DIGITALIZATION TRENDS IN THE EQUIPMENT INDUSTRY

DIGITAL TRANSFORMATION SURVEY RESULTS

This survey was organized by Associated Equipment Distributors and sponsored by NAXT – Microsoft Dynamics 365 for Equipment Dealers.
The dawn of the *Digital Age* has changed the business arena and global economic landscape. Every company and enterprise across the broad spectrum of industries are affected. The *equipment industry* is no exception.

In order to have a more comprehensive understanding of the effect digital transformation has in the business landscape, in particular to the *equipment distribution* sector, XAPT Corporation recently conducted the Associated Equipment Distributors (AED) Survey. Researchers asked several questions to 133 AED members in relation to the changes happening within the construction industry because of digital transformation. The results are revealing of the real situation at hand.

There is no doubt that the advancements in digital technology are already altering the interaction between businesses and their customers. The question, therefore, is not “Are you affected?” but rather, “Are you prepared?”

Sadly, the massive changes that the *Digital Age* brought has swept away a lot of enterprises that were not able to ride the tides of the technological revolution. Companies that were existing for more than a century have been forced to close down because of the fierce competitions in the wider arena of global brands – competing for worldwide domination. It is no different for those who are in the Equipment distribution industry.

Indeed, there’s no other choice but to adapt to the changing demands of the consumer market. Having a CRM database is not enough. The software tools that were used before are now considered obsolete with the increased expectation for customer engagement and interaction. Having a website with quality information about a business is not enough. Customers want customized answers to their inquiries and they want it now.

For an *equipment dealer* to survive, the company must be able to ride the wave of digital transformation. In this report are the guidelines and tips that will help your dealership thrive in these challenging times.
Executive Chairman of Cisco Systems, John Chambers said, “At least 40% of all businesses will die in the next ten years… If they don’t figure out how to change their entire company to accommodate new technologies.” Chambers might have some bias coming from an IT and networking company, but his opinion has a lot of weight behind it.

In fact, Jim Barbers, Parts Manager for Gibson Machinery in Ohio echoed Chamber’s thoughts. He said, “It’s already happening. It’s going to happen more quickly, and the dealers that don’t embrace the change are going to be left behind.”

**DIGITAL TRANSFORMATION IN THE EQUIPMENT INDUSTRY**

It is evident that digital transformation is changing the world as we know it. For instance, the way people communicate and interact with each other and the way individuals conduct their lives has changed significantly in just a few years. Even more so, the global business landscape is massively affected. Things like delivering information to help people make informed decisions has changed. Most importantly, the way a company reaches out and engages with its customers have evolved.

In a recent AED survey conducted by XAPT Corporation to 133 respondents who work in the construction equipment industry, it was revealed that a majority of participants believed that digital transformation is already at hand. In addition, an overwhelming majority of the respondents were sure that the dawn of digital transformation will extremely revolutionize the industry.

Responding to the looming changes, a majority of the respondents in the industry have made the necessary preparation to take on digital initiatives. Major areas of concern include keeping employee engagement and customer loyalty. To keep up, equipment dealers plan to implement collaboration tools and methods to keep their employees engage while taking advantage of online tools to give a personalized customer experience.

These areas are indeed critical. For instance, customers today are now looking for more integrated services. When doing a transaction with an equipment dealer, they expect to experience a complete service from inquiry to customer support after they make a purchase. With these demands, intelligent processing of data is the key to success. An equipment dealer who is responding to digital transformation must be able to use the information generated by their tools and create an experience for their customers that is highly tailored and relevant.
In addition, wearables for augmented, mixed reality is changing field service. With augmented reality, an individual can experience a mixture of computer-generated images in the real world. Usually done by using wearables, it provides a more realistic experience of what could happen after the project is completed as opposed to seeing only the blueprints and plans. A couple of years from now, a simple phone call or personal meeting to explain things might not be enough. Clients will look for more advanced alternatives to have a more immersive experience during the project.

