

Generative AI can play a crucial role in helping companies achieve profitable revenue growth and continuous innovation by providing insights into customer behavior, market trends, and emerging opportunities.

AI in Wholesale Distribution: A Generative Approach

September 2024

Written by: Roderick Gaines, Research Director, Worldwide Supply Chain Strategies: Warehousing, Inventory, and Order Management, and Simon Ellis, Group Vice President, Worldwide Supply Chain

Introduction

The wholesale distribution industry is at a pivotal juncture where traditional business models are increasingly strained under the pressure of digital transformation journeys and shifting market demands. As global supply chains become more complex and customer expectations increase, distributors should innovate or risk obsolescence. Generative AI (GenAI) has emerged as an important factor in transforming the landscape of wholesale distribution.

GenAI and its potential have sparked considerable interest and excitement, but enthusiasm and conjecture do nothing to demonstrate the technology's real benefit for the wholesale distribution industry. When combined with traditional AI, GenAI's potential to enhance operations, automate tasks, and drive growth is undeniable. Many distributors are eager to harness its power to improve efficiency and profitability. Yet, in conversations IDC has had with wholesalers, concerns linger about job displacement, privacy breaches, and the attrition of human connection.

To realize GenAI's benefits while helping mitigate its risks, distributors should prioritize human-machine collaboration. By fostering a constructive collaboration between employees and technology, companies can create a future where AI broadly enhances human capabilities rather than replaces them.

Wholesale distributors indicated that two gaps were most likely to be problematic if not addressed in the next 12 months. The first was a lack of supply chain visibility and agility to see and effectively react to necessary changes in time, and the second was a lack of sufficient collaboration with external suppliers and customers (see Figure 1). Both can affect multiple areas such as profit margin and product and service complexity as wholesale distributors aren't able to adjust pricing strategies or inventory in real time, which can impact profit or margin.

