



SME BAROMETER 2018

Sector Report
Wholesale Distribution

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PREFACE



It's back! The 2018 edition of the independent SME Barometer is here again. For the 3rd year in a row, you'll find out what is happening among Belgium wholesale companies.

And that's very important. Because thriving SMEs form the true growth engine of a stable economy.

Please dive in, it's a refreshing take on these matters and can lead to a rethink of your current 2018/2019 strategy.

How we approached the research? It has been executed by Pb7, an independent IT research agency, from the start of the SME Barometer. At the end of 2017, they interviewed as many as 1,779 companies in Europe via an online panel survey. Between these European companies, there were 375 Belgian SMEs with between 1 and 50 employees.

The sample is representative of all Belgian SMEs (up to 50 employees). The sheer number of interviews within all the industries we asked them to survey makes the data reliable. On top of that, the datasets were weighed during the analysis, further guaranteeing representativeness and statistical reliability.

In this report, we've summarised the most important results and related conclusions.

Enjoy!

SME BAROMETER FOR WHOLESALE COMPANIES 2018

The crisis years are slowly fading from memory with 2017 being another year of growth for Belgium wholesalers.

Revenue grows with an impressive 21%, while profit margins go up by 16%.

As in other industries, wholesalers are starting to focus less on controlling costs which gets 23% and crosses the finish line in 6th and more on innovation.

Designing new products or services sits at 2 with 35% and compliance at 3 with 28%. Given the enforcement of GDPR, this was to be expected. However, it's not all roses as the number 1 challenge is finding new customers with 64%.

That's in part due to the nature of the industry. But there's another problem going on. If you look at the growth in revenue and profit margins, you might have noticed the latter is lower than you should reasonably expect. That's because of tougher competition. But more about that later.

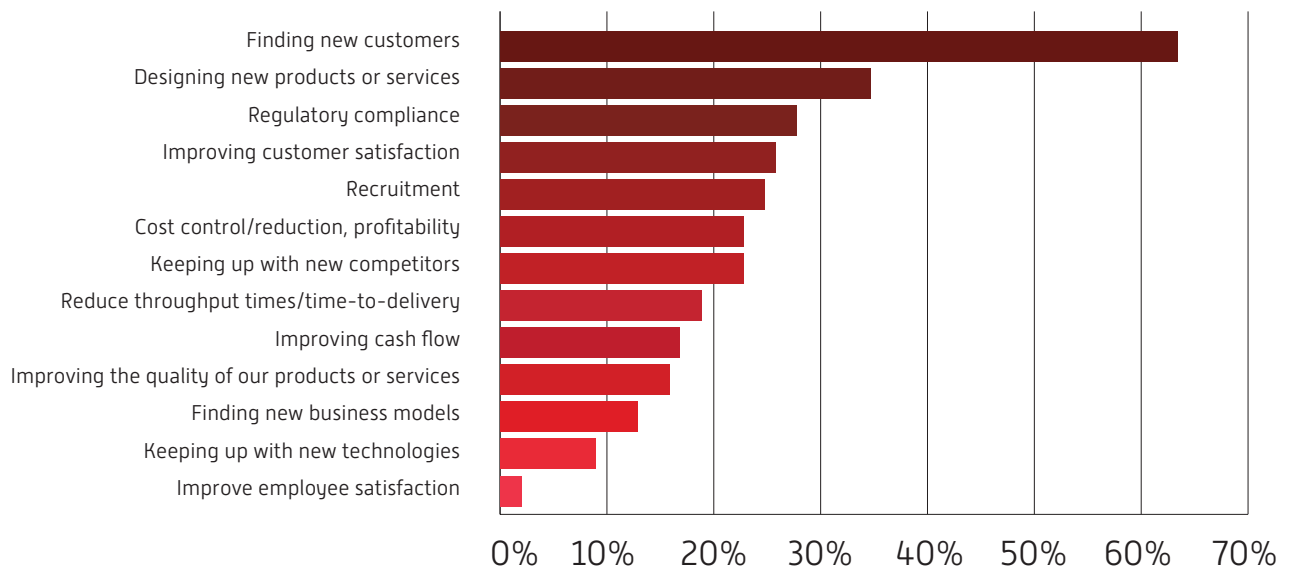
Improving customer satisfaction ranks 4th with 26%, recruitment comes in at 5 with 25% while controlling costs and keeping up with new competitors are 6 and 7 with 23%.

