

DIRECT STORE DELIVERY: GLOBAL INSIGHTS INTO CHALLENGES, STRATEGIC FOCUS AND SOLUTIONS



Table of Contents

3	Key Findings from the Research
4	Research Methodology
5	Summary of Research Statistics
7	A Challenging Market
10	DSD: An Organizational Focus
11	Driving Up Revenue and Driving Down Costs
13	DSD Technology: The Importance of Mobile Solutions
18	Re-Engineering DSD
20	Summary
21	Honeywell Solutions for DSD

Key Findings from the Research

EXECUTIVE SUMMARY

As the business landscape grows more complex, consumer goods suppliers that use Direct Store Delivery (DSD) are seeking ways to further boost operational efficiency, cut costs and increase revenue. Using the findings from a research survey conducted in late 2013 among senior executives around the world, this report explores how companies look to operate in this dynamic environment and exposes their strategic focus and perspectives in these challenging times.

This report provides insights and solutions to industry issues and highlights the respondents' views on their most significant challenges, their strategic focus, target areas for cost and revenue improvement, the systems they use on their DSD routes, newer technologies and the benefits of process re-engineering.

In short, this report demonstrates how companies can turn challenge into opportunity, and move towards improved efficiency, increased revenue and more proactive operations.

The market presents many challenges

The increasing complexity of the market in which consumer goods suppliers operate is creating numerous challenges for them. Notable is the lengthy number of challenges that are all seen as having a significant impact on operations. These challenges exist due to issues including increased competition, consumer/retailer price and product offering demands, strained relationships between suppliers and retailers, and being overwhelmed and not able to leverage "big data."



DSD is a strategic focus

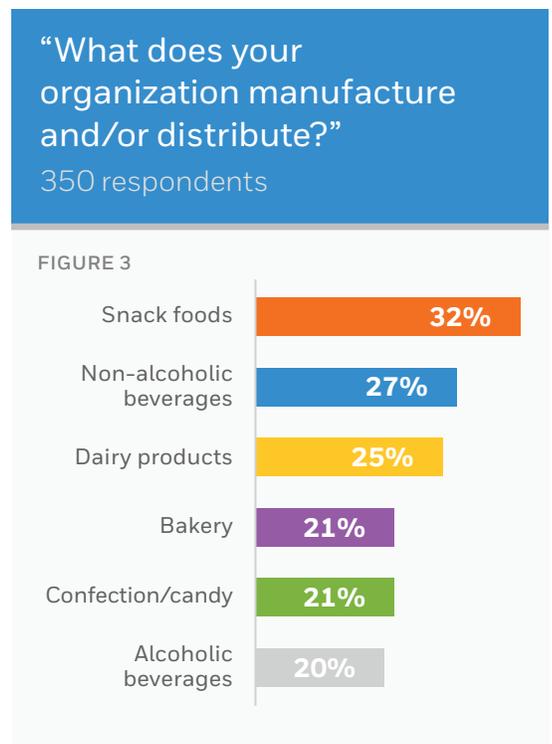
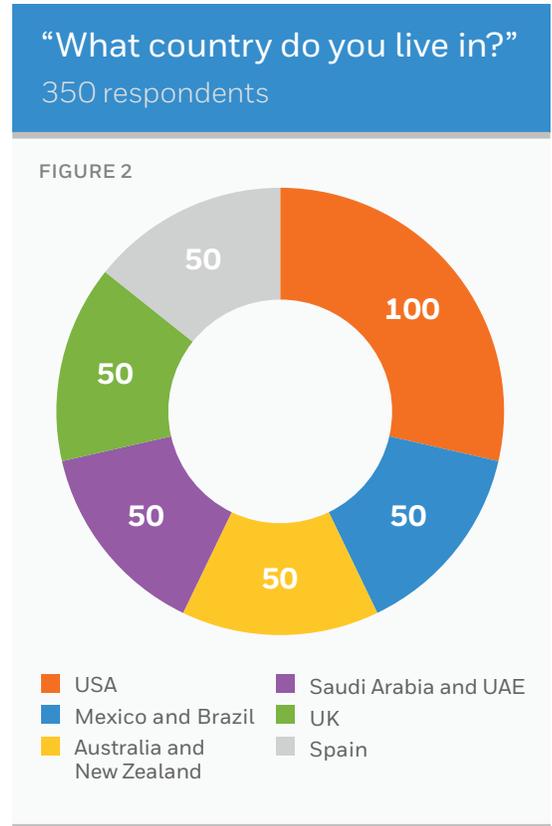
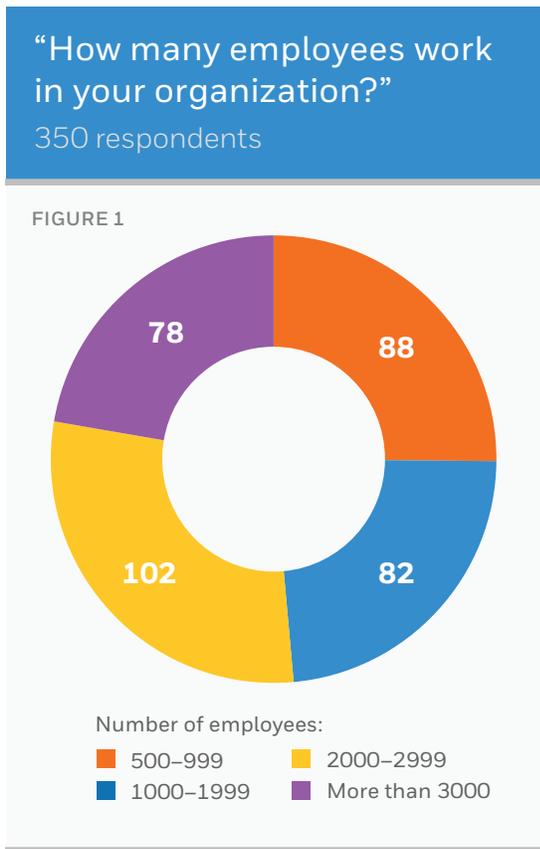
Direct Store Delivery is seen as increasing in revenue contribution and as a key component of companies' strategies moving forward. Operational efficiency, reducing costs and revenue generation are the top strategic priorities for the organizations surveyed.

