

# ERP in Wholesale and Distribution

October 2011

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## ERP in Wholesale and Distribution

Enterprise Resource Planning (ERP) has long been a key enabler for manufacturers to effectively run their businesses. Still, the efficiencies that come with a well implemented ERP strategy can be gained in many other types of organizations. Wholesalers and distributors, organizations that are often aligned with the goals of manufacturers, have a particular need for ERP. Aberdeen's 2011 ERP survey of 65 wholesalers and distributors found that 83% have already implemented ERP. They are using ERP to track the logistics of their business and using the data that ERP provides to make better decisions while cutting costs. This Sector Insight examines the ways in which leading wholesalers and distributors are integrating ERP into their daily operations.

### Defining Leading Wholesalers and Distributors

For the purposes of this report, Aberdeen defines "Leaders" as the top 35% of aggregate performance scorers using the criteria shown in Table 1. "Followers" represent the remaining 65%. These metrics were selected because of their relevance in assuring the ultimate success of wholesalers and distributors. They include not only overall performance metrics, but also percentage improvements resulting from ERP implementations. Success in the included metrics resulting from successful ERP implementations leads to efficiencies and improvements throughout the organization.

**Table 1: Top Performers Defined as "Leaders"**

Definition of Maturity Class	Mean Class Performance
<b>Leaders:</b> Top 35% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 17% reduction in operating costs as a result of ERP</li> <li>▪ 96% inventory accuracy</li> <li>▪ 95% complete and on-time shipments</li> <li>▪ 22% reduction in cycle time as a result of ERP</li> </ul>
<b>Followers:</b> Remaining 65% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 4% reduction in operating costs as a result of ERP</li> <li>▪ 85% inventory accuracy</li> <li>▪ 85% complete and on-time shipments</li> <li>▪ 4% reduction in cycle time as a result of ERP</li> </ul>

Source: Aberdeen Group, September 2011

### The Environment Facing Wholesalers and Distributors

The top pressures in 2011 for wholesale and distribution are not unlike the pressures facing other industries. Leaders and followers, however, do differ in the top drivers impacting their ERP strategies (Figure 1). As leaders have

#### Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

#### What is ERP?

Aberdeen defines ERP as an integrated suite of modules that forms the operational and transactional system of record upon which any business is based. With its roots in Material Requirements Planning (MRP) it is most ubiquitous in the manufacturing industries, but has truly expanded beyond these boundaries to become a mature business application that provides value to a far more extensive set of industries. ERP systems provide much-needed capabilities, such as management of financial, product / inventory, human capital, purchasing, and other transactional data within one environment.

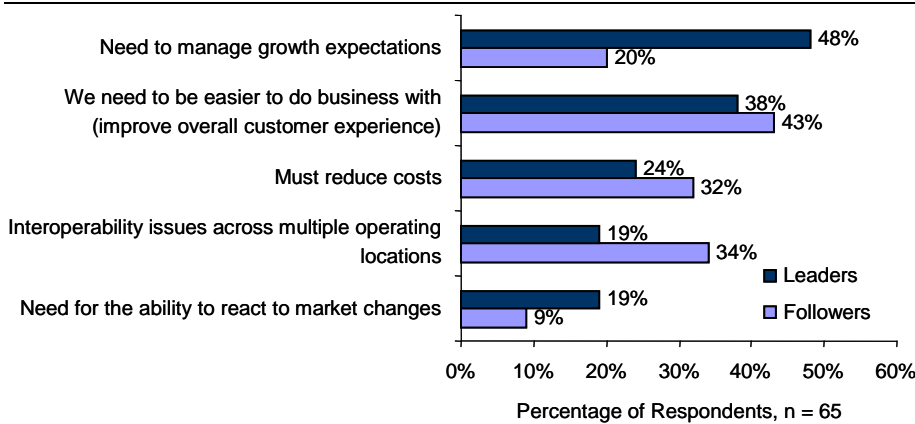
been more successful, they are more likely to be dealing with growth expectations that they do not currently have the resources to support. ERP is a tool that they are using to make the most out of the available resources. On the other hand, followers are more likely to either not have ERP or have had issues with their ERP implementation. These companies are having more trouble than leaders in tracking products over multiple operating locations. Both leaders and followers need to be able to grow and keep track of multiple operating locations while keeping costs low.

