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AB GROUP
AN UNQUESTIONABLE LEADER ON THE DISTRIBUTION MARKET

2020 was a good year for the IT industry in a broad sense. It was no different for the Wrocław-based distributor, AB S.A. The company has broken a number of records, growing rapidly in many areas. Andrzej Przybyło, President of the Management Board of the AB Group and Zbigniew Mądry, Member of the Management Board, COO of the AB Group speak about the record year of the AB Group with Krzysztof Bogacki, Deputy Editor-in-Chief.

What was the past year 2020 like for the AB Group?

ZM: It certainly was a very interesting year. Demand recovered at the end of March, the second quarter was already pointing in the right direction, the third quarter was already a market bright spot and in the fourth quarter demand accelerated further. From the industry perspective, 2020 as a whole was a phenomenal year, especially in Poland. Throughout the year it was the Polish distribution market that was the fastest growing in Europe, and we are talking about a really impressive result, because it was +30%. The Czech market was the second market in Europe in that respect which we are also very pleased about due to our significant operational presence there. There, however, the growth was significantly lower: +15%.

We are particularly pleased that we have been increasing our share, growing faster than the market itself and have strengthened our position as number one in the CEE region. This is a direct result of our listening to the needs of our customers and our long-term thinking on development. We value loyalty and individual approach to our customers, for whom we provide the broadest product portfolio and multi-sector offer (IT, consumer electronics, household appliances). We operate on the basis of the most modern transaction platform in the region, focused on e-commerce, and we also use modern automation solutions in logistics, adapted to our specificity. We take care to transfer knowledge about products and systems. We also reach all sales channels (e-tail, retail, SMB, enterprise, telco). All this makes resellers rate AB as the best partner to do business with. This results in numerous awards, but above all it motivates us to set increasingly ambitious goals for ourselves.

By the way, I can share an observation from the first quarter. If even we, a technology company, had to equip ourselves, what about other organisations? That confirmed the optimistic market forecasts. The next thing is, of course, to invest in cyber security, because operating remotely, it is worth gain more technological support in the area. All the more so as security is becoming crucial for all companies - we need to ensure business continuity and maximum efficiency of all operations. The vast majority of transactions take place in what can be described as a ‚here and now' manner, so that if a purchase is not made at a particular time, it will not be made at all. Design stuff can wait, but runrate sales cannot. The growing importance of such transactions is in fact a visible trend. Customers tend not to build their shelf and use the distributor's stock, ordering at the last moment to avoid freezing cash.

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> **Andrzej Przybyło**
> President of the Management Board of the AB Group

And how was the past year in terms of organisation? COVID affected all of us ...

ZM: On the operational side, it was certainly a challenging year. We are proud of how our company dealt with the challenges. At the beginning of the pandemic, we switched almost 400 people to remote working in just a few days, despite working in an integrated system. Our IT department is definitely to be applauded. Most importantly, however, remote working has proven to be neutral and, in places, even positive for operational efficiency.

People do not waste time commuting, for example. Of course, as restrictions have been loosened, we have allowed some staff to work from the office, as not everyone has the right conditions at home. We have, however, still maintained the ban on outsiders entering the company. We also maintain a very precautionary system of work in the distribution centres, applying a strict sanitary regime, taking care of the people in logistics. After all, logistics cannot stop operating and it cannot work remotely. The provision of IT hardware and software today is, moreover, a critical issue for the whole economy. So far, we can commend the discipline of our staff, as there was no real threat on the part of COVID-19 to our company.

It is interesting what you said at the beginning about the growth of the Polish market. Why such a strong growth of the IT hardware market in our country?

AP: There are several factors, of course, but they do combine. In 2019, per capita spending on IT in Poland was USD 107 and we were at the bottom of the EU ranking. The EU average was USD 187. The second thing is the infrastructure that we had in Poland. The concept of a computerised company used to mean that there were a few computers and printers in a company - that was the initial state. Staff and school students were not well equipped with computers, smartphones or cameras. And it was under those conditions that the pandemic emerged that forced remote action. Hence there were large increases in some categories - there was and is still a lot of catching up to do.

ZM: Across Europe, the IT market has grown but there are regional differences. In Western Europe, growth was built on volume goods, while sales of value/enterprise goods fell. Here Poland is a „green island" because both categories grew in our country. We recorded as a country about a 7% growth in the enterprise market but, interestingly, not on the infrastructure side but on the security side. Companies have understood that IT spending is important. Apart from food and health spending, IT is the third strategic spending area. To some extent, this state of affairs will remain after the pandemic has ended - we still have a lot of catching up to do in Poland. Another indicator of the changes occurring at an accelerated pace is the popularisation of online shopping. In the 2018 research we were again closing the EU list in that respect, while in 2020 we made a huge leap of 35% and the value of the e-commerce market including services jumped to PLN 100 billion. Poles have already learned to buy online and e-commerce will continue to grow dynamically.