Process re-engineering and technologies can deliver benefits

The majority of companies view their current DSD systems as not adequately providing the tools they need today or in the future. Specific target areas are identified that the respondents view to have the greatest opportunity for revenue improvement and dollar/time cost reductions. Technologies that are expected to provide the highest ROI are also highlighted. Process re-engineering has been done recently by a minority of companies but those that have gone through the effort have seen measurable benefits. Organizations foresee their DSD route systems increasing in life span, and many acknowledge the need to change the application software used on their DSD routes to improve performance and speed issues. Yet, they need more guidance and assistance on this change to move forward.

Research Methodology

The research sampled 350 senior decision makers in organizations of 500+ employees that currently use Direct Store Delivery within the USA, Mexico and Brazil, Australia and New Zealand, Saudi Arabia and UAE, the UK and Spain. All organizations surveyed use Direct Store Delivery, with an average of 1,576 DSD routes each. Those surveyed were C-level and directors responsible for finance, operations, sales, supply chain, transport and logistics, or IT. The most common products manufactured and/or distributed by the companies surveyed were: snack foods (32%), non-alcoholic beverages (27%), dairy products (25%) and bakery goods and confection (both 21%). The research was commissioned by Honeywell and carried out by independent research company Vanson Bourne in September and October 2013.



Summary of Research Statistics



Key Findings

- Overall business pressure is ramped up by a long list of many challenges¹, including increasing competition (57%), government regulations (51%) and finding and retaining good employees (50%).
- Looking at the retail supply/demand chain, retailer relations are considered a challenge by half (51%) of organizations, as is competition from private label/own-brand products (43%).
- Retailers are perceived to increase pressure in other ways too. The greatest pressure (59%) for organizations is the demand to lower prices. This, coupled with the fact that 57% of companies are being hit by increased costs, explains why many report the greatest impact on them is squeezed margins (51%).
- Nearly two-thirds (63%) of those surveyed agree that business is becoming more complicated and six in ten see DSD as a key component of their company strategy going forward.
- The top three strategic priorities identified are operational efficiency and productivity (75%), reducing operating costs (65%) and revenue generation (53%).

- 58% of respondents agree that the amount of data that they can now collect exceeds their capability to process and act upon it.

DSD Systems and Technologies

- About half of the companies surveyed (51%) are still using pen and paper on their DSD routes globally, with a high of 76% in Brazil and a low of 0% in the United Arab Emirates.
- DSD systems are kept for four years on average, with a third (35%) expecting this period to increase as a result of tight funding. Yet less than half (41%) think that their DSD sales reps have the tools that they need to do their jobs effectively and only about the same number (42%) are presently confident that the systems on their DSD routes are fit for their future needs.
- Looking at the various components of their DSD system, the majority (57%) are satisfied or very satisfied with their rugged mobile computers, while fewer than four in ten (38%) say the same about client application software.
- Organizations are considering changing the application software used on their DSD routes, yet just over a quarter (28%) are unsure when

1. Please note that the percentages featured in this report that refer to respondents agreeing with a particular trend or challenge are those who have answered either 5 (strongly agree) or 4 (tend to agree), and those disagreeing have responded with either 1 (strongly disagree) or 2 (tend to disagree).

because they regard the software as complex and integrated across the business, and an additional 17% will not switch their software because it is too challenging to change.

- There are a number of technologies that organizations use or plan to use for their employees on their DSD routes: eight in ten (82%) use or plan to use barcode scanning, 76% use or plan to use navigation systems and an additional seven in ten use or plan to use wide area wireless communications (mobile).
- Technologies the respondents expect to deliver the highest ROI are GPS (58%), wide area wireless radios (56%), barcode scanning (56%), tablet computers (54%) and warehouse/truck loading automation (52%).

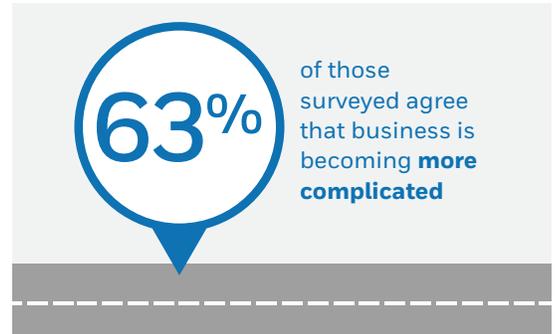
Re-Engineering Efforts

- Only a third (32%) of organizations have undergone a process re-engineering effort of their DSD operations within the past twelve months and another one-third have never undergone a re-engineering effort or it had been at least two years since one was carried out.
- Organizations that have undergone a re-engineering process have experienced, or expect to experience, an average tangible cost-saving of \$734,000 with an average high of about \$1.5 million in the U.S.

- The primary goal of those re-engineering efforts is to improve the same areas the companies set out as their strategic direction: 35% of respondents say operational efficiency and productivity are the primary goal of their reengineering efforts, whereas 19% each identified revenue generation, reducing operating costs or improving in-store execution (e.g., promotional displays built in stores on time) as their primary goal.
- Those that have undertaken a process re-engineering effort within the last 12 months are more likely to be looking to change their software on their DSD routes within the next 12 months (35%) than those that have not (10%).
- The DSD-related activities expected to offer a major opportunity for revenue improvement are suggested quantities provided during ordering (46%), history information available during selling (44%), access to product availability for future deliveries (43%) and the use of signs and displays (42%).
- The DSD workflow areas and expenses identified as top targets for cost reduction are selling (48%), delivery (46%), fuel/petrol costs (38%), merchandising (36%), delivery receiving/check-in (35%), payment (35%) and truck loading (34%).

