

A Publication from INPUT's Market Analysis Program

## U.S. Wholesale Distribution Services Market, 1990-1995—Forecast

Note: This research bulletin is taken from INPUT's latest assessment of the wholesale distribution sector of the U.S. economy. The full report, *Industry Sector Report—Wholesale Distribution, 1990-1995*, will be shipped to clients by the first week of March 1991.

The market for the sale of information services to the wholesale distribution industry is forecast to grow from \$2 billion in 1990 to \$3.6 billion in 1995. This represents a compound annual growth rate (CAGR) of 12% over the five-year forecast period, as shown in Exhibit 1.

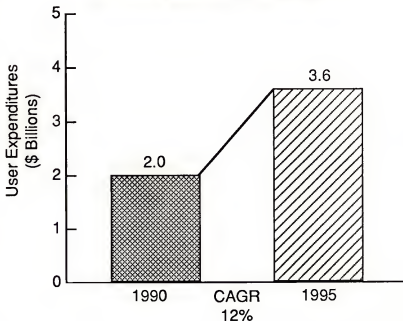
This growth is occurring despite the impact of the economic downturn and the reduction of information systems expenditures in many areas of wholesale distribution. Vendor services are being utilized to meet service, competitive, and cost reduction objectives, but some types of vendors are profiting more from these opportunities than others.

The growth rate of information services is down from the previous five-year (1985-1994) growth rate of 15% forecast by INPUT. The decrease in growth rate is due primarily to the following:

- Cutbacks or delays in plans resulting from the economic downturn which has caused business failures, particularly

Exhibit 1

### Wholesale Distribution Sector Information Services Market, 1990-1995





among smaller wholesalers, and a consolidation of business

- Reduction in the availability of funds to invest in IS technology. Funds are more difficult to free up or obtain from lenders to finance receivables, pay suppliers, and improve operations.
- Reduction in margins resulting from falling sales volume, reduced prices to obtain business, and rising costs. Since margins are narrow in wholesaling, any reduction makes it necessary to cut back on services and delay improvements in operation.

The continued solid growth in the use of information services results from the need to increase sales through improved service quality and to reduce costs. One of the outstanding performances in wholesale distribution during the last few years was by Wallace Company of Houston, which showed that improvement in service and particularly in on-time delivery could have a significant impact on sales and profits (up 700% in less than three years). This company was awarded the Malcolm Baldrige National Quality Award for its achievements.

Forces driving the use of information services in wholesale distribution include demands for improved service and quality, including the ability to handle orders and inquiries rapidly and to deliver them on-time.

A number of information services vendors are using their knowledge and capabilities in wholesale distribution to increase service and improve competitiveness through

applications such as on-line order processing; customer service, inventory, and delivery scheduling, analysis, and tracking; upgraded and integrated accounting; and warehouse automation and the use of robotics.

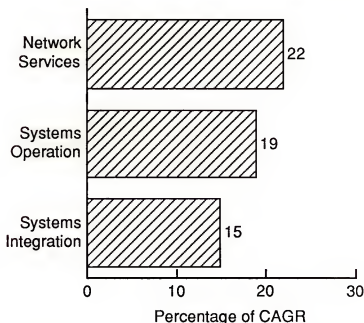
Information services are also being sought to upgrade the use of information technology: on-line data bases and EDI; RDBMS and data base integration; PC LANs and WANs; network integration; and the use of AI in inventory control.

There are dynamic changes in the use of information services both in regard to the mode of service being used and the performance of vendors. The fastest growing service modes are shown in Exhibit 2.

The use of network services, which will grow to \$598 million in 1995, is the fastest growing service mode. It is driven by the

Exhibit 2

### Fastest Growing Modes of Service





use of EDI, electronic information (on-line data bases) and VAN among wholesalers.

Systems integration is another fast-growing mode of service, it will reach \$278 million in 1995. Systems integration is growing in popularity particularly among larger wholesalers since it is solution oriented, involving modification of proven applications rather than longer-term development projects.