AT A GLANCE

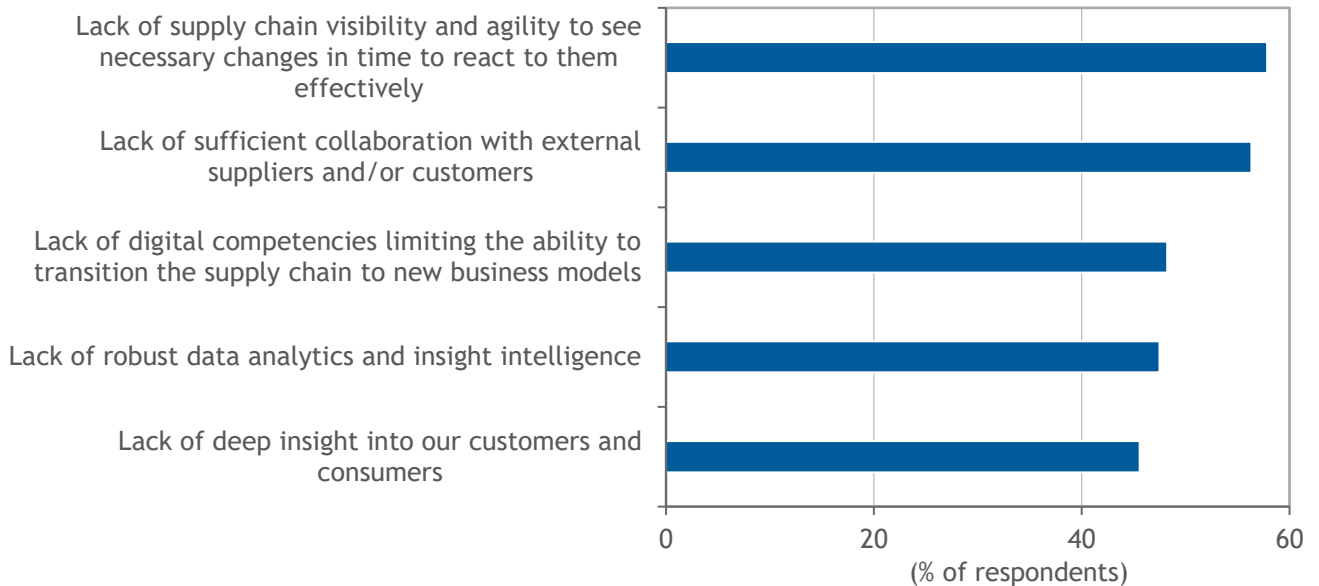
KEY STATS

According to IDC's research:

- » 30% of wholesalers consider GenAI the most important technology in their organization today.
- » 42% of businesses are investing significantly in GenAI with an established spending plan for infrastructure, acquiring GenAI-enhanced software, and contracting GenAI consulting services.
- » Companies highlight seeing improved productivity (38%) and lower costs (39%) as the top benefits of GenAI deployments in their supply chain.

FIGURE 1: **Wholesale Distribution Concerns**

Q As you think about the future of your supply chain, what current gaps are likely to be the most problematic if not addressed within the next 12 months?



n = 206

Source: IDC's Supply Chain Survey, 2023

Key Challenges Facing Wholesale Distributors

Margin Pressure and Rising Costs

Wholesale distributors face a perfect storm of margin pressure and rising costs. What was once a stable industry is now marked by economic volatility, supply chain disruptions, and evolving customer expectations. On the revenue side, intense competition from both long-established competitors and ecommerce disruptors has eroded profit margins. Customers, exercising increased bargaining power, demand lower prices, squeezing wholesale distributors' ability to maintain profitability. Simultaneously, the cost environment has deteriorated significantly. Inflationary pressures have driven up the price of goods, transportation, and labor, eating away at margins from below.

Supply chain disruptions also impact profitability. Supply chain challenges characterized by stock-outs, delays, and poor vendor selection have exacerbated cost challenges. Moreover, digital transformation initiatives require substantial investments in technology and talent, adding to the financial burden. These converging factors have forced distributors to innovate, optimize operations, and explore new revenue streams to survive and thrive in this challenging environment.

Rebate and Recovery Programs

Supplier rebates and recovery programs exert a significant influence on profit margins within the wholesale distribution industry. On the surface, supplier rebates augment profitability by providing discounts or credits on purchased goods. However, their impact is multifaceted and often complex. To better assess their effect, a holistic view encompassing both short-term gains and long-term implications is often essential. While rebates can temporarily inflate profit margins, it is also important to understand the baseline cost of goods sold, so that optimal pricing decisions are made. Furthermore, the administrative burden associated with tracking, claiming, and reconciling rebates can be substantial, diminishing potential benefits.

Recovery programs, on the other hand, aim to recoup costs incurred by distributors, such as transportation charges or damaged goods. While these programs can help mitigate losses, their effectiveness depends on factors including claim processing efficiency, vendor compliance, and the overall volume of recoverable expenses. Moreover, the time lag between incurring costs and receiving reimbursements can impact cash flow. The net effect of rebates and recovery programs on profit margins hinges on a distributor's ability to enhance these programs through advanced analytics, efficient processes, and strong vendor relationships.

Product and Service Complexity

Along with margin pressures, modern products and services are becoming more complex. The proliferation of product variants, driven by customization and niche markets, has led to an increasing SKU count. This makes inventory management a formidable challenge. Moreover, the integration of product offerings into complex services, such as installation, repair, and maintenance, further complicates operations. Distributors struggle to maintain efficient product data, manage intricate pricing structures, and deliver consistent service levels across an expanding product portfolio. Simultaneously, the demand for real-time visibility into product availability, lead times, and order status has intensified, necessitating advanced IT systems and data analytics capabilities. The convergence of physical and digital channels has also introduced complexities in order fulfillment, returns management, and customer support. As a result, wholesale distributors are under immense pressure to improve their operations, enhance supply chain visibility, and deliver high-quality customer experiences in an increasingly intricate and demanding market.