AP: There are digital transformation indicators that place Poland very high in 2020. Companies have simply realised how much catching up there is. Besides, we had good macroeconomic conditions - we did better than most economies in 2019 and 2020.

The state of digital transformation is regularly examined by Dell. Results published at the end of last year indicated that we beat the European average in terms of willingness to digitise. That is a major qualitative change. In 2020, Poles already knew that digitalisation was a must.

We are talking mainly about companies - and how is the public sector reacting to the current situation? Does AB S.A. see an increased interest from precisely those institutions during the pandemic?

ZM: In many places, understandably, investment has been frozen because other needs have arisen. Where it was necessary, however, the government did not skimp money. That can be seen, for example, in the programmes for education. As I said earlier - the enterprise market in Poland has grown, and without the government factor that would not have been possible. In many other countries, especially developed Western European countries, the public sector did not require large investments in IT because the starting point at the time of the pandemic was different, much better than in Poland.

However, despite government action, the statistics are implacable - 25% of school students in Poland (as many as 1 million children and young people) do not have access to their own computer. That is a situation that is particularly difficult when learning remotely. At the same time, it will drive parts of the industry in future periods - buying more computers for home learning has become a priority for many households.

A major threat to the existence of the IT industry is the proposed reprographic levy, more widely known as the ‚smartphone tax'. Is this project being consulted with companies in the industry, for example AB?

AP: No, nobody is consulting the industry on the project. Instead, the public space is full of populism and misrepresentation. It is known that the reprographic levy is paid by the importer. Meanwhile, we see how ZAiKS - the private entity collecting the levy - consciously builds a narrative that here the money will be collected from „rich foreign producers". The Minister of Culture was also misled who said that the new levy would not increase prices. And the truth is that companies like ours will pay the new levy where the level of profitability on the volume products that they want to levy is often less than 0.5%. After all, it is impossible to find 6% of that without raising prices. We are saying that as I know about such a huge scale of charges, about a total of more than a billion zlotys a year. Let us also note that the 6% assumed in the bill on the gross amount already means 7% on the net level. It is like raising VAT on the items most needed in a pandemic from 23% to 30%. This is a pure aberration, and there is no debate over the bad idea. Why, while Germany has temporarily reduced VAT from 19% to 16%, do we in Poland want to increase the burden? And it is not just smartphones, but also laptops, desktop com-

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puters or even tablets and smart TVs. Regardless of its innovation, its role in digital transformation, the IT industry is appreciated worldwide for its absolutely crucial role in the fight against the pandemic. Remote working, remote learning, remote shopping, remote administrative business, monitoring and anti-covid applications, telemedicine - you cannot do it without the right equipment.

Meanwhile, the opposite is being prepared in Poland. Instead of facilitating access to equipment, a blow is being planned against the industry and, indirectly, against users.

What outrages us most, however, is the fact that the government side raises the wrong arguments of ZAiKS without checking them at all. We value the seriousness of public bodies and therefore try to straighten things out. When ministers say publicly that prices in Poland are higher than in Germany, I wonder where those figures come from. After all, Poland is the cheapest country in the EU when it comes to IT equipment. Even Eurostat figures say so. According to the figures, our prices are 91.7% of the European average. Meanwhile, the message from many mouths is that we, as a distribution chain - from manufacturers to distributors to resellers - are cheating customers, making exorbitant profits and inflating prices. And yet prices in Poland are lower than in Germany, despite - I would remind you - lower VAT with our neighbours. Unfortunately, there has been no consultation with us who are close to the market and can support the legislation in such a way that it is beneficial to Polish consumers and Polish business, and thus also to the central budget which collects taxes. We even heard from the Deputy Minister that producers have a 60% margin, and the source of this shocking information was said to be an obscure blog on the Internet. I will not even comment on this any more.

We are talking about the intention to raise prices in spite of government announcements concerning digitisation, in spite of persuading even senior citizens to use smartphone applications or promoting remote working, remote visits to the doctor, remote handling of official matters. Raising the prices of the devices needed for those purposes will be a step backwards, especially given the limited budgets of Poles. This is confirmed by the data and conclusions of the Consumers Federation, published in its report on digital exclusion in the COVID era. It is clear that the price of electronic devices is one of the main barriers for Poles, and digital exclusion is on a massive scale - nearly 5 million Poles still do not use the Internet or computers at all, putting us at the tail end of the EU. Vulnerable groups - the elderly, the disabled, the poorest - are the most affected and most at risk of aggravating exclusion, but we are also talking about schoolchildren, one in four of whom still does not own a computer.