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Wholesalers are starting to focus less on controlling costs and more on innovation."

Figure 1: Key business challenges

What are the top-3 business challenges for your company?



FIERCE INTERNATIONAL COMPETITION IN A BUYER'S MARKET

Because fierce it is. When it comes to the industry challenges, online competition is way up there with 46%. The continuous pressure on prices and delivery times from online competitors keeps causing headaches.

Another headache in this area is suppliers selling directly (online) to their customers according to 37%. Further down the list, we see suppliers squeezing out the margins and tough competition from the supply chain listed as challenges with both 18%. That means wholesalers need to keep tabs on their partners too!

When we look at those competitors, they hail from all over the world notice 28% who say they feel the heat from international companies. But we're jumping ahead of ourselves with this number 4 on the list.

Demanding customers complete the top 3 with 36%. That's not strange given the fierce competition. Customers can easily shop around online and order from anywhere they like. It's a buyers' market.

Last but not least, we see another interesting figure. 24% mention setting up a successful online strategy as a challenge. It's surprising to see it at the bottom of the top-5 challenges. With every passing year, more goods are sold online - both in B2B and B2C. So you'll need to adapt or die as the saying goes.

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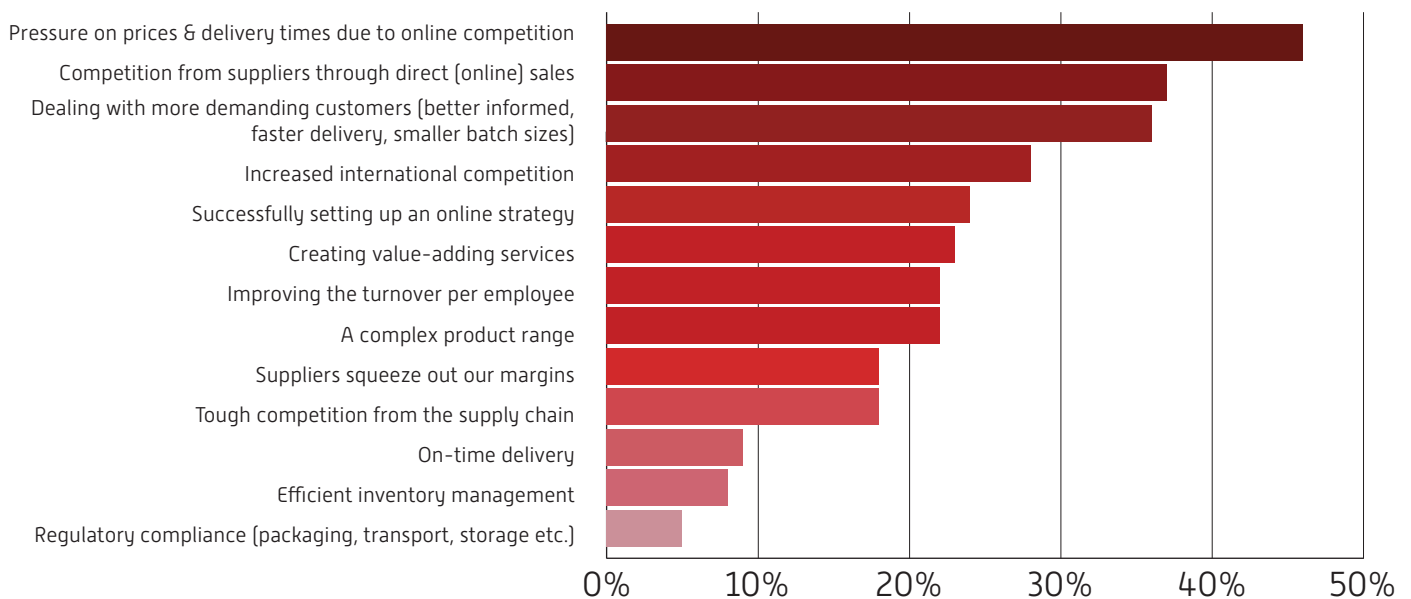
Online competition is a major challenge according to 46%."