Author William Gibson once said, “The future is already here – it’s just not evenly distributed.” There’s no doubt that digital transformation is happening right now. While there are a few people who believe that it won’t be affecting the industry within five years, the reality is that its changing everything right now at a rapid rate. Pierre Nanterme, CEO of Accenture observed, “Digital is the main reason just over half of the companies on the Fortune 500 have disappeared since the year 2000.” Now, it begs the question: Is your dealership prepared for the challenges brought about by the digital transformation? If you’re not sure, then perhaps you still need to understand the challenges that your company is facing right now.

Do you think that digital transformation will transform your industry?

- 116 says it is happening or soon will
- 18 – not within 5 years

Digital Transformation Survey for Equipment Dealers, 2018
With change comes new challenges. That’s a fact of life. This is especially true when it comes to business and the economy. For instance, the change brought by the advancement of technology has propelled some companies – even individuals – to take large technological leaps. At the same time, there are also companies that have been forced to close down because they weren’t able to adapt to the changing times.

The challenges brought by the digital transformation are real. In fact, it could even be dangerous for those who decide not to adapt. On the other hand, it also offers tremendous opportunities to those who are prepared to cope. Here are some of the biggest challenges that your dealership has to face when it comes to digital transformation.

**WILL OEMS SELL EQUIPMENT DIRECTLY TO CUSTOMERS?**

Nokia is one perfect example of what it means to be complacent in the face of changing demands. Before the popularity and rise of other mobile phone brands, Nokia was the biggest and most dominant mobile-phone maker in the world. Now, its competitors such as Apple and other Android phone providers have put Nokia to the back burner.

Companies involved in equipment dealership are no different. Results from the survey, 85% of the respondents believe that new competitors with digital business models will enter the market. In addition, majority of them also believe that territory exclusivity is more vulnerable than ever due to the introduction of new technologies.

Other than new competitors that are more digitally coped, there’s also the impending competition brought by the growing possibility of OEMs selling directly to customers. Mace Gjerman, training manager of California-based Peterson Holding Company knows this is a legitimate fear among companies in the industry. She said, “The manufacturer-to-customer business model is always a concern as a dealer. You always have that thought that they’re getting all that information; they know exactly where the machine is (through the telematics); they know exactly who purchased it. There’s always that worry that they could go right behind your back.”

Gjerman also acknowledged the new reality regarding the fiercer competition in the industry. She said, “Clearly, that’s a fact of life. The customer can go somewhere else now pretty easily.” Indeed, if your dealership is not already taking the digital initiative, then there’s the great possibility that it will suffer the fate of Nokia.
THE NEED FOR UPDATED BUSINESS MODELS

In the survey, 90% of the respondents agreed that digital transformation will challenge the existing business model of their respective companies in the next few years. As the consumer market moves to a more technologically dependent paradigm, there is no other choice but to adapt. This situation will require massive alterations even to the most inner core of a dealer’s existence, which is its business model.

With the need for updated business models are the necessities of implementing new tools, systems and processes. In particular, equipment dealers must now invest to have more robust software system capabilities if they are to remain profitable in their operations. The truth is if another competitor can provide a more convenient and efficient experience, then customer loyalty is already at stake.

However, with the change of systems used in the business, there’s also the risk of employees who would not be able to catch up with technology. The lack of qualified workforce who can easily keep up with the new system has always been a challenge for companies adapting to the demands of digital transformation. There is also the thought that machine and computerized system is a mechanism that will reduce the personnel needed for the equipment dealer. Thus, it is difficult for those people to accept the change. The result? Increase in the employee’s attrition rates that cause leaks in the equipment dealer’s finances.

Digital transformation will challenge the existing business model of your company in the next few years.

- 120 agrees
- 14 disagrees

Digital Transformation Survey for Equipment Dealers, 2018
In a research conducted by the Capgemini Consulting, in partnership with MIT Sloan, they found out that “90% of CEOs believe the digital economy will impact their industry, but less than 15% are executing on a digital strategy.” If your dealership is keen to respond to the changing needs of the digital economy, then it is a must to implement an ERP/DMS in your business. Yet, a lot of major players in the equipment distribution industry see this as a major challenge.