The Exponential Pace of Change

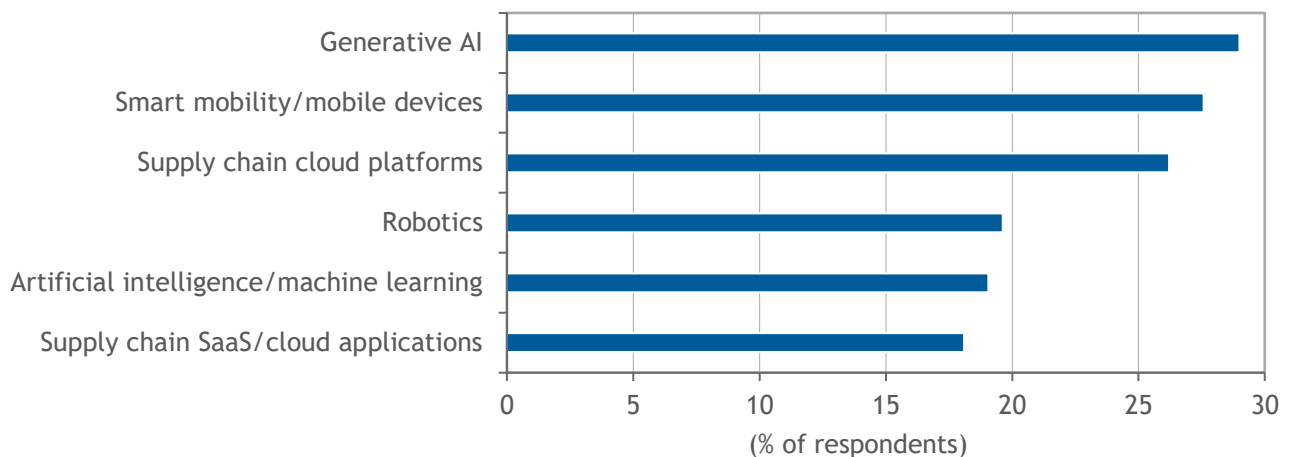
The pace of change in the wholesale distribution industry is accelerating exponentially. Once characterized by manual processes and paper-based systems, distributors are now dealing with an array of digital innovations and new technologies. Cloud computing, AI (both generative and traditional), and the Internet of Things are reshaping supply chains, demand forecasting, and customer interactions. eCommerce and omni-channel fulfillment have become imperatives, demanding agile and scalable infrastructure. In addition, data analytics have emerged as an important tool for extracting valuable insights from vast data sets, enhancing inventory management, and identifying new market opportunities. The pace of change is relentless, forcing wholesale distributors to either embrace digital transformation or risk being left behind.

Customer expectations are driving the exponential pace of change in wholesale distribution. As customers become accustomed to personalized experiences, real-time information, and on-demand delivery, wholesale distributors are demanding similar levels of service from their business-to-business (B2B) partners.

Wholesale distributors view GenAI as the most important technology in their organization today (see Figure 2). GenAI-enabled automation can enhance operational efficiency, allowing distributors to scale their operations without proportionally increasing costs. This scalability is often crucial for adapting to rapid growth and changing market conditions. By automating routine tasks and processes, distributors can focus on strategic initiatives and innovation.

FIGURE 2: **GenAI Business Impact on Wholesale Distribution**

Q How important are the following technologies in your organization today?



n = 85

Source: IDC's Future Enterprise Resiliency and Spending Survey, January 2024

Benefits

Leveraging GenAI for Operational Efficiency

Wholesale distributors can process vast amounts of unstructured data from numerous sources, including sales transactions, inventory management systems, customer interactions, and market trends. However, extracting meaningful insights from this data deluge can be a challenge. Traditional data analysis methods are often time-consuming, labor intensive, and limited in their ability to extract value from these data sources.

