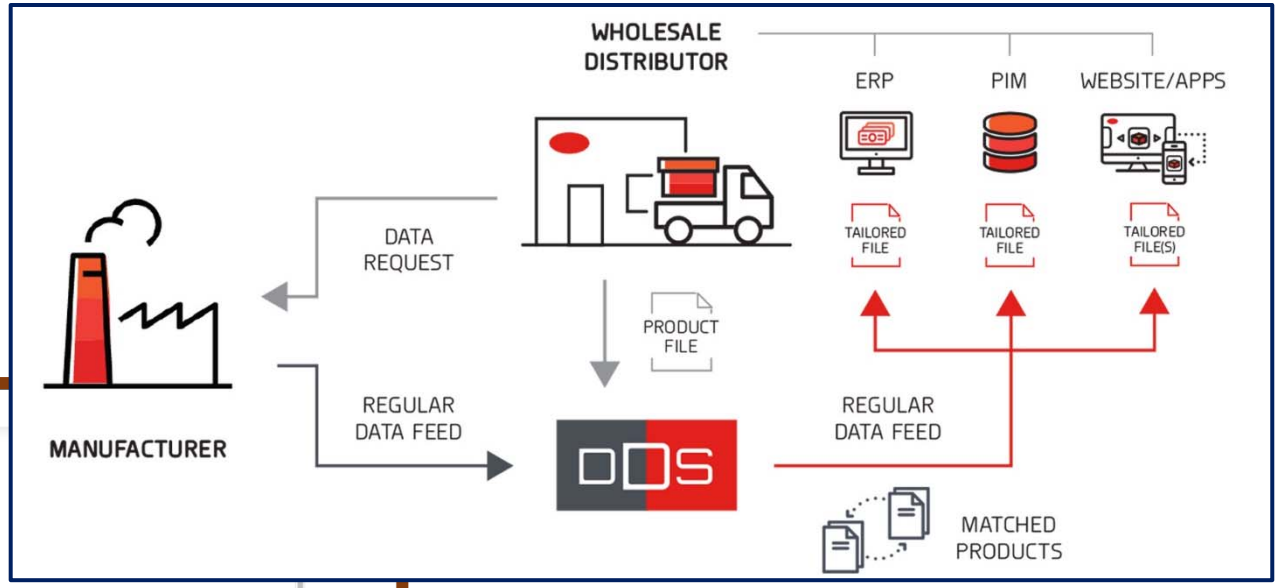
FCG's Recommended Product Content Management Solution Provider:

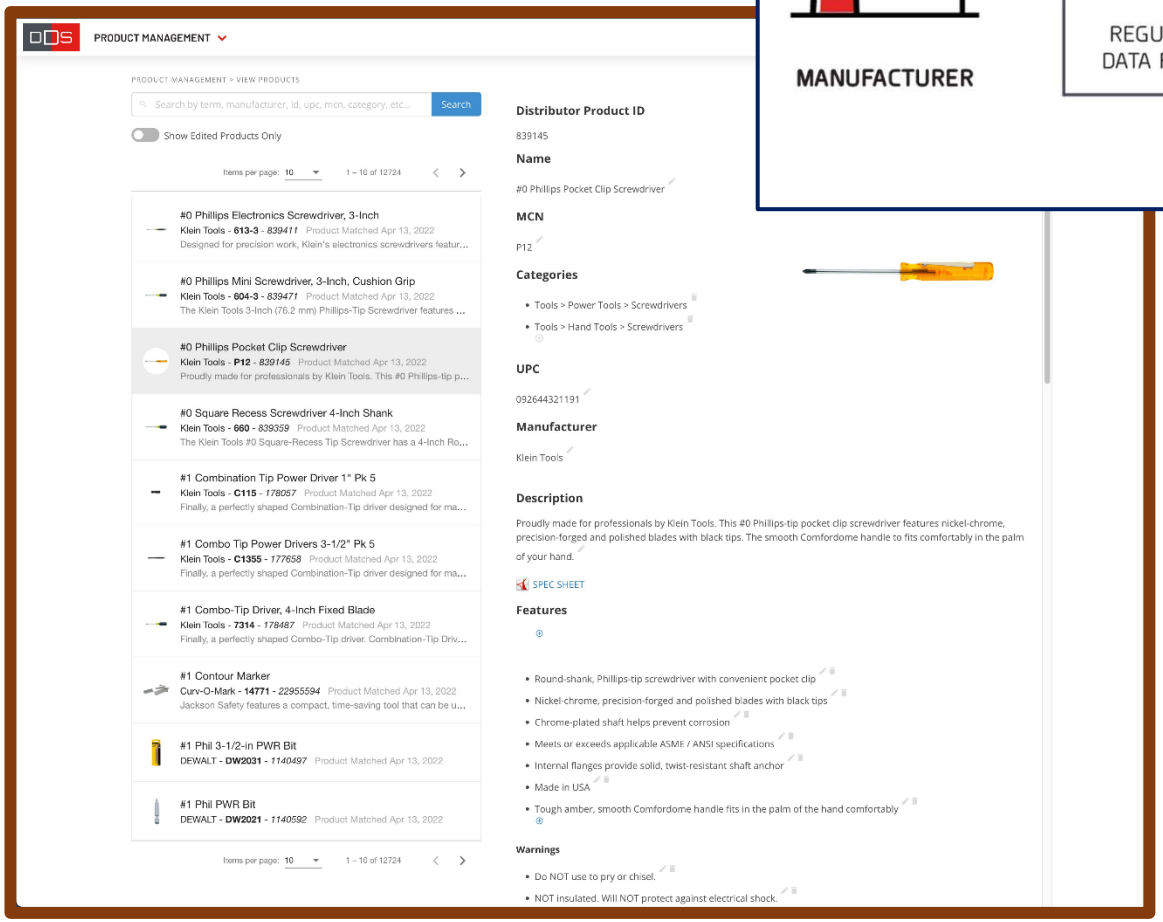
DDS (Distributor Data Solutions) was created by two distribution industry veterans to provide electrical, plumbing and HVAC distributors with a solution for E-Commerce data. Many distributors still utilize product files in their ERP systems, which tend to be incomplete and unorganized. DDS provides distributors with a PIM plus a data feed to take the place of those product files stored in the distributor's ERP.