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24% find setting up a successful online strategy challenging."

Figure 2: Key industry challenges

Your company is active in the Wholesale sector. What are the 3 most important, industry specific, business challenges?



ONLINE STRATEGY FOR 2, PLEASE!

Let's zoom in on this online challenge. If we look at the percentage of online revenue for wholesalers in surrounding countries, Belgium is second to last with 21%. That's about half of what wholesalers in first-placed country The Netherlands manage with 40%.

The main reason for this is not having a proper online strategy say 46%. 22% don't know where to go and where to start. That's pretty serious as just about everyone has online access in Belgium. Furthermore, there's a wide variety of (online) tools available to set up a webshop and integrate it with at least your accounting and order & inventory management to begin with.

Another 22% balk at the idea because it requires too many changes to their processes, backed up by 18% who say the change is too significant. The most interesting figure is probably the 19% who think there is no clear demand.

This may be the case for a subset of wholesalers who sell in a particular niche and have more traditional customers. But it's not a very realistic argument in 2018. However you break it down,

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The lack of online revenue is due to not having a proper online strategy say 46%."

new customers will eventually be of a younger generation - insert the mandatory mention of millennials. And they don't use the phone to call in orders on business days between 9 to 5.

Now take for a moment the answer to this statement: our digital changes are driven by the demands of a younger generation of customers. 13% may strongly disagree and 27% disagree with this statement, but 2% strongly agree, 31% agree and 27% is neutral.

So there is a notion that the times are a-changin'. And with all this competition going on, how slim must those margins become before you start working on your online strategy? You're already late for the last train. If you miss it, you'll be stranded indefinitely.

Figure 3: Online revenue
What part of your annual revenue comes through online channels (the Internet)?

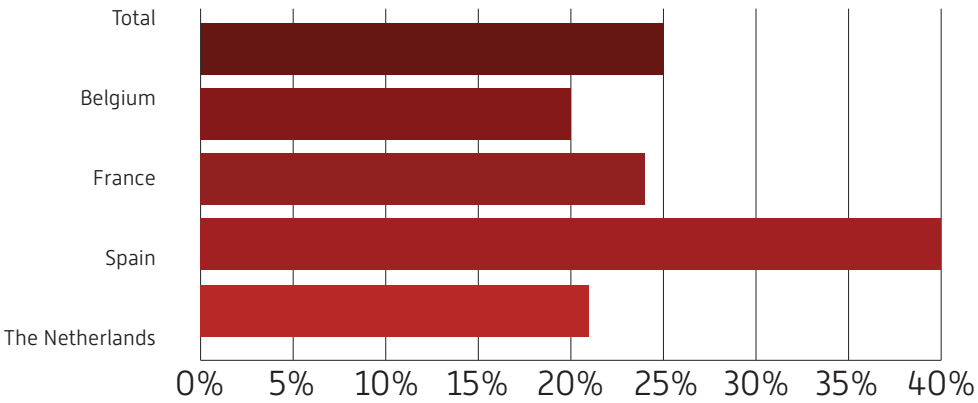
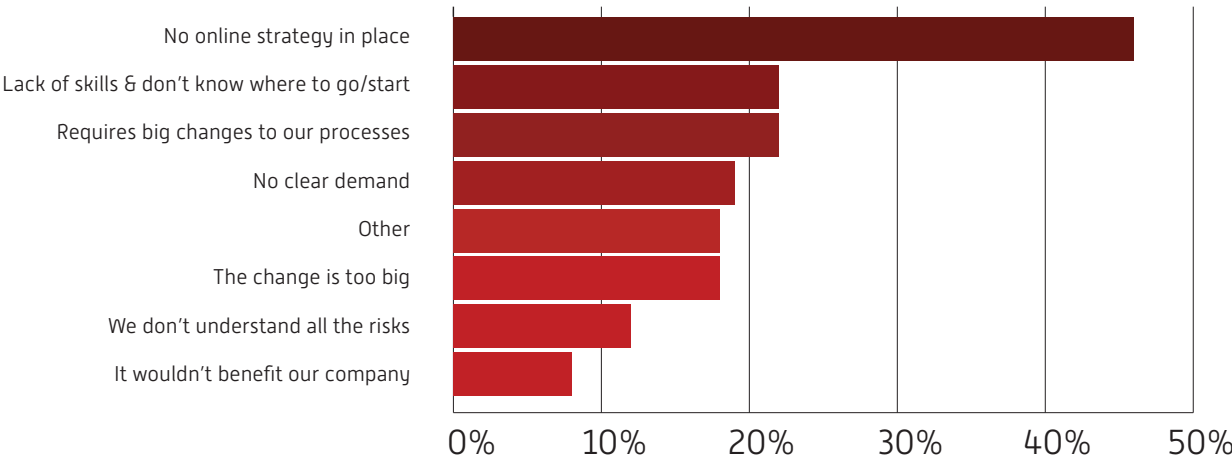