Typically, gains in efficiency are a key benefit of ERP, but another benefit, visibility into real-time data to make timely decisions, can impact the fifth leading pressure, the need for the ability to react to market changes. Lastly, both leaders and followers are focusing on their customers and realizing that they need to be easier to do business with. These business drivers provide a compelling case for implementing a thorough ERP strategy.

**2011 ERP Research**

Aberdeen's 6th annual ERP benchmark study is being conducted throughout the year and is aimed at quantifying ERP usage, identifying preferences for fully integrated suites versus point solutions, measuring Total Cost of Ownership (TCO) as well as the business benefits derived from Best-in-Class implementations. The survey also compares the performance of organizations using ERP to those without ERP. To take part in the survey, please click [here](#).

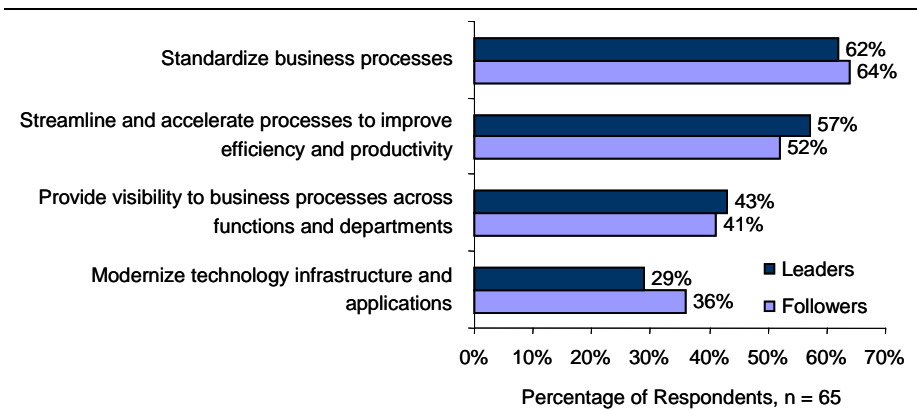
**Figure 1: Top Business Drivers Impacting ERP Strategies**



Source: Aberdeen Group, September 2011

In response to these pressures, wholesalers and distributors are enacting a series of strategic actions to improve their organization's performance (Figure 2). Aberdeen often finds that there is little differentiation between top performers and all others. What truly matters is how successful these organizations are in carrying out these strategies. Both are standardizing business processes, ensuring that best practices are adhered to throughout the organization. As in other industries, wholesalers and distributors are streamlining and accelerating business processes. This keeps costs low and allows the organization to make the most out of available resources. Thirdly, both leaders and followers are providing visibility into business processes across functions and departments. A key benefit of ERP allows managers to see exactly what is going on and make more informed decisions. Lastly, followers tend to have the need to modernize technology infrastructure and applications. Running on old systems, whether it be hardware or software can hinder organizations in their quest to run efficiently.

