

2018 Distribution Industry Outlook Highlights

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Each year MDM provides an outlook for the distribution industry based on reader surveys and data collected in partnership with Baird with the goal of gauging business trends and the outlook for the industry. This PDF includes an overview of current economic conditions, top priorities for 2018 and three of the top trends to pay attention to in the year ahead. Sign up for [MDM Premium](#) to stay informed all year!

Top 3 Distribution Trends for 2018

By MDM Staff | Dec 22, 2017

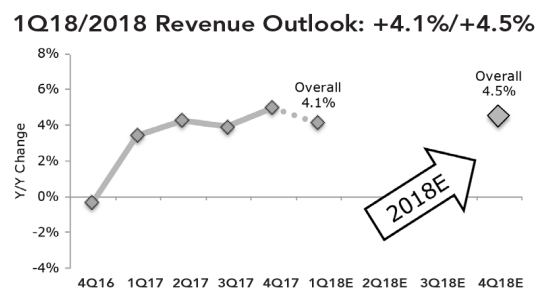
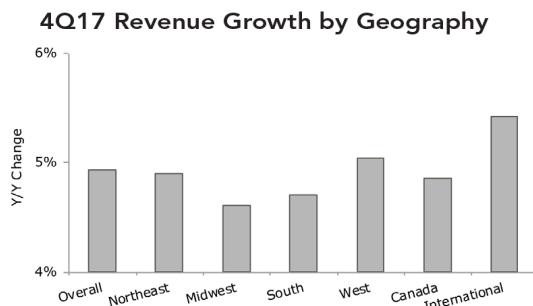
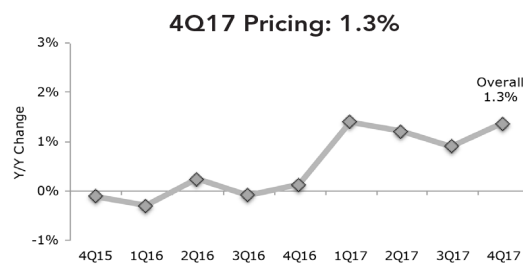
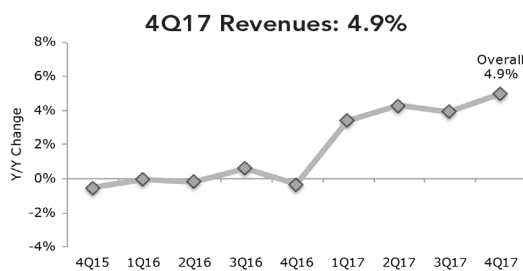
Distributor fortunes improved last year and are projected to continue through the first half of 2018 – but the rest of the year remains uncertain, as economists project the economy to slow in the third and fourth quarters before enduring a more drastic decline in 2019.

Here is a look at the top trends to watch in 2018.

1. The mostly upbeat outlook should take a downward turn later in the year. Distributors are bullish on their prospects for 2018 – much more so than a year ago. Respondents to MDM’s annual Industry Outlook Survey overwhelmingly expect healthy sales growth next year, with 92.1 percent projecting at least some revenue growth for their businesses.

Almost half – 47.1 percent – of respondents forecast 5-10 percent improvement and another 28.4 percent forecast greater than 10 percent growth. Respondents’ lofty expectations were bolstered by descriptions of the economy as “solid,” “strong,” “robust” and “healthy.”

But, according to many respondents, those fortunes could change in the second half of 2018 and into 2019 as tailwinds subside. This sentiment has been propagated at recent industry events, with Alan Beaulieu of ITR Economics alerting distributors: “It’s been a good year, but there is a change coming,”



Robert W. Baird & Co., in partnership with Modern Distribution Management, conducted a survey of more than 500 distributors and manufacturers to gauge business trends and the outlook for the distribution industry in diverse sectors. Here is a summary of fourth-quarter 2017 results and distributor and manufacturer expectations for 2018.

he said. “Things are going to slow down.”