Systems operations, a service mode in which a company has all its processing or a department's processing handled by a vendor, will be the second fastest growing mode of information service in wholesale distribution during the five-year forecast period, reaching \$215 million in 1995. Systems operations was recognized as a separate mode of service by INPUT in 1990. Before that, it was recognized as professional services and processing

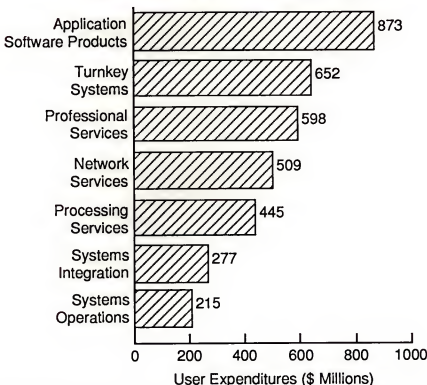
services facility management. Due to its growing use in wholesale distribution and other vertical industries, INPUT has recognized it as a separate mode.

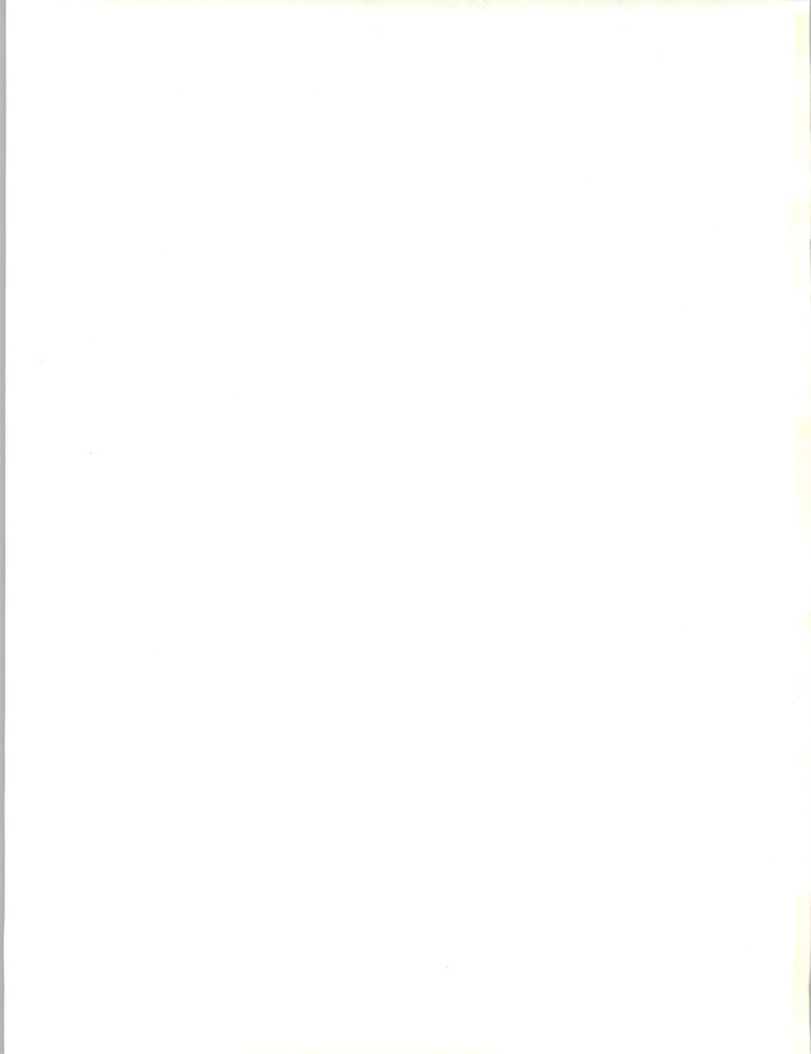
Application software products and turnkey systems will remain the largest service modes in 1995, as shown in Exhibit 3. Most of the vendors serving this industry fall into one of these two vendor groups.

SI and SO vendors, as well as, many of turnkey vendors tend to offer more comprehensive services to wholesalers, providing total solutions for clients' automation needs. One vendor provides the required application software products, customization, data base capabilities, EDI and network, and industry expertise. They also tend to be the fastest growing vendors in the industry. Several turnkey systems in this category offer network services.

Exhibit 3

### Wholesale Distribution User Expenditures Comparison by Delivery Mode, 1995





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Continuous-information advisory services, proprietary research/consulting, merger/acquisition assistance, and multiclient studies are provided to users and vendors of information systems and services (software, processing services, turnkey systems, systems integration, professional services, communications, and systems/software maintenance and support).

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