**Figure 2: Top Strategic Actions**



Source: Aberdeen Group, September 2011

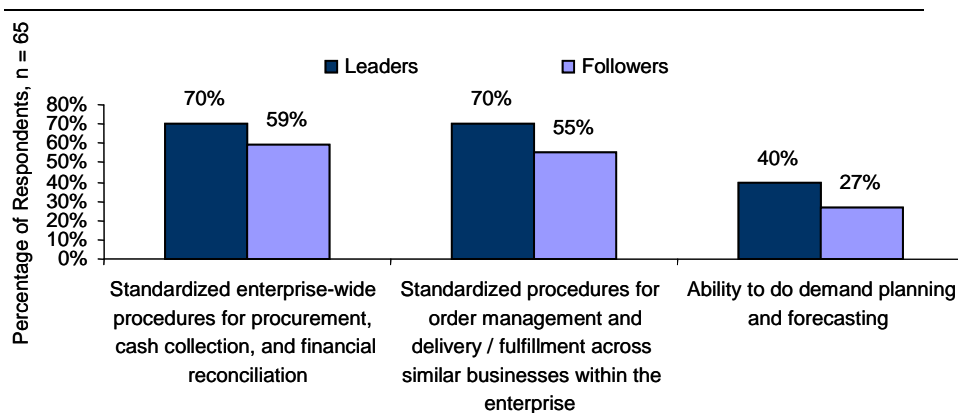
### Impacting ERP Capabilities

The capabilities that ERP enables in wholesale and distribution have a wide umbrella of influence throughout the organization. In alignment with the strategic action of standardizing business functions are the specific procedures that leading organizations have implemented (Figure 3). Leaders have standardized both back and front office procedures. Specifically, leaders are more likely to have standardized procedures for procurement, cash collection, financial reconciliation, order management, and delivery / fulfillment. This is particularly helpful when templates and best practice standards are a part of the ERP solution. These standardized procedures align practices with the ultimate goals of the organization allowing the organization to run cohesively and providing a unified front to customers.

"ERP had quite an impact at the start. Change management and training is key."

~ Dennis van Bregt, Director  
Master Data Management,  
Large Chemicals Distributor

**Figure 3: Process Improvements**



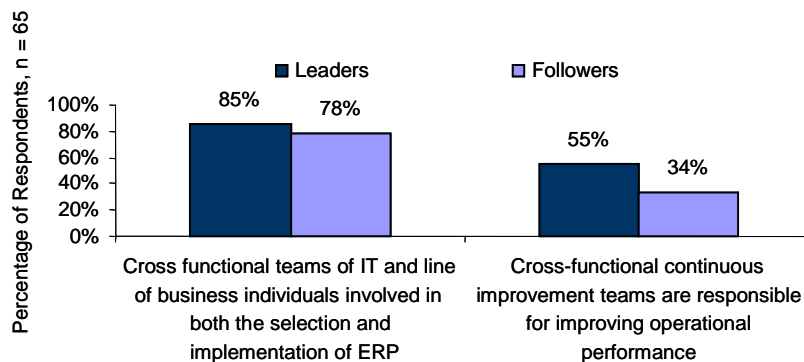
Source: Aberdeen Group, September 2011

Particularly important to wholesalers and distributors is the ability to do demand planning and forecasting. This ability, enabled by ERP, means that leaders are both avoiding expensive holding costs and never missing out on times of high demand because they do not have enough product on the

shelf. Leaders are 48% more likely than followers to have this capability in place, which has led to higher revenue and profits.

Organizationally, it is important for ERP to be part of the organization's overall culture. Leaders are more likely to have cross functional teams of IT and line of business individuals be involved in both the selection and implementation of ERP (Figure 4). ERP should be pervasive throughout the organization and individuals in differing roles will be using it differently, so it is important that the system selected is useful for all ERP-using employees. This also encourages buy-in among employees who are then more likely to get full usage and benefits out of ERP. Secondly, the organization should always be working to improve itself. This is the only way that it will truly grow. Leaders are 62% more likely than followers to have cross-functional continuous improvement teams driving initiatives like Lean or Six-Sigma. These teams help the organization to become more efficient, thus saving costs. Additionally, these teams are used to optimize ERP. This helps to identify areas where the organization could be getting more out of their system leading to more robust benefits.