U.S. industrial production index is expected to peak in the second month of 2018; then the economy will slow down gradually the rest of the year before turning more sharply downward in 2019, according to Beaulieu, whose advice for distributors is simple: Enjoy the good times and then use whatever slowdown is coming to invest in your business.

“Leadership is becoming more critical,” Beaulieu said at the NIBA/PTDA Joint Industry Summit in Hollywood, FL, in September. “Forget the noise. Lead your company with confidence. Don’t hunker down in the slowdown because that’s when it’s time to be aggressive.”

2. Amazon threat (and hype) levels accelerate – what to do about it. Distributors in 2017 are feeling a more direct hit on the trifecta of Amazon Business’ distribution value: delivery, selection and price.

Amazon was one of the most consistent common denominators in the top-three industry-wide concerns in this year’s survey. A chief concern was summed up by one respondent: “Amazon (and other web catalog companies) picking off the high-margin, low-technical-expertise products and decimating our profitability.”

Entering 2018, we still don’t have a clear view of Amazon’s strategy, but potential scenarios are better defined than a year ago. Amazon Business has developed a similar suite of disruptive capabilities that it has successfully deployed in other industries in a leveraged multi-platform model – software/analytics, digital marketplace, logistics, and a large percentage of traditional distribution attributes. Amazon Business has continued to strengthen its distribution-specific service capabilities, adding open-account terms, account managers in at least one market and talent poached from within the industry.

The company is moving quickly beyond its initial low-cost convenience model for long-tail, non-contract commodities (Amazon Supply) to the most comprehensive and customer-centric eProcurement solution available.

In 2018, the industry will gain a clearer view of Amazon Business’s impact on distribution channels as more distributors place bets on collaboration, competition or a combination of both. Amazon is arguably in the early stages of disrupting an industry that serves nearly one-third of the U.S. economy – it won’t walk away. Perhaps the clearest impact so far is that distributors are motivated to strengthen digital capabilities, differentiate their value more clearly, and think harder about how to best create a more effective business model.

3. Digital transformation spikes in 2018. “A monthly sales report is at least 29 days too late,” according to one survey respondent to a question on technology value. Efficiency, cost control, productivity, analytics, better warehouse management, better customer service – these are all listed as objectives for ramped-up investments in digital capability heading into 2018. It’s about time. If nothing else, the increasing presence and potential threat levels of Amazon Business have spurred action in 2017.

This current survey, as well as other technology-related surveys MDM has conducted recently, reflects an industry drawing nearer to an inflection point and also a widening gap between distributors waiting on the sidelines of digital development and those building capability. One survey respondent asked, “What really is the benefit of the digitalization of the industrial market?” For some distributors, customers are not driving a need to invest; for most, however, there are compelling signals coming from every part of the business and their markets to act sooner than later.

While a third of distributors plan to grow revenue in 2018 by expanding the sales team, 38 percent of respondents plan to boost sales through e-commerce capabilities. And while e-commerce solutions focused on website and serving customers better are at the forefront for many, survey answers this year reflect a more strategic and integrated approach to developing digital capability.

There's a broader awareness heading into 2018 that distributors view digital as a way to change traditional models to more adaptive and cost-efficient models.

Go to www.mdm.com/articles/38146-top-trends-for-2018 to read more trends for 2018.

How to Adapt to New Industry Landscape

By Eric Smith | Jan 16, 2018

Distribution is at a crossroads, with increasing digitization, existing and emerging channel pressures, and evolving customer demands altering the wholesale landscape. MDM and Baird critically examined short- and long-term impacts of the industry's accelerating change in the recent Distribution Industry Outlook webcast.

During the webcast, Tom Gale and Ian Heller of MDM, David Manthey of Baird, and Ranga Bodla of NetSuite provided fresh insights into what 2018 has in store and how to adapt.

The webcast began with Manthey's assessment of the economy and Baird's forecast for wholesale distribution in 2018. Manthey outlined key drivers, the industry's hottest growth sectors and which ones are poised to perform well throughout the year.