DDS recently partnered with Trimble to form the largest data pool in North America. The company's product content management solution for distributors, called CONTENT/io, has 10,000,000 rich SKU's covering 1,600 different brands and is constantly adding to their offering. DDS integrates into OVER 300 unique distributor or software platforms and typically covers 90-95% of the manufacturers that a distributor offers on their website.

CONTENT/io consists of images, installation/marketing videos, attributes/values/specs, technical documents, marketing documents, 360 spins, CAD, BIM, and more. The DDS data feed has scheduled automated updates from its manufacturer partners, so distributors can be assured that they always have the latest product content and data on their site.

FARMINGTON CONSULTING GROUP





Delivery Routing & Tracking Technology

One of the most essential services that a distributor provides for their customers is their delivery service. Sorting through order tickets and manifesting is a messy and cumbersome process for a distributor to set up their delivery routes. Delivery Routing & Tracking Technology can help distributors to optimize their delivery routes and maximize their fleet effectiveness.

FCG's Recommended Delivery Routing & Tracking Technology Provider:

Innovo is a delivery routing & tracking technology that automatically optimizes and builds delivery routes based on customer scheduled/requested delivery times, geographic location, business hours, etc. With the ability to schedule deliveries for specific times or windows and the ability to re-sequence stops within a route or move from one route to another, Innovo still gives the distributor flexibility to make adjustments and exceptions while handling the bulk of the manifesting process independently.

With Innovo, distributors can increase delivery efficiency, as the software provides driver sequencing of orders with turn-by-turn directions. Real-time, web-based GPS tracking allows the distributor to see where all their drivers are and access live estimated and actual delivery times. Innovo also shows average stop time and any variance that the driver took from the set route, which increases driver accountability.

In addition to optimizing routes and increasing delivery efficiency, Innovo gives distributors the ability to increase transparency with pre and post-delivery notifications sent to customers. Text and email notifications can be sent to customers based on route and traffic information. Distributors utilizing Innovo have access to a live site that their customers can visit to see where the truck is on the route, eliminating calls from the customer to the distributor on “Where is my delivery?”.

Innovo also provides comprehensive reporting on critical business analytics, such as route profitability, per stop profitability, revenue per delivery and cost per mile. Many distributors utilizing Innovo have been able to reduce their gas mileage and even drop a truck from their routing based on maximizing their fleet effectiveness.