**Figure 4: Cross Functional Teams**

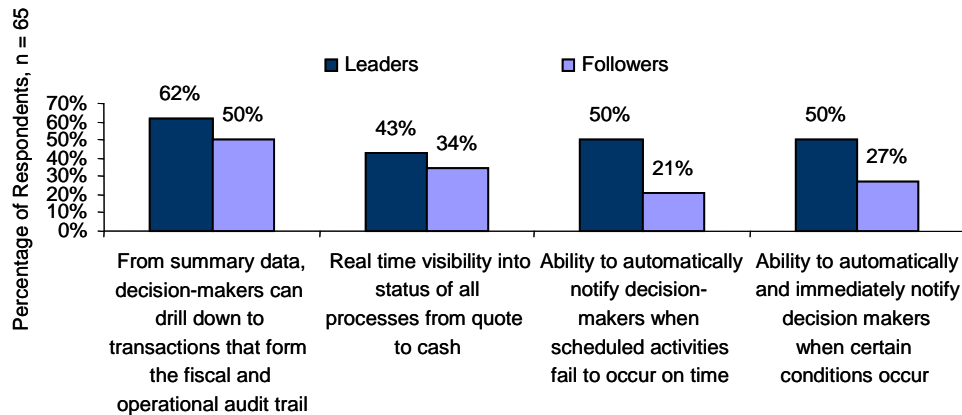


Source: Aberdeen Group, September 2011

As a complete and auditable system of record, ERP contains the information that employees need to make creditable decisions. Leaders are using this full visibility to manage the business in ways that were not possible without ERP. They are more likely to have real time visibility into all statuses from quote to cash (Figure 5). By having real-time data, managers are assured to be making decisions based on accurate data. Making decisions based on old data could have disastrous effects on the organization. This data should also be easily consumable. Whether taking a holistic view or drilling down to individual transactions, decision makers should be able to find out exactly what is going on in the business at all times. Sixty-two percent (62%) of leaders can drill down to transactions that form the fiscal and operational audit trail from summary reports. As an extension of this visibility, receiving automatic alerts, is a major benefit for leading wholesalers and distributors. These alerts allow managers to make agile decisions and reduce the impact of adverse events. This allows these organizations to stay a step ahead of their competitors. Leaders are 2.38 times as likely as followers to notify

decision makers when scheduled activities fail to occur on time and 85% more likely than followers to receive these notifications when certain conditions occur.

**Figure 5: Full Visibility Into Operations and Transactions**



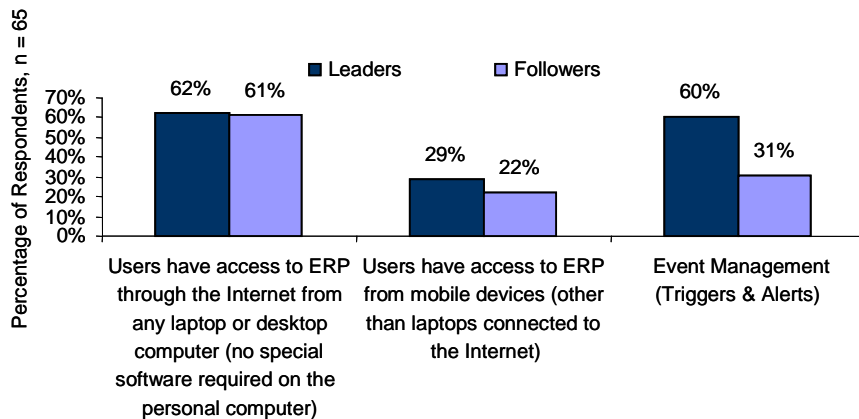
Source: Aberdeen Group, September 2011

This real-time visibility is aided by being able to access ERP at anytime from anywhere. In today's 24 / 7 business environment, it is important for decision makers to be constantly connected to the business in order to get a step ahead. Software as a Service (SaaS) ERP solutions have made it possible for employees to have access to the information they need wherever there is an internet connection. Furthermore, mobile devices are making it easier for decision makers to have access to ERP in their pocket or on easy to transport tablets. Leaders are differentiating themselves by being more likely to have this capability. Here they can have access to triggers and alerts allowing them to react more quickly and make agile decisions. Leaders are almost twice as likely as followers to have access to this event management.

"ERP improved efficiencies, inventory cost savings, and personnel job satisfaction."