As Manthey framed it, the 2018 distribution outlook bumper sticker is "synchronized global growth coupled with positive impacts from U.S. tax reform."

Gale and Heller followed with a deeper look at success playbooks emerging across distribution channels – protecting core differentiators while building the future business model to effectively capture increasingly distracted customers and proactively grow wallet and market share.

Here are the key trends they identified for 2018:

- **Who moved my customer?** Traditional direct sales models continue to be displaced across wholesale distribution channels.
- **Transition to more adaptive models.** Current surveys indicate margin pressures and talent retention/development and culture as the top two pain points entering 2018.
- **Trends are reaching a tipping point, with Amazon Business as the wild card.**
- **Generational changes in the workforce and acceleration of artificial intelligence are key drivers that Amazon is leveraging.** These dynamics are quickly making the "old" new digital strategy – SEO, content, e-commerce platforms – less effective and more vulnerable to AI, from Alexa for Business to automated sensors on machines and throughout customer locations for automated re-order and replenishment.

Industry Logs Highest Revenue Growth in 5 Years

By Eric Smith | Jan 22, 2018

2017 ended on a positive note for distribution, as the industry notched the highest average revenue growth in more than five years, according to the most recent MDM-Baird Distribution Survey.

Excluding acquisitions, fourth-quarter 2017 revenues increased 4.9 percent (respondents had projected 3.9 percent growth for the period), the highest average since 7.5 percent growth in the second quarter of 2012. Industrial categories continued their impressive performance while favorable weather helped building materials & construction sectors surpass lower-than-usual expectations.

Revenue growth was fairly balanced across most geographies, and pricing saw yet another increase in 4Q. No sectors recorded negative revenue growth in the fourth quarter; industrial/energy PVF and hoses & accessories led the way with 7.7 percent growth, while datacomm and HVAC were flat.

But there is concern that last quarter's impressive feat isn't sustainable. Distributors expect things to taper off in 2018, projecting revenue growth of just 4.1 percent for the first quarter and 4.5 percent for the year.

The struggles of 2016 – especially in the industrial vertical – are still fresh in distributors' minds, and plenty of economists have warned of a slowdown later this year. Despite the measured forecast relative to how well the industry closed 2017, no sectors are projecting a negative first quarter or 2018, offering further proof that confidence is growing, albeit at a modest pace.

The recent tax legislation is one reason for the renewed optimism. There is "overall excitement about the economy and new tax plan has everything moving in an upward, positive direction," according to a respondent in waterworks category. "Projects previously on hold are getting the green light."

Recruitment Top Priority for Most Companies

By MDM Staff | Jan 23, 2018

Talent recruitment remains top of mind for distributors in 2018, with about three-fourths of respondents (73 percent) to the most recent MDM-Baird Distribution Survey saying they plan to prioritize it this year. This isn't surprising, considering that MDM identified talent as one of the Top Trends for 2018 – which it has been for a number of years as the industry struggles to attract the next generation.

When asked about their top three business-specific concerns for 2018, distributors cited a host of staffing concerns from "hiring skilled workers" to "finding capable people" to "recruiting new talent."

The talent gap also was among the top pain points respondents said they are experiencing, with one respondent lamenting "not enough time in the day, not enough trained personnel." Another listed "finding new talent and finding new talent" as both of his top two pain points.

But how will distributors prioritize talent recruitment? According to the MDM-Baird Distribution Survey, only 9 percent plan to use new approaches to finding new employees, while 28 percent will stick with previous strategies and 63 will use a combination of both.

As for specific recruitment practices, "word of mouth" was No. 1 with 69 percent of respondents saying they will ask current employees to recruit friends and family.

Another 67 percent said they will post job openings on LinkedIn and other career sites. The third most popular option, at 47 percent, was posting job openings to social media channels such as Facebook and Twitter.

Next was using a headhunter or other recruiting services, at 43 percent, and fifth was partnering with college distribution departments to identify candidates, at 38 percent.



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