The rise in GenAI capabilities is revolutionizing the effectiveness of rebates and recovery programs, particularly for wholesale distributors. These businesses understand that capitalizing on every rebate/chargeback opportunity is crucial for maintaining profitability. However, the process can be challenging, and some rebates may go unnoticed, resulting in inconsistent performance.

Margin pressure and rising costs are not going away. GenAI models can leverage data on competitor pricing, market conditions, and customer demand to craft enhanced pricing strategies that human specialists can further refine for the business. These strategies are designed to increase competitiveness while helping grow sales, profit margins, and market

share. By analyzing a multitude of variables, including the pricing strategies of competitors and the prevailing market conditions, GenAI can provide valuable insights to companies seeking to leverage data for competitive advantage.

GenAI can assess supplier performance based on criteria such as quality, pricing, reliability, and delivery times. By analyzing historical data and real-time feedback, it can recommend the ideal suppliers for specific products or regions. By utilizing this technology, the distributor improves its vendor selection and achieves a balance between cost and quality, improving profitability and customer satisfaction.

GenAI capabilities can provide value by capturing more rebate and recovery opportunities. For many wholesale distributors, the ability to take advantage of all rebates and chargebacks can be the difference between profitability and loss. Although these businesses work to ensure that they receive the maximum possible level of rebates, some get missed and the effectiveness of the process is variable. Using GenAI, distributors can find "leaks" such as errors in pricing, discounts, or promotions. The technology can also flag late deliveries or order return issues that impact financials. By utilizing Gen AI, distributors can improve their ability to capture rebates.

Wholesale distributors looking to manage product services and complex challenges can deploy GenAI to improve customer service offerings and enhance the ability to quickly respond to customer inquiries. For example, the technology can recommend the composition of product kits based on factors such as customer preferences, product compatibility, profitability, installation, repair, maintenance, and inventory constraints. It can suggest more suitable products to include in each kit to help increase sales and customer satisfaction. This capability can improve service response to customer inquiries and convert inquiries into sales wins.

Driving Innovation with GenAI

Staying relevant and achieving profitable revenue growth in a rapidly changing market requires continuous innovation. GenAI can drive that process, which is essential for wholesale distributors to succeed in today's digital market. To stay ahead in wholesale distribution, businesses must continually explore new GenAI applications and adjust their strategies as technology evolves.

However, effective AI implementation requires a workforce that sees the technology as a collaborator, not a competitor. Organizations need to create an environment where employees can get to know and appreciate AI as a tool that enhances their roles. By providing holistic training and education, companies can dispel misconceptions about AI replacing jobs. Instead, they can position AI as a technology that streamlines processes, improves decision-making, and frees up employees to focus on higher-value tasks. This shift in perspective is essential for fostering a successful AI journey, whether for GenAI or more traditional AI.

In addition, GenAI can support the development of new business models and revenue streams. For example, a GenAI-driven platform can help create B2B marketplaces and connect buyers and sellers in new and efficient ways. By embracing such innovations, distributors can expand their market reach and explore new avenues for growth.

Despite the excitement surrounding GenAI, it is important to acknowledge the market inhibitors and competitive issues that will shape its future. Here are a few key challenges that need to be considered:

- » **Data bias:** GenAI algorithms are trained on massive data sets. If these data sets are biased, the generated content could reflect those biases. This can lead to discriminatory or incorrect outputs that raise ethical concerns and limit trust. Addressing data bias requires careful curation and continuous monitoring of data set training.
- » **Accessibility and cost:** Developing and maintaining GenAI systems requires significant computational resources. This can make the technology inaccessible to smaller companies and start-ups, stifling innovation. Cloud-based solutions and advancements in hardware efficiency are necessary to help improve GenAI's potential.