In the survey, one of the major concerns in terms of ERP/DMS implementation is the sky-high cost needed to put the system in place. The respondents find it difficult to justify the amount of cost needed to implement an ERP/DMS in their dealership. This is a valid concern because a lot of equipment dealers today are facing issues with their profitability. They could not haphazardly invest and implement anything without due diligence and in-depth consideration because their company’s existence is at stake.

They are also concerns about the possibility that their and personnel are not yet ready for a major overhaul in the company’s systems of operations. Respondents are likewise wary of the resistance to change that their employees will exhibit that could further escalate to higher attrition rates. In addition, there are also some respondents who don’t see this as a priority as of the moment. While for those who are considering to implement, they said that they weren’t able to find a good-enough industry system. And still, there are respondents who consider ERP/DMS implementation to be way too risky. Thus, they are avoiding it at all cost.

With all these challenges that were brought by digital transformation, there should be an appropriate response from the affected equipment dealers. They should learn to adapt and make some substantial actions in order to keep moving with the tides of change.
Digital transformation is already here. How equipment dealers respond to the challenges it poses can make or break their companies. The threats to their existence are real, as is the opportunities for growth. Now, they must make a decision whether to move forward with the changing technological demands of the market or stay where they are and suffer the dire consequences.

There might already be a big chance that you are genuinely considering the implications that digital transformation brings to your company. You might also be thinking and devising ways how to respond appropriately.

**EMBRACE DIGITAL TRANSFORMATION**

The first thing that an equipment dealer must do to adapt the ideals of digital transformation in their company is to completely embrace it. In other words, they must fully accept the fact that it’s already here and that they need to act swiftly in response to the challenges that it brings. This acceptance of digital transformation must happen company-wide and involve all the internal stakeholders in the organization, beginning with the top leader and down to the lowest ranking employee.

In their book *Digital Transformation: A Model to Master Digital Disruption*, authors Dado Van Peteghem and Jo Caudron wrote, “Digital transformation is a journey for the entire company. It is no longer about marketing transformation, it’s about business transformation. [Companies] were entering a new phase where all internal stakeholders are involved.” Again, for an equipment dealer to profit from the opportunities presented by digital transformation, the whole organization must embrace it.

**ASSIGN A POINT PERSON TO DRIVE DIGITAL INITIATIVES**

Having the complete and company-wide acceptance of digital transformation is essential, but it is even more vital to delegate a specific person or people to drive the digital initiatives and channels. In the survey, 105 out of the 133 respondents say that they already have this kind of person in their dealership. This shows that the respondents understand the importance of having key personnel to focus on this particular aspect of their business.

The role of this person or people may vary from company to company, but one common goal must be is how the dealership can experience an overall advantage of using technology in the industry.
Utilize Data to Drive Business Development

One important characteristic of digital transformation is the proliferation and increase reliance of companies to generate data by their business transactions. In this regard, big data analytics come in handy. Big data analytics is defined as the “process of examining large and varied data sets to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information that can help organizations make more informed business decisions.”

In the survey, a large majority of respondents believe that their dealership effectively utilizes data to drive and develop their business. Thus, an equipment dealer who wants to compete globally must be able to utilize their big data to make better decisions regarding business development. Without it, the distributor will become stagnant while competitors that are better at analyzing this information will move forward. Author and consultant Geoffrey Moore commented, “Without big data analytics, companies are blind and deaf, wandering out onto the web like deer on a freeway.”

Main concerns regarding an ERP/DMS implementation

What are the main concerns at your company regarding an ERP/DMS implementation? (if applicable)

Listed in the order of agreement with the statement (on a scale from 1 to 5).