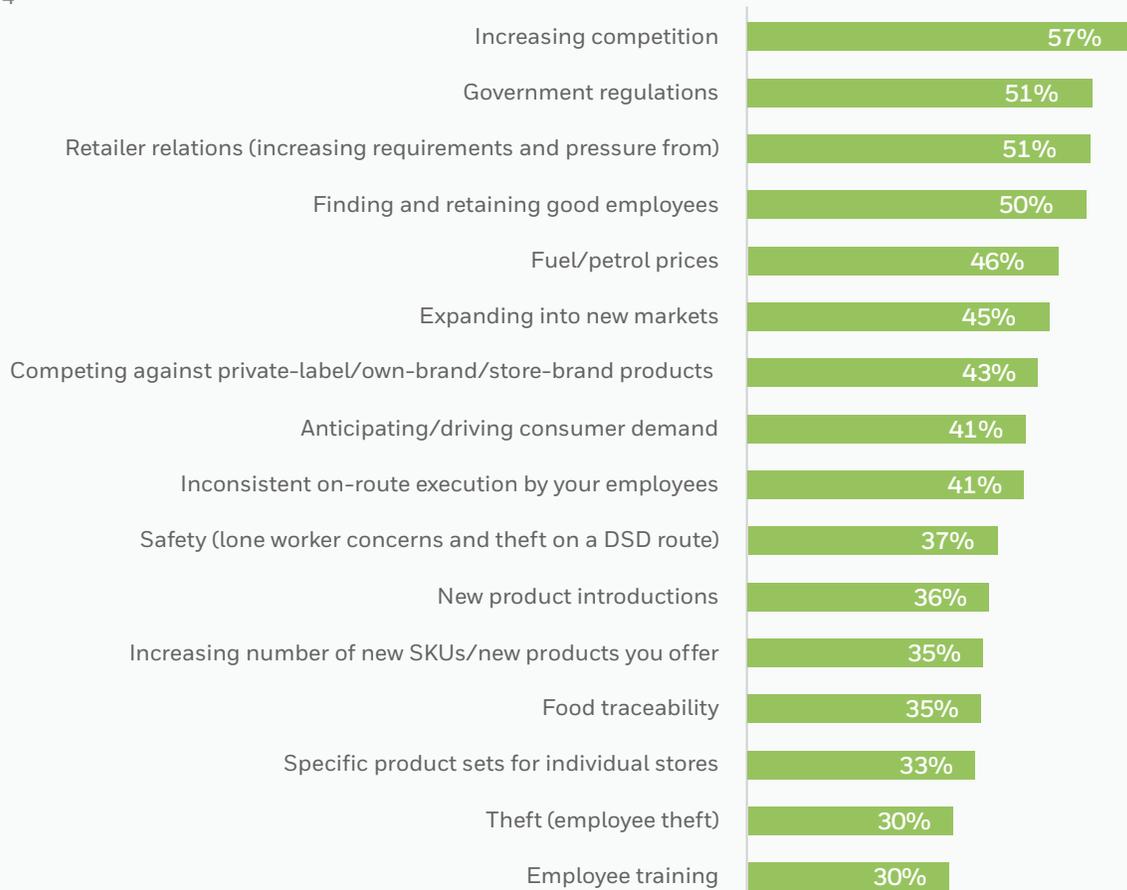
A Challenging Market

Organizations that use DSD are operating in an increasingly challenging environment, according to the survey commissioned by Honeywell. The notion that business is becoming more complicated is acknowledged worldwide, with almost two-thirds (63%) of global executives surveyed affirming this trajectory. The competitive nature of today's environment suggests that companies need to think strategically about how they increase, and prevent losing, their revenue, margins and market share.



Respondents **identified these factors as significant challenges** when asked “How challenging/troubling are the following for your business right now?”
350 respondents

FIGURE 4





Striking in the responses from the companies is the long list of issues that are all designated as currently being a significant challenge or troubling. The most significant challenges identified include: increasing competition (57%), retailer relations (51%), government regulations (51%) and finding and retaining good employees (50%) (Figure 4).

As the market is becoming more volatile, pressures are arising not only from an external regulatory and relationship standpoint, but from an internal point of view. Consequently, organizations need to optimize their strategy from both perspectives to future-proof their business in an increasingly complicated climate.

This is particularly important when looking at the relationship between retailer and supplier, which has been highlighted as somewhat divisive and calls for improved relations between the two parties. Although almost half of the companies (46%) believe that cooperation and working relations with their retailers have improved (Figure 5), just over half (51%) continue to see retailer relations as a significant challenge to their business (Figure 4).