Considering Oracle and PwC

Oracle has been using AI in its Fusion applications for several years and continues to introduce more ways for organizations to take advantage of GenAI across the Fusion suite of applications. Embedded capabilities and an expanded extensibility framework make it easy for businesses to take advantage of GenAI advancements to help increase productivity, reduce costs, expand insights, and improve the employee and customer experience. Built on Oracle Cloud Infrastructure (OCI) and leveraging its AI services, Oracle supports generative AI use cases that are embedded within Oracle Fusion Applications and designed to respect customers' enterprise data, privacy, and security.

PwC has established a set of extended use cases and capabilities leveraging Oracle AI technologies to deliver increased operational efficiency and drive value within Oracle SaaS applications. This framework follows common AI patterns while enriching the insights using common public LLMs. PwC's relationship with Oracle and OpenAI can help increase time to value for enterprises.

Challenges

A significant challenge with all GenAI solutions is differentiating between hype and tangible value. With so many options on the market, it can be difficult to assess which GenAI tools genuinely offer a competitive advantage. Building trust and credibility among a skeptical market is essential, a task that requires technology providers such as Oracle and PwC to demonstrate tangible ROI and address concerns around data privacy and security.

Conclusion

The exponential pace of change in the wholesale distribution industry demands agility and adaptability. GenAI provides the necessary tools to navigate this dynamic environment. By continuously analyzing and learning from data, GenAI systems can help wholesalers adapt to new trends and conditions in real time, so that distributors can remain both responsive and resilient.

The ability to adapt and innovate is essential for success in this industry. As changes continue to accelerate, those who embrace technology and leverage its potential will be well-positioned to take the lead in driving the industry forward. The future of wholesale distribution is digital, and now is the time to act.

GenAI and its potential have sparked considerable interest and excitement, but all that enthusiasm and conjecture do nothing to demonstrate the technology's real benefit for wholesale distribution.

About the Analysts

	<i>Roderick Gaines, Research Director, Worldwide Supply Chain Strategies: Warehousing, Inventory, and Order Management</i> Roderick Gaines is a research director for IDC's Worldwide Supply Chain Strategies Program, responsible for providing research, analysis, and guidance on key business and IT issues pertaining to manufacturing, retail, and healthcare supply chains. He currently leads the Worldwide Supply Chain Strategies: Warehousing, Inventory, and Order Management practice, providing fact-based research, analysis, and insight on best practices and the use of information technology to assist clients in improving their capabilities in these critical supply chain fulfillment areas.
	<i>Simon Ellis, Group Vice President, Worldwide Supply Chain</i> As Group Vice President, Simon Ellis currently leads the U.S. Manufacturing Insights, U.S. Energy Insights, and Global Supply Chain Strategies practices at IDC, specializing in advising clients on manufacturing/energy strategies, supply chain digital transformation, sustainability, cloud migration, network, and ecosystem design. Mr. Ellis works with end-user companies, supply chain organizations, and technology providers to develop best practices and strategies leveraging IDC quantitative and qualitative data sets. Within the Supply Chain practices, Mr. Ellis contributes extensively to the Supply Chain Planning and Multi-Enterprise Networks Strategies practice while also overseeing the Supply Chain Execution practices.

MESSAGE FROM THE SPONSOR

Oracle offers integrated suites of applications plus secure, autonomous infrastructure in the Oracle Cloud. For more information about Oracle (NYSE: ORCL), please visit us at www.oracle.com.



The content in this paper was adapted from existing IDC research published on www.idc.com.

IDC Research, Inc.

140 Kendrick Street

Building B

Needham, MA 02494, USA

T 508.872.8200

F 508.935.4015

Twitter @IDC

idc-insights-community.com

www.idc.com

This publication was produced by IDC Custom Solutions. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Custom Solutions makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

External Publication of IDC Information and Data — Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Vice President or Country Manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason.

Copyright 2024 IDC. Reproduction without written permission is completely forbidden.