<table>
<thead>
<tr>
<th>Main concerns</th>
<th>Score</th>
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<tbody>
<tr>
<td>Customers are looking for more integrated services (end-to-end services)</td>
<td>4.95</td>
</tr>
<tr>
<td>Intelligent processing of data is already key to success</td>
<td>4.85</td>
</tr>
<tr>
<td>Lack of qualified workforce</td>
<td>4.59</td>
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<tr>
<td>To keep profitability more investment is necessary in software system capabilities</td>
<td>4.56</td>
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<tr>
<td>OEMs are increasingly interested in our IT systems’ capabilities</td>
<td>4.35</td>
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<tr>
<td>Territory exclusivity becoming vulnerable</td>
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</tbody>
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Digital Transformation Survey for Equipment Dealers, 2018
INTEGRATE BUSINESS PROCESSES WITH AN APPROPRIATE ERP/DMS

A business thrives on systems. Without systems, organization tends to be disordered and chaotic, which affects its overall performance. With that, it is critical for an equipment dealer to have lists and descriptions of their business processes. In the survey, more than 50% of the respondents affirmed that their organizations have done this kind of preparation. Indeed, to thrive in the digital transformation age, your dealership must work within well-defined systems and processes. This is vital especially if every transaction is being done virtually.

The importance of ERP/DMS becomes evident here. By investing in this sophisticated yet highly-customizable software, an equipment dealer can employ their business process and systems consistently and predictably. That’s why in the survey, more than half of the respondents were already using their own ERP/DMS for over 12 years. In addition, 48 out of 133 are considering making investments in the ERP/DMS that they are using. These respondents see the importance of having this kind of virtual system in place in order to adapt to the demands of digital transformation.

“The key to digital transformation is re-envisioning and driving change in how the company operates. That’s a management and people challenge, not just a technology one.”

Capgemini Consulting – MIT Sloan research

These four steps can tremendously help an organization to adapt to the new challenges brought by the digital transformation. It might be different for your company, but these four core actions are needed in order to take advantage of the opportunities presented by the advent of the digital age.

Indeed, change is needed. For employees and executives of equipment dealers, it might mean that they have to step out of their comfort zone, but that’s the entire essence of digital transformation. In Capgemini Consulting’s published report, they said “The key to digital transformation is re-envisioning and driving change in how the company operates. That’s a management and people challenge, not just a technology one.”
With the dawn of digital transformation, massive disruption resulted in the way people lead their lives. The business arena and global economic landscape is also affected. Different industries are evolving at a fast pace and companies within were forced to adapt. The construction equipment industry is no exception. Failure to heed the call to advance and develop could mean the end of a company – no matter how long it has been in the industry.

To have a better understanding of the effects of digital transformation in the construction equipment industry, XAPT Corporation conducted a survey with Associated Equipment Distributors (AED). Respondants of AED were asked several questions related to how their companies are responding to the demands brought by digital transformation. The survey results revealed a lot of insights and information.

The advancement in how people use and perceive technology brought some unique challenges to players in the industry. Major challenges include, but are not limited to, a widening arena of competition, new demand for companies to update their business models, and the necessity of implementing an ERP/DMS to match the expectations of the consumer market.

There are four major action plans for an equipment dealer to adapt and respond to these challenges of digital transformation. First, the internal stakeholders – from its top-most executive to the lowest ranking employee – must wholly embrace the ideals of digital transformation. Second, there must be a certain individual or group of individuals who must act as the driving force behind digital initiatives. Third, the equipment dealer must learn how to utilize data to move forward regarding the development of their business in every aspects. Last, as soon as possible, the equipment dealer must integrate their fully documented business processes into an appropriate ERP/DMS facility.

Doing these four things can help your dealership weather the challenges brought by the digital transformation. Embracing this challenge can propel your company forward to have a more thriving business that stands apart from your competitors.
As the leading global provider of specialized business services for equipment dealers, XAPT delivers sustainable value through consulting, software and IT implementation.

NAXT – Microsoft Dynamics 365 for Equipment Dealers is the flagship product of XAPT Corporation. NAXT delivers continuous improvements in Rental, Sales, Service and Finance that increases bottom line growth and improves efficiency within months.

Associated Equipment Distributors (AED) is an international trade association representing companies involved in the distribution, rental and support of equipment used in construction, mining, forestry, power generation, agriculture and industrial applications.

AED’s 460 distributor member companies account for more than $51 billion of annual sales revenue of construction equipment and related supplies and services in the U.S. and Canada.

www.aednet.org

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