~ Ron Crohn, IT Director,  
Acme

**Figure 6: Technology Aids 24 / 7 Business**



Source: Aberdeen Group, September 2011

There are many capabilities enabled by ERP that have a strong impact on organizations of all types. There are, however, some modules and extensions of ERP that can have a significant impact on performance in wholesale and distribution specifically (Table 2). Particularly important are distribution requirements planning, transportation management, and warehouse management. Leaders are 267%, 71%, and 29% more likely, respectively, than followers to take advantage of the efficiencies and logistical improvements to be gained from these extensions and modules.

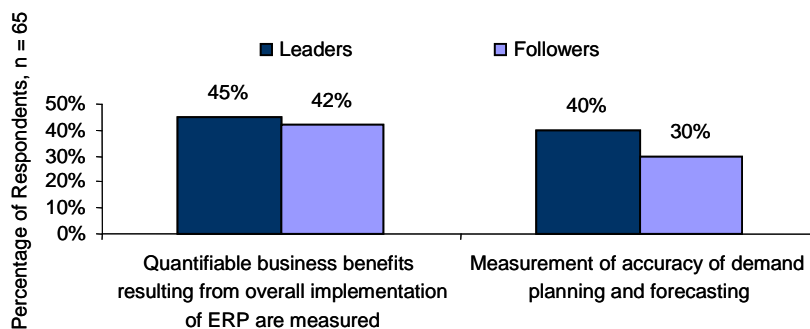
**Table 2: Wholesale and Distribution ERP Modules and Extensions**

	Leaders	Followers
Distribution Requirements Planning	33%	9%
Forecasting / Demand Planning	52%	16%
Supplier Relationship Management	38%	11%
Supply Chain Planning	36%	28%
Transportation Management	29%	17%
Warehouse Management	36%	28%

Source: Aberdeen Group, September 2011

Lastly, in order for organizations to get the full return on their investments, they need to be measuring the impact of those investments. Less than half of wholesalers and distributors are measuring the business benefits resulting from their ERP implementation (Figure 7). Those that are doing this are able to identify where their ERP is lacking and optimize it further. For example, it is possible to measure the accuracy of demand planning and forecasting. Being able to forecast is beneficial to wholesalers and distributors, but if these forecasts are inaccurate, they are useless. Measuring this demand allows followers to fine-tune forecasts and devise superior plans.

**Figure 7: Measurement Leads to Optimization**



Source: Aberdeen Group, September 2011

When wholesalers and distributors are measuring the business benefits from their ERP, they are finding improvements in many areas (Table 3). Even followers are seeing improvements, which include cost savings and operational efficiencies. Customers are receiving their purchases more

quickly as a result of ERP, which could lead to repeat business. By using ERP to enable strategic actions and capabilities, wholesalers and distributors are seeing marked improvements in the way that they conduct business.

**Table 3: Measurable Benefits to be Derived from ERP**

Benefit Achieved through ERP	Leaders	Followers
Reduction in operational costs	17%	4%
Reduction in administrative costs	11%	6%
Improvement in complete and on-time delivery	16%	8%
Reduction in inventory	10%	-2%
Improvement in cycle time from order to shipment	22%	4%