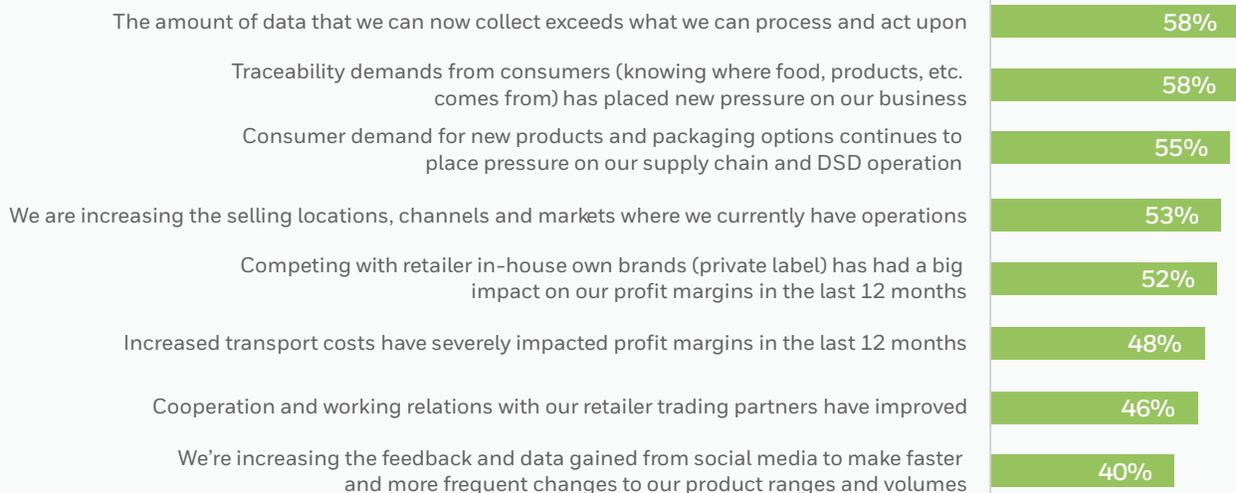
The most significant drivers of this conflict are revenue/margin pressure, which is being initially instigated by consumer demands. With consumer goods suppliers facing increased costs (57%) and squeezed margins (51%), retailers are concurrently demanding lower prices from their suppliers (59%) along with a wider product range (35%) (Figure 6).

To add to this already strained relationship, suppliers are facing growing pressure from retailers' own-brand/private-label products. Ultimately, this means that 52% of suppliers globally, rising to 68% in the UK, are experiencing lower margins and potentially

Answered agree or strongly agree to “Please indicate how strongly you agree or disagree with the following statements relating to **industry trends**.”

350 respondents

FIGURE 5



direct competition from the companies that are also their customers (Figure 5). This of course does not do much to alleviate tension between the two – particularly as over half see competing with retailers' own brands as having a big impact on their profit margins.

Moving forward suppliers and retailers need to work more collaboratively to ensure both parties are offering product selections that maximize their revenues and drive efficiencies, rather than placing increasing and conflicting pressure upon each other to cut costs and margins.

On top of these environmental challenges, the increasing volumes of data available to businesses – and how to manage and leverage them – are growing as a front-of-mind issue for those companies surveyed. This flood of information brings a danger that organizations are unable to process, let alone analyze

and beneficially act upon, the data they retrieve. Indeed, almost three-fifths (58%) of respondents agree that the amount of data that they can now collect exceeds their capability to process and act upon it (Figure 5). This is concerning, as many companies believe that analyzing and leveraging these volumes of data can lead to higher sales and efficiencies.

Worryingly, this data swell is increased by a growing consumer traceability demand, which 58% believe places new pressure on their businesses. Increasingly, organizations are expected to share more supply chain data with consumers. This demand for traceability is particularly important in Mexico and Brazil, where over 80% of respondents identified food traceability as a significant challenge.

Answers that ranked first, second and third for the questions “From the following options, please rank the **top five areas of pressure** your organization receives **from retailers** in order of importance.”

350 respondents

FIGURE 6



DSD: An Organizational Focus

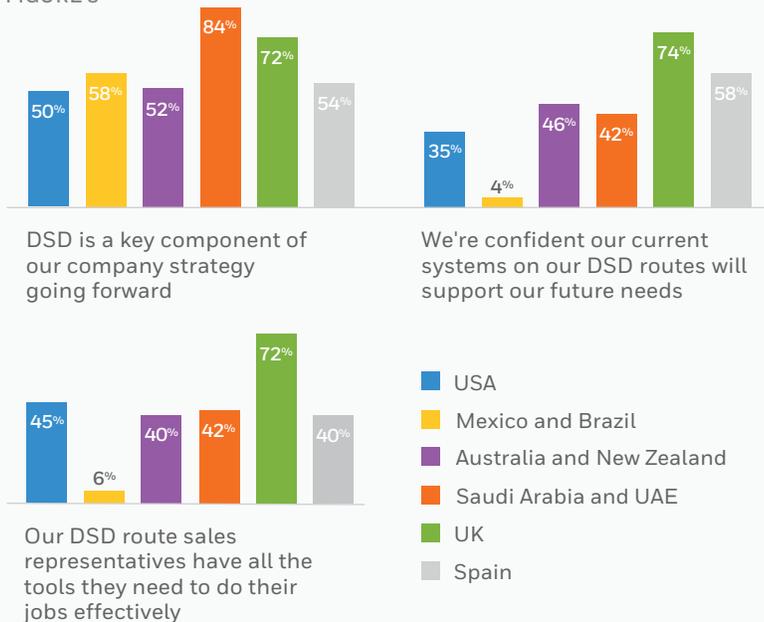
In order to succeed in this dynamic environment, an increasing number of organizations are focusing on DSD as a strategic opportunity. In fact, DSD is expected to grow in importance over the coming year, both as a key part of strategy and revenue generation. The survey revealed that within the next six to twelve months, over two-thirds (69%) of organizations expect the percentage of revenues coming from DSD to increase, while only 11% see it decreasing (Figure 7). This is particularly the case for UK organizations, where 96% expect DSD-driven revenue to rise.

The growing significance of DSD is not only being seen in the short-term: 62% of surveyed organizations view DSD as key to their company's future strategy (Figure 8).