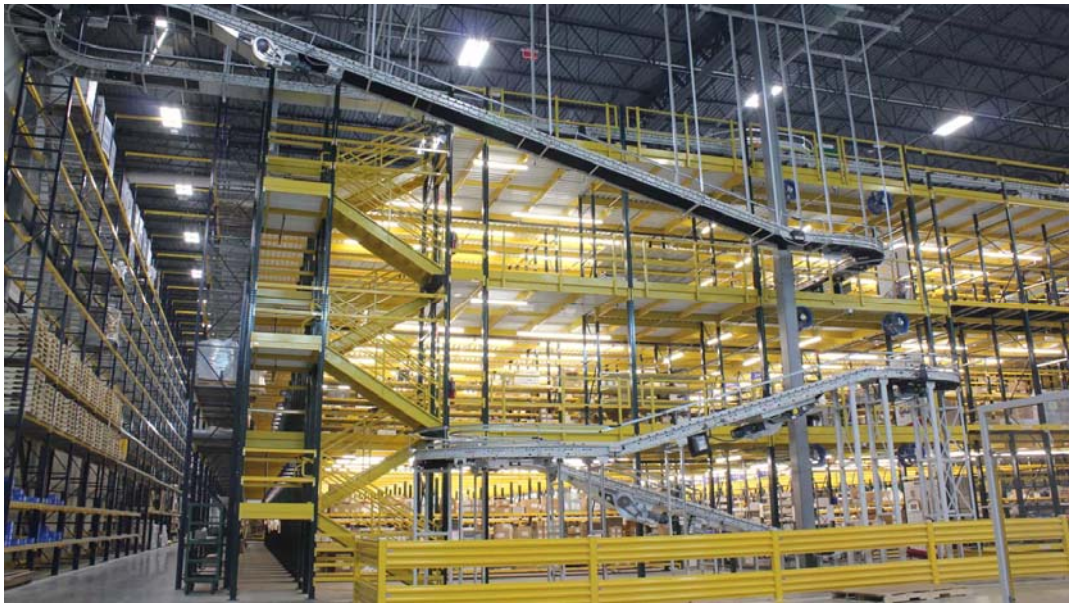
Warehouse Automation

Many distributors have adopted RF scanning technology to increase accuracy in their warehouses. However, there are much more advanced forms of Warehouse Automation available in the market to take a distributor's warehouse operation to the next level.

FCG's Recommended Warehouse Automation Provider:

DEMATIC

With Dematic's SMART Conveyor Technology, distributors can reduce storage footprint by 60%, optimize space 3X compared to traditional racking, increase picking speed up to 25% and increase picking accuracy to 97%+.
Dematic's state-of-the-art systems give distributors the ability to automate their warehouse, as well as pick, pack and ship products with speed and accuracy, using modern technologies and methods.



Dematic optimizes the receiving and put-away process with their SMART Conveyor Network that allows automatic transport to strategic locations in the warehouse. The item velocity, size and weight determine the appropriate location for storage.

When an order is received, Dematic creates a barcode attached to an order carton that is then entered onto the SMART Conveyor Network. The distributor's warehouse staff does not need to travel around the warehouse looking for items in the order. Instead, the order carton is automatically conveyed to zones in the warehouse where order fillers are positioned. Scan validation at multiple points directs each order carton to the appropriate zones, ensures accuracy and allows real-time tracking.

When an order carton arrives in a picking zone, the items for the order are placed inside. Then it's moved back onto the Dematic SMART Conveyor Network. Order cartons only travel to zones where there are picks.

The order carton automatically travels to the packing area to be packed and sealed. Each order carton is scanned and weight checked on the fly to confirm order accuracy. At shipping, the cartons are scanned prior to sorting. Dematic's steerable wheel sorters divert order cartons to the appropriate shipping door or will call staging area.

With Dematic, distributors can transform their warehouse into an automated order fulfillment center that produces unmatched productivity.

DEMATIC

FARMINGTON CONSULTING GROUP

FCG's Recommended Digital Solutions Providers

Conexiom – https://conexiom.com

PROS – https://pros.com

Blue Ridge – https://blueridgeglobal.com

Prokeep – https://prokeep.com

Apex – https://apexorderpickup.com

DDS – https://distributordatasolutions.com

Innovo – https://goinnovo.com

Dematic – https://dematic.com

Summary

Distributors Must Invest in Digital Technologies to:

- Become More Efficient & Proactive
- Combat Disintermediation
- Compete with Marketplaces
- Remain Relevant to the New Age Buyer
- Continue to Be Manufacturer's Preferred Channel to the Market

As outlined in this report, there are many different technological investments that distributors can make to move their company further down the path of digital transformation, other than just simply having a workable website.

Distributors who make substantial investments in technology and have a well-laid-out digital strategy will ultimately surpass their competitors who are less technologically progressive and forward-looking.

TJ O'Connor, President
Farmington Consulting Group
tj.oconnor@farmingtonconsulting.net
860-751-9541