Source: Aberdeen Group, September 2011

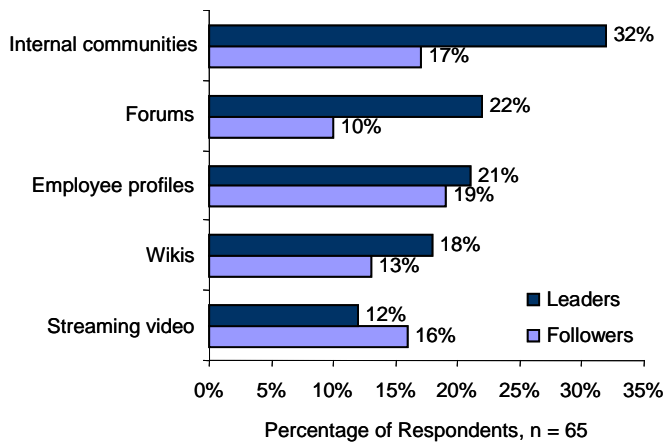
### Social Media and ERP

An uptick in the availability of social media-like tools available in ERP solutions has started to show up as a differentiator for leading wholesalers and distributors (Figure 8). These tools allow for better collaboration amongst teams that may be distributed and also lead to ERP becoming more of a part of the daily lives of employees. Leaders are 88% more likely than followers to have internal communities available through ERP. These communities help to keep track of the status of projects and foster collaboration. Leaders are 2.2 times as likely as followers to be able to discuss their work in forums. Other types of social media help to spread information and best practices across the organization. Wikis allow employees to update job processes for others to see. Streaming video is able to express information in a different form than mere plain text and can further illustrate how jobs are to be performed. While social media tools are far from pervasive in ERP, this is a trend that has started to take hold in wholesale and distribution and will be an important part of ERP in the future.

"We benefited from documenting key customer requirements for contract compliance, activity-based costing, and SaaS to support our remote location growth."

~ Bob House, Executive,  
BeyondTheory Logistics

**Figure 8: Social Media Tools Available Through ERP**



Source: Aberdeen Group, September 2011

## Key Findings and Recommended Actions

By combining ERP with the actions and capabilities illustrated above, leading wholesalers and distributors are finding a continuing source of efficiency, productivity and operational improvements, resulting in quantifiable cost savings, schedule improvements, reduced cycle times and increased inventory accuracy. There is always room for improvement. Both leaders and followers should consider the following steps for further success.

### Follow-up Steps to a Successful ERP Strategy

- **Provide decision makers with automatic notifications.** Managing to exceptions only is not necessarily a good idea. But being alerted immediately of certain conditions and events allows decision makers to be both proactive and course correct more efficiently. Those without these notifications are a step behind their competitors. Leaders are 85% more likely than followers to be notified automatically when certain conditions occur.
- **Continuously improve.** Whether it is updating business processes or optimizing ERP solutions, continuous improvement teams lead to the organizations ability to get ahead of its peers and catch up with its larger competitors. The operational improvements that 55% of leaders are receiving as a result of these teams lead to better performance.
- **Plan and forecast demand.** Being able to plan for demand is particularly important in wholesale and distribution. The difference between an accurate and inaccurate forecast can lead to either missed opportunity or increased costs. Leaders are almost 1.5 times as likely as followers to have this capability.

### Leader Steps to Improving an ERP Strategy

- **Enable mobile access to ERP.** While leaders are differentiating themselves from followers in providing access to ERP from mobile devices, only 29% have this capability. By giving access to decision makers in this 24 / 7 business world, successful organizations are becoming more able to make agile decisions, combat adverse events, and proactively grab hold of opportunities in tightening decision windows.
- **Measure returns on investment.** Only by measuring returns on investment will leaders be able to get the most out of their ERP solutions. This allows them to optimize systems and gain further efficiencies. The cost savings to be gained will benefit other metrics. Less than half of leaders are currently measuring the quantifiable business benefits gained from ERP implementations.
- **Look to wholesale and distribution specific modules and extensions of ERP.** Modules and extensions such as distribution requirements planning, transportation management, and warehouse management help wholesalers and distributors to get further control of the logistics of their businesses. Still, according to this survey's data, they are far from pervasive amongst leaders. By combining these enablers with ERP, leaders will find further visibility into their businesses and identify further efficiencies.

"ERP has allowed us to achieve 100% accuracy in everything that we do."

~ Garrett Grunewald, CFO,  
LightRiver Technologies

By combining these steps with a well thought out ERP strategy, wholesalers and distributors can continue to improve and grow into more successful organizations.

For more information on this or other research topics, please visit [www.aberdeen.com](http://www.aberdeen.com). To take part in Aberdeen's 2011 ERP research, click [here](#).

Related Research	
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<a href="#">Mobility in ERP 2011</a> ; May 2011	<a href="#">Case Study: ERP and BI Put Business Problems to Bed</a> ; June 2011
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