Figure 4: Major showstoppers to increasing in online revenue
What is holding you back from increasing your online revenue stream?



START WORKING SMARTER, BETTER, FASTER, STRONGER

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In 2018 it's all about working smarter: adding value and optimising processes."

Work hard, sell more. It's not a title of a wholesale bestseller from the 1980s: it's the #1 answer to the question of how wholesalers aim to improve their margins according to 43%.

That's followed by negotiating with suppliers with 40%, offering more value with 39%, simplifying our product range with 25% and investing in software to optimise internal processes with 22%. A notable mention goes to the 13% that change their business model. That's a relatively high figure.

There's a strong increase in the offering of more value. That's a good thing. Realistically, you can only work so much harder and sell so much more. It's never enough. Even if you do, you only end up wearing yourself and your colleagues out.

So, it's all about working smarter. What does that even mean? A good example is the 39% who are looking to add more value-added services, the 20% who offer more high-quality products and the 22% who are increasing prices.

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Offering more value sees a strong increase as a strategy to improve margins."

Then there are the optimisers. Like the 25% who want to simplify their product range or the 22% that aim to invest in software to optimise their processes. Let's not forget the 14% that want to rethink inventory management.

Seeing the value of the stock compared to annual revenue is quite high for Belgian wholesalers - 0.50 compared to 0.41 for first-placed Dutch wholesalers - there are indeed lots of opportunities in this area.

Lastly, there's the 10% who reduce staff. The most probable reason behind the low figure is that most wholesale companies are already working with a minimal workforce and mostly hire temporary workers when they need extra hands.

With warehouses becoming more and more robotised this is where the gains are going to be made in the not too distant future. Note that big players like Amazon, Alibaba or Ocado are already using this technology in their warehouses as we speak.

Even with the current state of the technology, there are no humans needed in the warehouse itself since robots can pick and assemble the orders. And a robot doesn't need to eat, rest or sleep - unless you consider the auto-recharging as a short nap.

Another benefit is that it allows for a complete rethink of the warehouse layout aimed at maximising the available space for optimal storage.