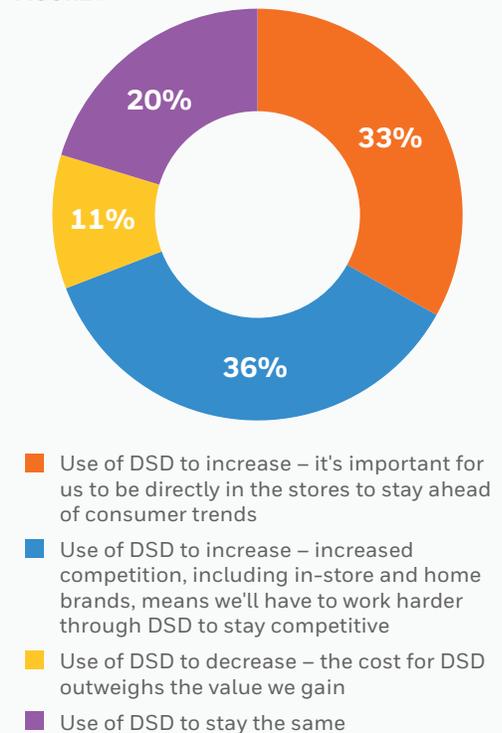
Answered agree or strongly agree for “Please indicate how strongly you agree or disagree with the following statements about your DSD operation.”
350 respondents

FIGURE 8



“Which of the below options best describes whether you expect the percentage of your revenue from DSD to increase, decrease or stay the same within the next 6–12 months?”
350 respondents

FIGURE 7



Driving Up Revenue and Driving Down Costs

Answers that ranked first, second and third for the question “Please rank the following factors in order of **strategic importance** when considering the direction you give as a manager and/or receive from your management team.”

350 respondents

FIGURE 9



In a tough economic environment, efficiencies, cost savings and revenue generation increases become even more critical for business success. So it is understandable that companies are keeping fiscal matters a top concern, with the highest three strategic priorities revealed as: operational efficiency and productivity (75%), reducing operating costs (65%) and revenue generation (53%) (Figure 9).

There are opportunities to increase revenue through changes to DSD operations, according to senior executives. The DSD-related activities expected to offer a major opportunity for revenue improvement are: suggested quantities provided during ordering (46%), history information available during selling (44%), access to product availability for future deliveries (43%) and the use of signs and displays (42%).

Clearly, those surveyed believe that better tools that ensure best practices, and give DSD sales reps more direction and meaningful data access, will drive revenue improvements. As well as revenue generation opportunities, there are many areas in which those surveyed feel there is opportunity for cost improvement. The top areas most frequently cited, along with their average expected annual savings opportunity, are fuel/petrol costs (\$888,545), merchandizing (\$725,236), delivery receiving/check-in (\$686,188), delivery (\$681,512), payment (\$664,917), selling (\$652,367) and truck loading (\$513,178) (Figure 10).

The pressure to cut costs is intricately linked with time-saving across organizations' DSD activity. Respondents indicated that over 30 minutes per day per route could be saved

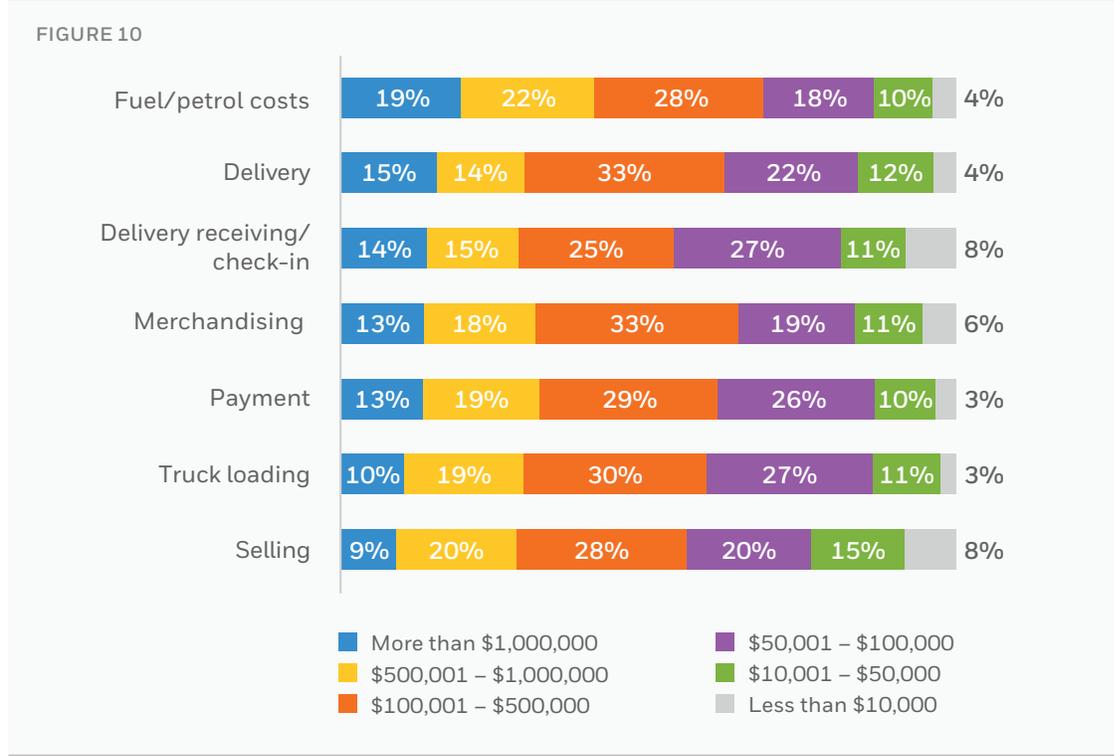
in each of the following areas: delivery, merchandising, truck loading and delivery check-in – which of course would have significant cost-cutting ramifications.

