



# An Evolving Industry: Challenges and Opportunities in Wholesale Distribution

Adapt. Innovate. Thrive.



As the industry navigates through various disruptions, from technological shifts to changing buyer behaviors, distributors find themselves at a critical juncture facing:

- Inventory and labor shortages
- Workforce dynamics and succession planning
- Technological transformation amid IT initiatives
- Mergers and acquisitions
- Market defense
- Omni-channel experience and digital transformation
- Inventory and labor shortages
- Increasing valuation amidst disruption

All of this, combined with the rising cost of capital, have put increased pressure on distributors to improve margins and make it easier for the customer to buy. By providing customers with instant access to capital and flexible payment terms, distributors are able to simultaneously reduce costs and increase sales.

Explore key challenges and transformative trends that are shaping the future of distribution:

## Inventory and Labor Shortages

Inventory and labor shortages have transitioned from acknowledged challenges to urgent problems that demand practical solutions. While many companies have hired to address workforce shortages, retention has become a critical issue. This shift is reflected in the realization that HR budgets are surpassing IT budgets for the first time.

## Workforce Dynamics and Succession Planning

The imminent retirement of key employees and the loss of valuable relationships and knowledge present a substantial challenge for distributors. With a sales culture often resembling the "Wild West," companies are grappling with the need to instill defined sales processes and guidelines, particularly around pricing and CRM utilization. Succession planning becomes a critical aspect of retaining institutional knowledge and sustaining business continuity.



# Technological Transformation Amid IT Initiatives

The pandemic, coupled with a wave of retiring field sales representatives, has spurred the deployment of CRM solutions, sales process redefinition, ERP re-platforming, and investments in eCommerce and digital initiatives. However, companies are realizing the complexities of IT initiatives, often facing delays and budget overruns. Balancing technological transformation with practical implementation is a challenge many distributors are becoming quite familiar with.

## Mergers and Acquisitions

Merger and acquisition (M&A) activities continue to reshape the wholesale distribution industry. Mergers and acquisitions are a focal point for large companies, while family-owned businesses are fortifying profit margins to become attractive acquisition targets.



The average value of M&A deals has **doubled** in recent years

As part of this strategy, distributors are reevaluating their digital transformation initiatives, realizing the importance of accelerated adoption of modern technology to innovate and provide new value-added services.

**62%** of surveyed distributors prioritize the accelerated adoption of modern technology to innovate and capitalize on new value-added services

Source: IDC



Research from the IDC emphasizes the role of technology and digitalization in driving growth for distributors, with a focus on safeguarding supply chain operations and scaling operations to drive profitable growth. This holistic approach requires agile adaptation of business models, often facilitated by technology investments like cloud-based ERP and predictive analytics.



## Market Defense

The industry is witnessing a push for growth and defense against competitors like Amazon Business, with midmarket companies being particularly vulnerable due to two main factors: the midmarket has been slower to adopt eCommerce than enterprises and small businesses. Product availability and price are the two main differentiators of mid-market companies (what Amazon does best). Distribution companies of all sizes will need to find new, innovative ways to maintain and grow their market share.

## Omni-Channel Experience and Digital Transformation

Distributors are recognizing the changing dynamics of both their sales teams and the buyers they serve, demanding a shift from traditional communication methods. Customers don't want phone calls anymore, much less someone showing up on Fridays with a box of doughnuts.

The evolving expectation for an "Omni-Channel" experience in B2B adds complexity, requiring integrated experiences across field sales, inbound phone calls, and branch locations. Distributors are challenged to provide seamless experiences for buyers across diverse channels while adapting to the preferences of a digitally savvy customer base.

## Increasing Valuation Amidst Disruption

Distributors, whether a public company or a family-owned regional provider, share a common goal—increased valuation. In most industries, increasing valuation is pretty straightforward. You need to show growth and healthy margins and if you do well at one of the two, you will get a healthy multiplier. However, the traditional metrics of growth and healthy margins are no longer sufficient in distribution.


Distributors must demonstrate both organic and net growth, good margins, and exceptional return on capital to achieve higher multipliers in an environment marked by disruption. The companies that are doing great in all three categories are getting 15X-18X multipliers and the companies that are doing well in 2 of the 3 are getting 3X-5X multipliers.



## Looking ahead

In the face of unprecedented challenges, distributors are compelled to provide increased value to customers or risk obsolescence. The industry, slow to change historically, is experiencing disruption on a scale not seen in decades. The key to success lies in offering innovative solutions that cater to the changing needs of digital buyers and adding significant value beyond traditional relationships.

Distributors must invest in processes and technology that empower them to remain competitive, enhance customer relationships, increase average order value, and achieve significant business growth without incurring substantial capital expenses.



Distributors know that what has made them successful in the past will not ensure their success in the future. A torrent of advice floods every leader's inbox, offered by vendors, technology experts, startup founders, and more. But as intermediaries, distributors are at the center of commerce, pulling solutions together for customers and focused on day-to-day, practical progress. More and more, noticing change, exploring its cause, and considering new possibilities are the hallmarks of a high-performing distributor culture. **Curious distributors see opportunities and innovate to make them happen.**

The National Association of Wholesaler-Distributors



## About Credit Key

Credit Key is the industry-leading B2B payments solution for Net Terms and Pay Over Time. Distributors leverage Credit Key to offer their customers greater access to capital with fast, flexible payment options. Credit Key facilitates instant credit decisions to provide a streamlined, omnichannel buying experience whether it's online, over the phone, or in-store. We provide instant decisions to your customers for a line of credit up to \$50K with net 30 terms and payment options up to 12 months. We assume 100% of the risk and pay your business within 48 hours.

Merchants who offer  
Credit Key to their  
customers have reported:

- ✓ 250% lift in conversion rate
- ✓ 841% lift in average order value
- ✓ 29% increase in order frequency

Through partnering with top distributors across the country, we've found that providing customers with instant access to capital and flexible payment terms is a strategic enabler. When distributors empower their B2B customers to purchase what they need, when they need it, they see larger order sizes, increased order frequency, and greater customer loyalty. As the industry finds ways to improve the omnichannel purchasing experience and grow valuation, dynamic companies are leading the way by investing in innovative payment solutions that address their primary goals: organic and net growth, good margins, and great return on capital.



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