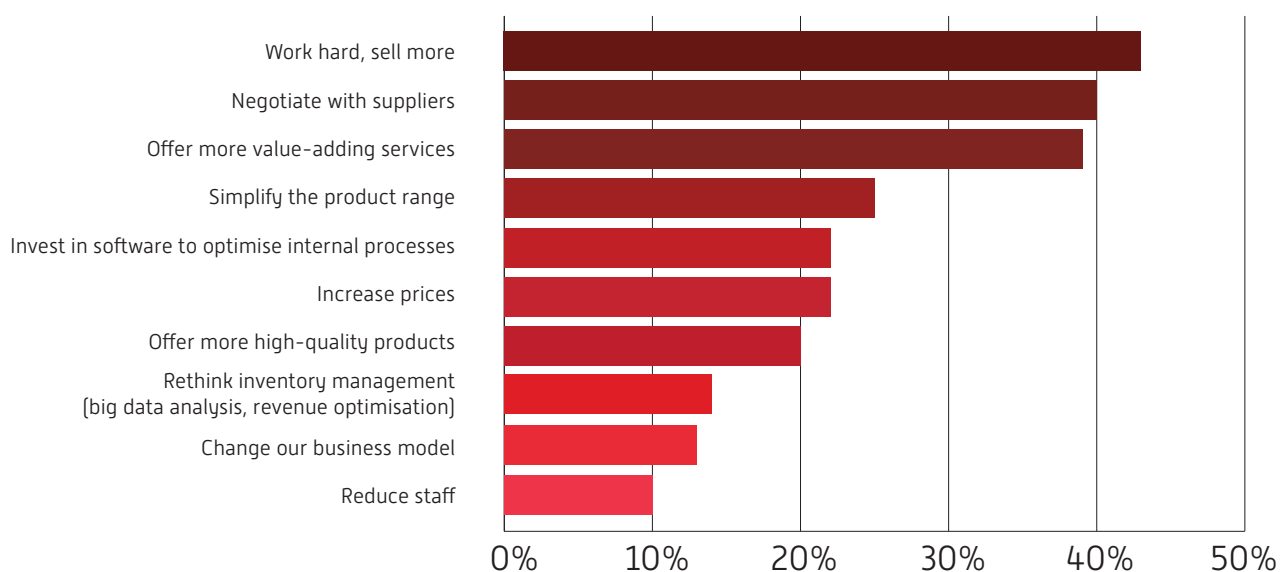
Although smaller wholesalers may currently lack the working capital to invest in such automation, prices are starting to come down with new players exploring the robots-as-a-service market. A fascinating area for sure.

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Even now robots can already do every task in the warehouse, there are no humans needed."

Figure 5: How to improve the margins

Which of the following actions are you undertaking to improve your margins?



HOW DO YOU VALUE YOUR STRATEGY?



Let's take a step back and explore the value strategy in greater detail. While adding value may be high on the priority list, the popular methods are a bit conservative.

At the top stand 37% who say they keep prices in line with the value, 26% use low pricing. Only lower down the list, we find 21% who look for higher value products and 17% who add financing.

Meanwhile, delivery improvements (33%) and a broader product catalogue (29%) moved up into the top 3. Similar initiatives are specialising even further (26% and the exact reverse strategy as opposed to the former) and streamlining online ordering (16%).



Delivery improvements and a broader product catalogue have moved into the top 3."

Customer service optimisation - quite a big topic in recent years - only gets 21% of the vote, while support services get 13%. A bit underwhelming seeing a satisfied customer is a repeat customer.

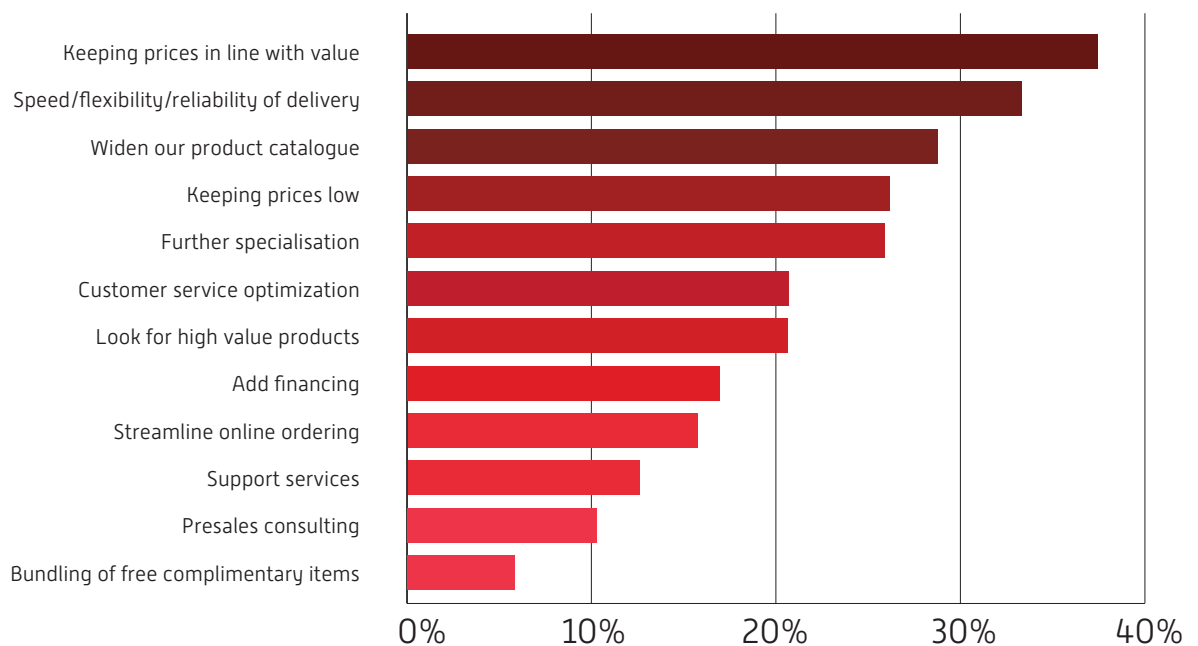
Interestingly, it seems improving sales strategies is hardly on anybody's mind. Pre-sales consulting is 2nd to last, while it's good to find out 6% at least have heard of the reciprocity rule seeing they're bundling free complimentary items. Too bad it's dead last. An area where a lot can be gained.