Organizations’ strategic focus on DSD as an opportunity to improve efficiency, reduce costs and increase revenue generation is brought about by the issues they are facing. For example, 55% admit that consumer demand for new products and packaging options continues to put pressure on their supply chain and DSD operations. Transportation costs present another potential opportunity for cost-savings. Nearly half (49%) of companies cite increased transportation costs as a significant challenge to their profit margins. Similarly, fuel expenditure (38%) is one of the top-five cost

improvement areas for these companies: The average expected savings for companies with 500–999 employees was over \$1 million.

A further additional expenditure organizations revealed is that of replacing delivery containers, which cost almost an average of \$500,000 per year to replace. (Although it is worth noting that only 9% see this as an area to achieve cost savings in the future.) It is evident that making processes more efficient and reducing fuel use and other extra transportation costs will be a key focus for organizations seeking to improve their bottom line.

“What could be the *annual savings* for each area?”
 Asked to all respondents, but showing only the options selected as their top five cost improvement opportunities
 350 respondents



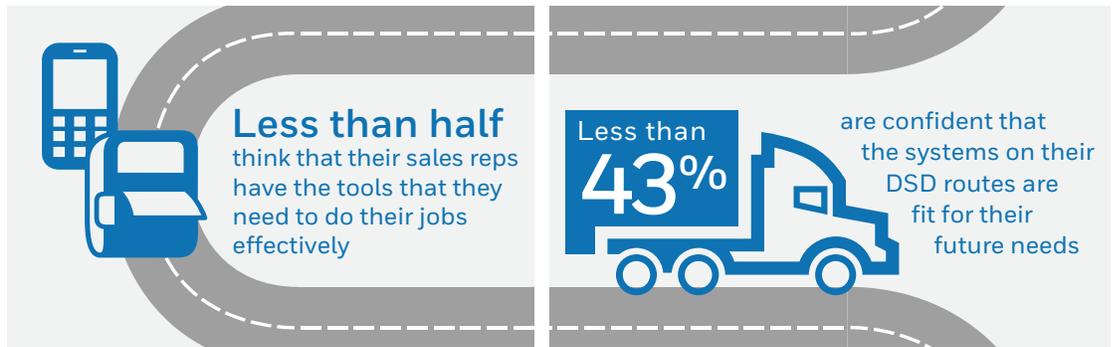
DSD Technology: The Importance of Mobile Solutions

As consumer goods suppliers using DSD continue to experience increased competition, lower pricing demands and overall, a more complicated market, DSD systems and technology will form a crucial part of their strategy and solution.

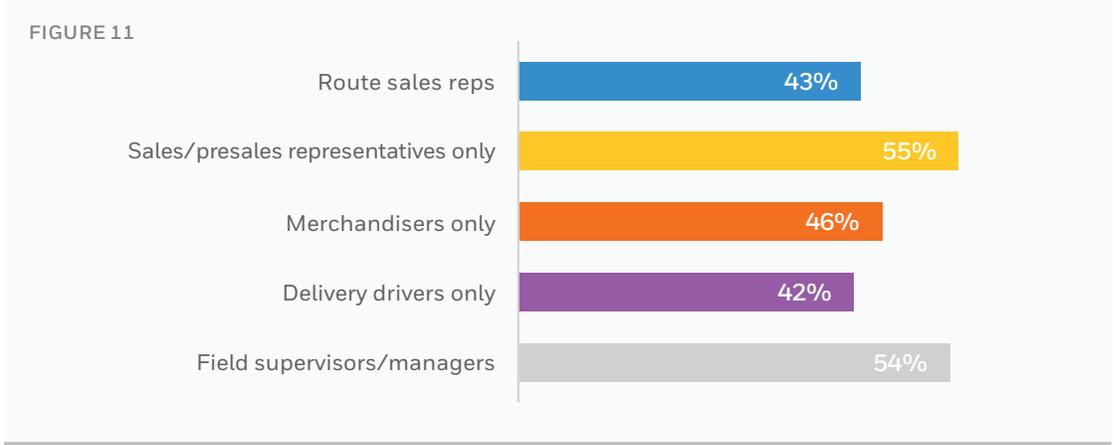
Respondents recognize the need and benefit from providing their employees with better tools. Only 41% of those surveyed are confident their route sales reps have the tools they need and only about the same number (42%) are presently confident that the systems on their

DSD routes are fit for their future needs (falling to a mere 4% in Mexico and Brazil) (Figure 8).

It is not surprising then that 59% of respondents think it is important for them to have a strong partnership with their DSD systems providers. Consumer goods suppliers recognize that the systems provided by these companies are key tools for their route personnel and directly impact their revenue, expenses, customer satisfaction and in-store execution both today and in the future. Respondents recognize the need to invest more heavily in