The levy will affect us all in the industry, from the small shop to the large chains, importers, distributors and vendors. Everyone will be under great price pressure, caused on the one hand by customers and on the other by unfair competitors who do not pay the new levy and will be able to offer lower prices at higher margins. There is also the issue that this new levy will favour foreign e-shops at the expense of Polish retailers. Moreover, EU rules require that the reprographic levy be paid only by consumers and not by businesses (invoiced purchases). With us, everyone has to pay, which puts the country at risk of paying compensation. What is all this for? Unfair conditions of competition will be created and the tax system will lose integrity. Unfortunately, we see that the industry is not always aware of what is hanging over us. The threat is clearly not seen by all those who will be affected by it. The imposition of any levy will simply blow out of the market those companies that will operate fairly. That is why we appeal to the industry: see what is being prepared, let us react to it together, and let us not rely solely on the common sense of the decision-makers. I fear that they are simply unaware of the effects that the proposed reprographic levy on electronics could have.

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> THE REPROGRAPHIC LEVY - THE LEVY WILL AFFECT US ALL IN THE INDUSTRY, FROM THE SMALL SHOP TO THE BIG CHAINS, IMPORTERS, DISTRIBUTORS AND VENDORS. EVERYONE WILL BE UNDER GREAT PRICE PRESSURE, CAUSED ON THE ONE HAND BY CUSTOMERS AND ON THE OTHER BY UNFAIR COMPETITORS WHO WILL NOT PAY THE NEW LEVY AND WILL BE ABLE TO OFFER LOWER PRICES WITH HIGHER MARGINS.
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> President of the Management Board of the AB Group

Assuming that the implementation of the proposal can be avoided - what does 2021 bring for the industry as well as for the AB Group?

ZM: There are many indications that we can also expect a good year for the industry, perhaps only with a slightly lower growth dynamic. I believe that COVID will stay with us for some time and this will have an impact on the operation of companies and further acceleration of the digitalisation of the lives of Poles and the inhabitants of our region or, more broadly, Europe and the world. In such an environment, the IT sector is strengthening, its role is growing.

AP: This can be seen not only in our Polish market but also in global activities. A good example is TSCM producing systems for the German automotive sector. This company is the largest semiconductor manufacturer in the world and currently has such a full order portfolio that government intervention was required to accept orders.

TSMC has serious supply issues. There is no one to replace the Taiwanese in this, as there is actually only Samsung and SMIC, China which, however, some manufacturers may not trust for geopolitical reasons.

ZM: That is true. Producers and sellers of higher-end goods suffer the most from the situation. Without key chips, production stands still - this can be seen, for example, in the case of the aforementioned automotive industry. Growth in sales of electronic components and finished electronic products, including high-end products, would have been even stronger, with even higher growth rates, had it not been for availability problems.

The question I have to ask, since I am talking to the leading distributor in Poland: when will graphic cards, currently literally devoured by cryptocurrency mines, return to the market?

ZM: At AB we care about the availability of goods, we have the money and the logistics potential to do so. We have therefore placed orders for some product groups six months ahead. There is a simple logic at work here: if I do not buy the goods, I certainly will not sell them. Of course, the main reason for the shortage at present is the additional demand associated with cryptocurrency diggers. But there is also another aspect. Production is done in batches - a specific set of components is needed to complete a given batch of hardware, from GPU chips to power supply systems, capacitors, memories, PCBs to radiators and fans. If one component is missing, production cannot be completed. This is true of all devices. I know of an example where a batch of 10,000 notebooks had to be stockpiled outside the factory because a shipment of... power keys had not arrived on time. This is a real disaster as factories do not have warehouses dedicated to storing finished goods - a constant flow into the logistics chain is required.

AP: Returning to graphic cards, it is worth noting that with the previo-

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us cryptocurrency bubble we also saw such a market imbalance but then the bubble burst and cards poured into the market en masse. A repetition of the sinusoid is therefore naturally to be expected.

Mr Przybyło, when we spoke last year about a nationwide pandemic response under the #AByrazem banner, you said that if necessary, AB would also be ready in 2021 to continue helping effectively. Of course, these are different challenges today because it is not the lack of ventilators that is the problem, but that does not mean that help is no longer needed.

AP: That is correct. We ended the previous conversation by saying that medical facilities, hospitals know that they can count on our help in a wide range of ways. Medical equipment has not been in short supply for some time now, but there is a need for e.g., computer hardware, printers - after all, Covid wards should have their own devices, as it is inconvenient and even highly risky to share them with non-Covid wards. Currently the situation does not require such spectacular actions as in the spring or summer of last year, where over 100 people were operationally involved in our action, many vendors responded to our appeal, and nearly a thousand pieces of equipment (including respirators, IT, white goods) were delivered to institutions in need. However, we continue to operate on a continuous basis. Problems for medics lie, for example, in the lengthy formalities. When we need to help quickly, intervening, we help.