Improving sales strategies get ignored by most."

Figure 6: Value-adding strategy

Which of the following actions are you planning to add more value for your customers?



INVENTORY TURNS STILL NUMBER 1 KPI

The most important reason to be cheerful about KPIs is that they provide you with meaningful metrics to track your performance.

45% of Belgian wholesalers get up from their seats when they hear inventory turns. Average sales per customer is runner-up with 41% and average sales per transaction comes home 3rd with 31%.

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The drop in DSO is a worrying trend. You need to optimise cash flow so you can invest in innovations."

Satisfaction ratings (12%) and DSO (Days Sales Outstanding) (9%) are down significantly. The drop in DSO may be because of the broader trend of less focus on cost control.

Nevertheless, DSO is and always remains important. You need to know how well you're collecting your payments to make sure your cash flow is at the most optimal level. The less cash you have, the less you can invest now. And investing is very important given the focus on innovation.

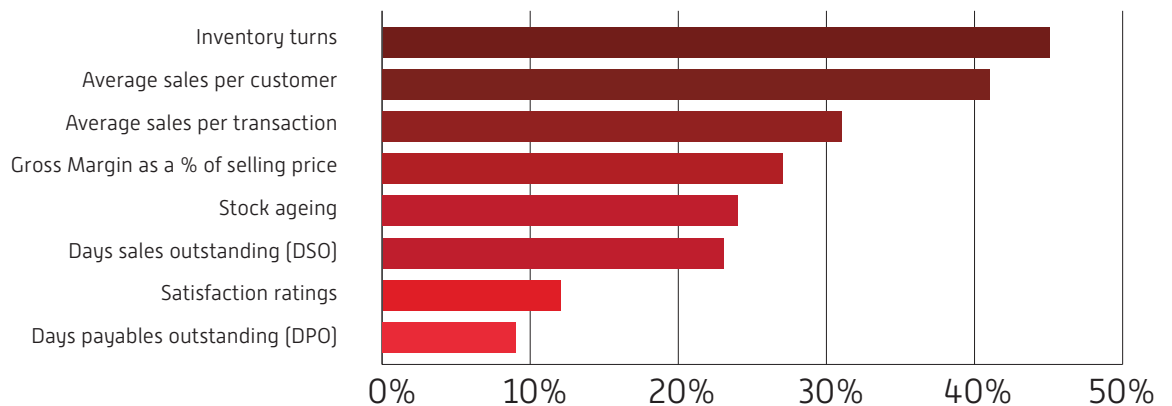
The drop in satisfaction ratings is harder to explain. It depends on what you measure and how you measure it. For example, the best satisfaction rating is probably average sales per customer. So it's not true that wholesalers don't care about satisfied customers anymore.

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The number 1 KPI is inventory turns."

Figure 7: Top KPIs

What are the top 3 indicators that you use to measure the performance of your organisation?