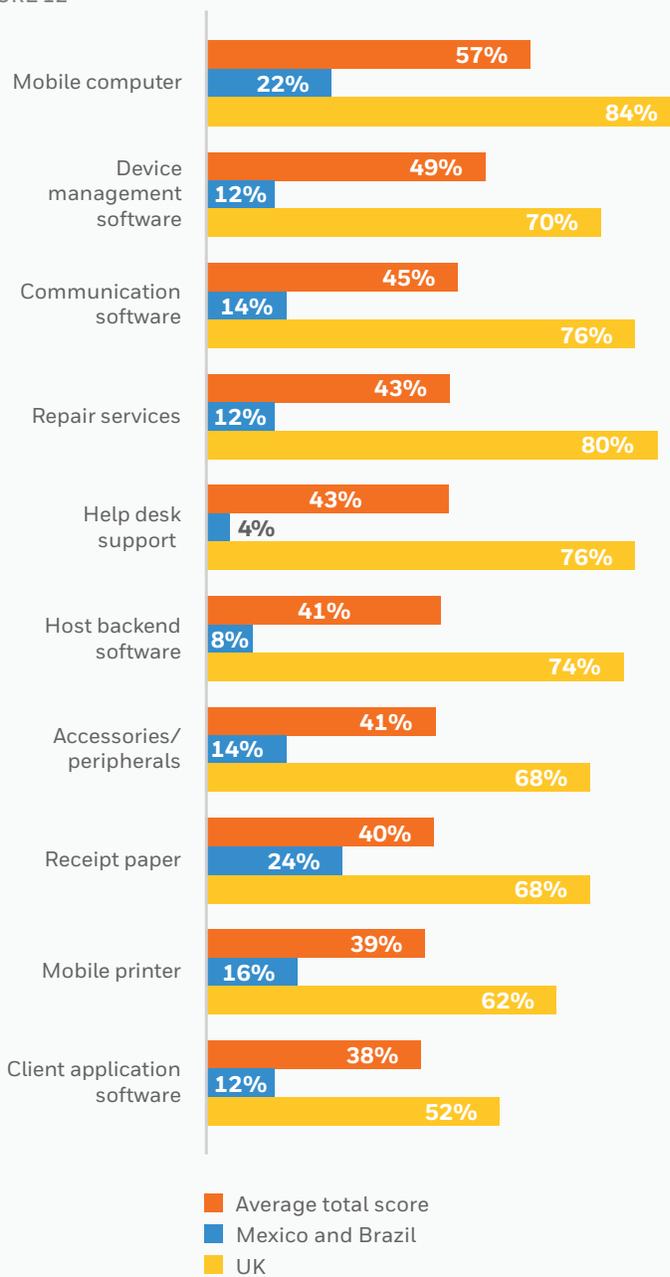
“What percentage of the employees in your organization currently use automated systems for their work?”
 asked only to those that have the specific roles within their DSD operation (326 respondents)



Answered agree or strongly agree for
“How satisfied are you with the following components of your DSD system?”

350 respondents

FIGURE 12



their DSD operations and achieve greater visibility, with just half certain that they have an accurate view of the performance on their DSD route operations at all times.

Notably, a significant number of DSD route employees have not been provided with automated systems. Globally, presales reps and supervisors/managers are the roles with the highest rates of automation – the majority of merchandisers and delivery drivers are not currently using automated systems (Figure 11).

Currently, most DSD route systems are kept for four years by organizations, although 35% of companies surveyed expect this to increase in the future as a result of tight funding. In the UK, this forecasted increase is anticipated by 70% of companies.

The overall demand for automation in DSD routes is accompanied by a demand for improved system components too. The highest satisfaction rating for an individual component of a DSD system is for rugged mobile computers at 57%, with the lowest rating given to client application software (38%) (Figure 12). Interestingly, companies in Mexico and Brazil are much less satisfied with the components of their DSD systems and the UK is notably higher than average.

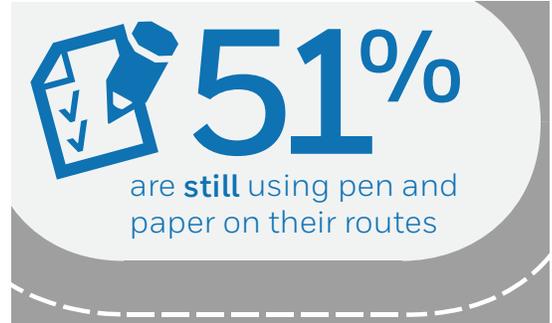
Focusing on current and forecasted technology adoption, the technologies with the highest current and planned use on DSD routes are barcode scanning (81%), navigation systems (76%), wide area wireless radios (74%), RFID (69%) and vehicle telematics (67%). These technologies are all seen as providing the ability to positively impact DSD route operations.

Similarly, respondents expect that several technologies will offer the most promising return on investment. Those forecast to deliver the highest ROI are GPS (58%), wide area wireless radios (56%), barcode scanning (56%), tablet computers (54%) and warehouse/truck loading automation (52%) (Figure 13).

Although the benefits from automating employees or adopting new technologies are generally recognized, in some companies these have not been completed or are slow to happen. For instance, just over half (51%) of respondents indicated that at present the use of pen and paper processes remains in at least part of their DSD operations. Clearly, there is some way to go to close the gap between current and desired technology deployments.

Considering the increasing complexity and fluidity of the market, and companies' desire to

stay ahead of their competition, the demand for more agile and impactful application software solutions is understandable. While 45% of



Rated a “4, promising” or “5, most promising” when asked, “Which of the following technologies do you believe offer your organization the **most promising return on investment** for your DSD operations?”

350 respondents

FIGURE 13



organizations are considering changing the application software used on their DSD routes, just over a quarter (28%) are unsure when to do so, regarding the software as complex and integrated across the business. And an additional 17% said they will not switch their software because it is too challenging to change. In the organizations that do foresee a

change of application software, in most cases it is due to performance and speed issues (62%), not running on new platforms (37%), older appearance and operation (35%), not supporting business needs (28%) and not working well with other corporate systems (26%). Only 7% of respondents identified difficulty dealing with their current software provider.

Which **delivery methods** are you most likely to support willingly?” and “Which delivery methods do you expect usage to increase and decrease?”

350 respondents – except DEX/UCS, which was shown to USA respondents only (100 respondents)

FIGURE 14	Methods that are supported willingly	The use of the method is expected to increase	The use of the method is expected to decrease
Preorders generated by retailers	55%	40%	22%
Electronic data interchange (EDI)	52%	48%	12%
Advance shipping notices (ASNs)	46%	43%	24%
RFID	42%	49%	11%
Pay on scan/scan-based trading/consignment	38%	37%	24%
NEX/UCS	30%	42%	13%
DEX/UCS	26%	23%	11%

“Which of the following payment methods are used for **collection** on your DSD routes?”