What strategic actions does AB intend to take this year?

ZM: We run operational optimisation projects to create even better value for our customers. We are a technology company, so we also use new technologies in this area. Replacing periodic purely human analysis with tools using artificial intelligence has significantly improved the structure of the offer in terms of attractiveness for our customers - we have the goods they need in stock and with which they can make a good profit.

This is well illustrated by the fact that we used to sell about 20% of the indices in stock every day, and now about a third. This is a huge leap, achieved in a short period of time - just a dozen or so months. Today, nearly 100 product managers at AB have a tool at their disposal that allows them to optimise their operations. At the same time, of course, the aim is also our profitability, a win-win model. As a result, our customer base has expanded but above all the quality of cooperation has improved. We have the best offer in the market, tailored to customers' expectations. We have resorted to machine learning and are investing in further developing our offering and efficiency tools.

> „WHAT ALSO SETS US APART IS THE HIGH DEGREE OF AUTOMATION IN LOGISTICS. THIS IS WHY WE SUCCESSFULLY INTRODUCE AND USE MODERN E-COMMERCE TOOLS, REACHING BOTH THE RESELLERS AND THE END USERS. ALTHOUGH WE DO NOT SELL TO END CUSTOMERS, WE DO SERVICE THEM TO A LARGE EXTENT.
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What you are referring to points perfectly to what we were discussing earlier, i.e., the importance of investment in IT. Your company not only sells solutions and hardware, but also invests in modern technologies to optimise its business with their help.

ZM: Yes, these are investments that we believe in and that deliver the expected benefits.

What also sets us apart is the high degree of automation in logistics. This is why we successfully introduce and use modern e-commerce tools, reaching both the reseller and the end user. Although we do not sell to end customers, we are very much involved in servicing them. While no classic logistics model is prepared for large increases in scale or seasonal sales peaks, we have doubled the number of shipments year-on-year and handled them with the same team, as we are increasingly replacing people with technology. We can easily scale our business. We are also on the eve of installing a second automated packaging line which is extremely useful for dropshipping, for example. In fact, I have no doubt that retail sales in the online channel will continue to grow, followed by more and more individual shipments from our warehouses to our customers (resellers) and their customers (end users). Anyway, we are already an e-commerce company. We completed 86% of our customer transactions last year automatically.

The market has been growing fast, the needs of end users keep growing, and a lot of new products are launched. How does AB look at the issue of knowledge transfer?

AP: We have always had a strong focus on the quality of the market we create, on educating our partners.

Last year was a special year in that our Competence Centre trained 6,400 people online in nearly 200 webinars, tripling the figure year-on-year. It is also worth pointing out the new AB Innovation Designer (AID).

We have already established cooperation with several manufacturers under this programme - we will educate end customers in cooperation with partners with the support of manufacturers.

What is still interesting to see looking ahead to 2021?

ZM: We are seeing a further offensive by cloud service providers who also made significant investments in our country last year, such as Microsoft and the creation of the Azure data centre region. The software sales model revolution itself - subscriptions and the cloud model - is also accelerating, and AB is a pioneer and leader in the region with its own cloud platform.

The ‚software as a service' trend is increasingly being joined by the consumer hardware sales model (‚platform as a service', ‚infrastructure as a service'). An example is AB's collaboration with HPE on the GreenLake solution. We have already successfully closed the first major project based on this sales mechanism for one of the major IT service providers in Poland. There is also a growing focus on the segment of data collection and processing - both in data centres (‚big data') and at the edge of networks (edge computing).

We expect a further increase in the importance of solutions related to the security of IT infrastructure, especially in highly distributed environments, which are specific to, for example, remote working. We see a progressive concentration in relatively new market segments - such as IoT, which often require synergies and the ability to build solutions across multiple technologies.

An interesting trend is that a group of our customers is going beyond the narrowly defined IT and develop installation activities in fashionable segments such as smart home or photovoltaics. We use our know-how, financial and logistics strength, we also build a business in this area and support our partners. For example, in the franchise network Alsen Instalacje - Fotowoltaika.

Meanwhile, the retail industry is alive with news of Amazon's stronger entry into Poland. What does that mean for the AG Group?

ZM: Opportunities to accelerate development. I can confirm that we are technically ready to cooperate. We see the future in automated logistics, in which - judging from a completely objective point of view - we are really good.

K. Bogacki, Grupa AB niekwestionowanym liderem na rynku dystrybucji, „ITReseller" 2021, ISSN 1730-010X Nr 337/2021, s. 10-17.