ANSWERING TODAY'S CHALLENGES WITH YESTERDAY'S TOOLS

When it comes to the tools to counter those pesky (international) competitors, nourish innovation and help to execute on that much-needed online strategy things get interesting.

While 69% use online software in some way or the other, a number of essential processes are still dominated by on-premise software or even no dedicated software at all.

Take order management and invoicing. The majority (48%) use on-premise, 19% hosted and 19% online. 14% say they use no specific software at all.

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20% say they use no program in particular to manage the most critical processes in their wholesale company."

2 other vital processes are inventory management and logistics. Again, the majority (38%) use on-premise, 25% hosted and 16% online. A whopping 20% say they use no program in particular to manage the most critical processes in their wholesale company.

When it comes to accounting, it's the same idea. 51% use on-premise, 15% hosted, 19% online and 15% no particular program.

Lastly CRM. Incredibly important to get right if you want to speed up delivery times, improve customer service, convert more prospects to customers against less effort and get more sales from customers. Here the majority (35%) use no program in particular, 29% hosted, followed by 19% on-premise and 17% online.

It's no wonder a lot of Belgium wholesalers struggle with though international competitors or their online strategy. If you're managing your inventory with a few spreadsheets or outdated tools, and don't have proper insight into your orders, invoices, books and sales - what can you do?

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69% use online software, but on-premise or no dedicated."

ANALYSIS

Things are going quite well for Belgian wholesalers. Revenue growth is a very positive 21% but the profit margins aren't that high with 16%.

The main reason for this is fierce competition from suppliers who sell directly to customers but mostly from both domestic and international wholesalers who have executed their online strategy to perfection. This puts pressure on prices and delivery times and in the current buyer's market, this leads to fewer margins.

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Revenue growth is very positive, profit margins less so due to tough competition."

The most important challenge in this regard is the 24% who say they have trouble working out a successful online strategy. Another 46% say they don't have one in the first place. This shows because Belgium is second to last when it comes to online revenue compared to surrounding countries.

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"46% don't have an online strategy."

However, it seems a lot of Belgium wholesalers baulk at change, even if it's for the better. That's a shame. At least a significant number do know that change is needed - and fast!

On how that change is gonna come the opinions are divided. The majority thinks it's work hard, sell more. But that's going to hit you and your colleagues like a big bad boomerang called burnout.

Luckily, more and more wholesalers see this coming and instead focus on working smarter and adding more value.

The thinking is starting to depart from a simple value and optimisation strategies alone to more evolved ones. You could say the industry is slowly waking up and maturing now it's faced with all these competitors and opportunities. That's a good thing overall.

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You could say the industry is slowly waking up and maturing in the face of all this competition."

What's seriously lacking is the improvement in sales techniques. That's an area where a lot can be gained to overcome competitors and make those other business models stick. You can't expect to change the one without the other.

When we look at the KPIs used we see some other crucial developments. Inventory turns, average sales per customer and average sales per transactions are leading.

DSO dropped significantly. Although this may be because of the broader trend of less focus on cost control, it's a bit worrying. Wholesalers need to keep tabs on the health of their cash flow, so they have every penny available to invest in innovation.

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"The drop in DSO as a metric is dangerous, you need an optimal cash flow to invest in innovations to counter online competitors."

When it comes to the tooling used a lot of things add up. While most wholesalers use a future-proof online tool for at least some processes, most dabble with on-premise or hosted software at best, or with no particular tool at worst.

For example, 20% admit they use no dedicated tool to manage their inventory - the most crucial process in their company! How are they ever going to level the playing field? Quite simple! Leapfrog the competition.

With online software, you can create your own secure, future-proof platform which connects all your processes in the cloud. The investment is minimal, especially compared to on-premise or hosted, which require a lot of IT expertise to maintain and deploy.

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"By jumping in the cloud, you leapfrog domestic competitors and get on par with those international online competitors."

Seeing as a lot of your Belgian competitors are literally in the dark about their performance, it's easy to leapfrog them and get right up to the level needed to combat those tough international competitors with a proper online strategy. Who says no to that?



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