350 respondents – displayed with results for

“What is your **desired future trend** for each?”

only shown to respondents who use the payment method (4 to 254 respondents)

FIGURE 15	Payment method currently in use	If the method is being used, is the use expected to increase	If the method is being used, is the use expected to decrease
Direct bill/payment (no collection on routes)	73%	39%	20%
Cash collected on routes	33%	31%	48%
Checks collected on routes	29%	19%	61%
Money orders collected on routes	20%	26%	54%
Credit cards on routes	41%	60%	19%
Debit cards on routes	32%	58%	12%
Smart cards/chip & PIN on routes	17%	83%	3%
Contactless payment cards on routes	11%	66%	13%

Of the delivery methods used with retailers, the methods supported the most willingly are preorders generated by retailers (55%), Electronic Data Interchange (EDI) (52%) and Advance Shipping Notices (ASNs) (46%). The methods with the highest expected usage increase are RFID (49%), EDI (48%) and ASNs (43%) (Figure 14). The majority of companies use direct payment with retailers when possible (73% with a desired increase of 39%). There is intent to use payment cards (smart, credit, contactless) to replace the collection of cash, checks and money orders in the future and this trend is being

driven by the success of those organizations who have already adopted these methods. For example, of those using credit cards for payment on route, 60% are looking to increase their use, and of the respondents that commented on their desired future trend for smart cards/ Chip and PIN on route, 83% plan to increase their usage (Figure 15). Certainly, this shift toward mobile payment needs to be met with reviews of current processes and components.

Re-Engineering DSD

Technology continues to be viewed as a solution to the challenging market; however, there is a palpable reluctance to replace technology and review processes.

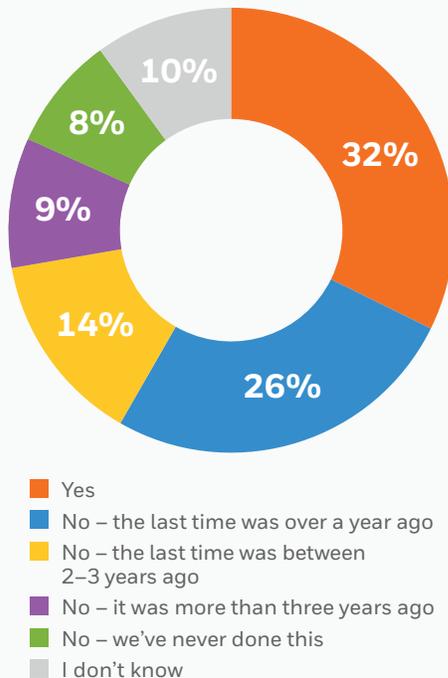
Even though almost half of organizations are considering changing the application software used on their DSD routes, under a third (32%) of organizations have undergone a process re-engineering effort within the past 12 months. Additionally, another one-third of companies have never carried out a re-engineering effort or it had been at least two years since one was attempted

(Figure 16). One in five organizations (22%) in Mexico and Brazil have never undergone re-engineering of their DSD operations.

This is despite the fact that re-engineering could help solve software performance and speed issues, and other challenges facing companies. Indeed, the primary goal of re-engineering efforts is to improve the areas organizations set out as their strategic direction, with operational efficiency and productivity the primary goal of 35% of respondents, and 19% each identifying their top goal as revenue generation, reducing operating costs or improving in-store execution (Figure 17).

“Has your organization undergone a process re-engineering effort of your DSD operations over the past twelve months?”
350 respondents

FIGURE 16



“What was the primary goal of the DSD process re-engineering effort?”
asked only to those that have undergone a process re-engineering effort (113 respondents)

FIGURE 17



Organizations that have undergone a **re-engineering process** have experienced, or expect to experience, an average tangible cost-saving of \$734,000 with an average high of about

\$1.5 Million
in the U.S.

Organizations that have undergone a re-engineering process have experienced, or expect to experience, an average tangible cost-saving of \$734,000 with an average high of about \$1.5 million in the U.S. Approximately 20% of all respondents expect to enjoy at least \$1 million in tangible cost savings from a process re-engineering initiative and about 20% of companies with 3,000 or more employees would expect to receive at least \$3 million.

Re-engineering DSD operations is likely to become an increasingly important strategic tool for organizations as they seek to find practical solutions to drive down costs and improve efficiency in the current market.

Summary



In the respondents' view, the increasing complexity of the consumer goods market continues to create a lengthy roster of significant challenges, with no end in sight.

Direct Store Delivery is seen as increasing in revenue contribution and as a key component of companies' strategies moving forward. Operational efficiency, reducing costs and revenue generation are the top strategic priorities for the organizations surveyed.

The majority of companies view their current DSD systems as not adequately providing the tools they need, today or in the future. There is hope on the horizon, however. Specific target areas are identified that are expected to have the greatest opportunity for increasing revenue and reducing costs.

If organizations truly want to enjoy success in the future, they should look to technology and the measurable improvements that can be brought about through re-engineering their DSD operations. Using these tools, organizations can

ensure that they increase revenue and improve efficiency, despite manifold challenges.

Honeywell is well recognized within the industry for a commitment of more than three decades to providing purpose-built solutions for consumer goods supplier operations. Honeywell's solutions contain category-leading components including rugged mobile computers, mobile and fixed printers, Vocollect™ voice solutions, flexible docking systems, asset management RFID systems, software components and services.

Honeywell and its partners are committed to working closely with companies in the consumer goods industry to provide solutions that allow them to address the growing complexity and operational challenges out on DSD routes, and in manufacturing and distribution facilities, and to provide expert assistance in re-engineering DSD processes.

Visit www.honeywellaidc.com for more information about our solutions.

Honeywell Solutions for DSD



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