

2019 Outlook for Wholesale Distribution



Executive Summary

Distributors and manufacturers are bullish regarding their 2019 prospects. That consensus is in spite of concerns about more unsettled economic conditions on the horizon, as well as signs that the industry is approaching the end of the current business cycle, according to the Industry Outlook survey by Modern Distribution Management (MDM) in partnership with Oracle NetSuite. Last year ended strongly, with revenue growth for the fourth quarter substantially above forecasts, and the industry is anticipating strong growth for both first-quarter and full-year 2019.

About a quarter of survey respondents are calling for sales growth of greater than 10% for the coming year, while 54% expect growth of between 5% and 10%. Nearly two in 10 (18%) anticipate growth of up to 5%.

Just 5% are calling for sales to be flat or down. Almost two-thirds (62%) say they are optimistic about the coming year, while 30% say they are uncertain. Only 3% say they have a pessimistic outlook.

The primary internal concerns that businesses cite for the remainder of the year are similar to those in previous years, namely revenue growth, customer retention and increasing profitability. Better inventory management, employee training and improving cash flow are also cited. Industry-wide concerns cover familiar ground (growth, employee retention, economic conditions); however, this year there are additional worries about rising interest rates, falling oil prices and the impact of trade wars and tariffs. Technical and logistical challenges of building a complete e-commerce solution suggest that most companies are taking an incremental approach to this issue.

Methodology

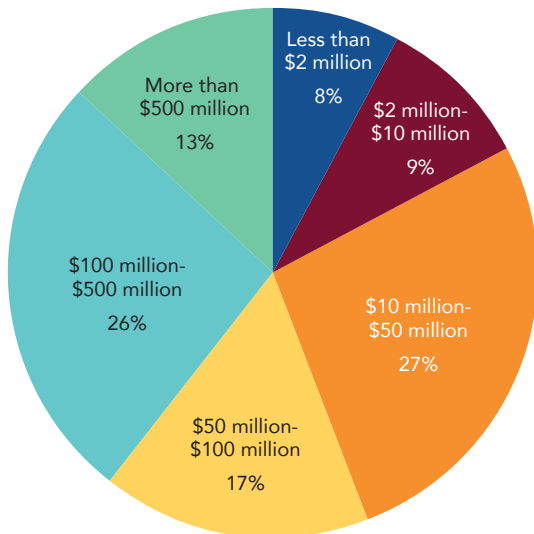
The following results are based on a December 2018 online survey of MDM readers. MDM is the premier source of research for the wholesale distribution industry and provides news, features and analysis to executives in both the distribution and manufacturing industries.

A total of 230 respondents participated. More than 90% identified as being either an owner, president, VP, director, or C-suite executive of their company. Almost 13% of those companies have annual revenues above \$500 million; 26% have annual revenues of between \$100 million and \$500 million; 17% have between \$50 million and \$100 million; 27% between \$10 million and \$50 million; and the remainder \$10 million and below.

About 15% have more than 1,000 employees; 39% between 100 and 1,000 employees; 17% between 50 and 100; and the remainder less than 100. Virtually every product category in the distribution industry was represented (see p. 4), with strong presence in Industrial/MRO (56%), Safety (25%), Electrical (18%), JanSan (18%), Building Materials/Construction (17%), HVACR/Plumbing (16%), Fluid Power (13%) and Power Transmission (12%). (Note that respondents could name more than one sector and so totals exceed 100%.)

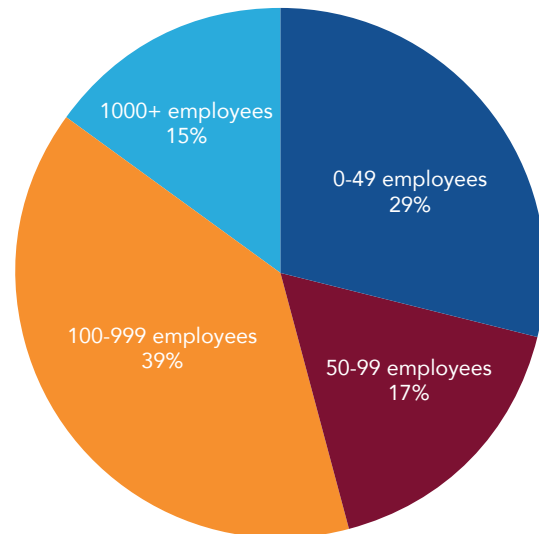
2018 Revenues

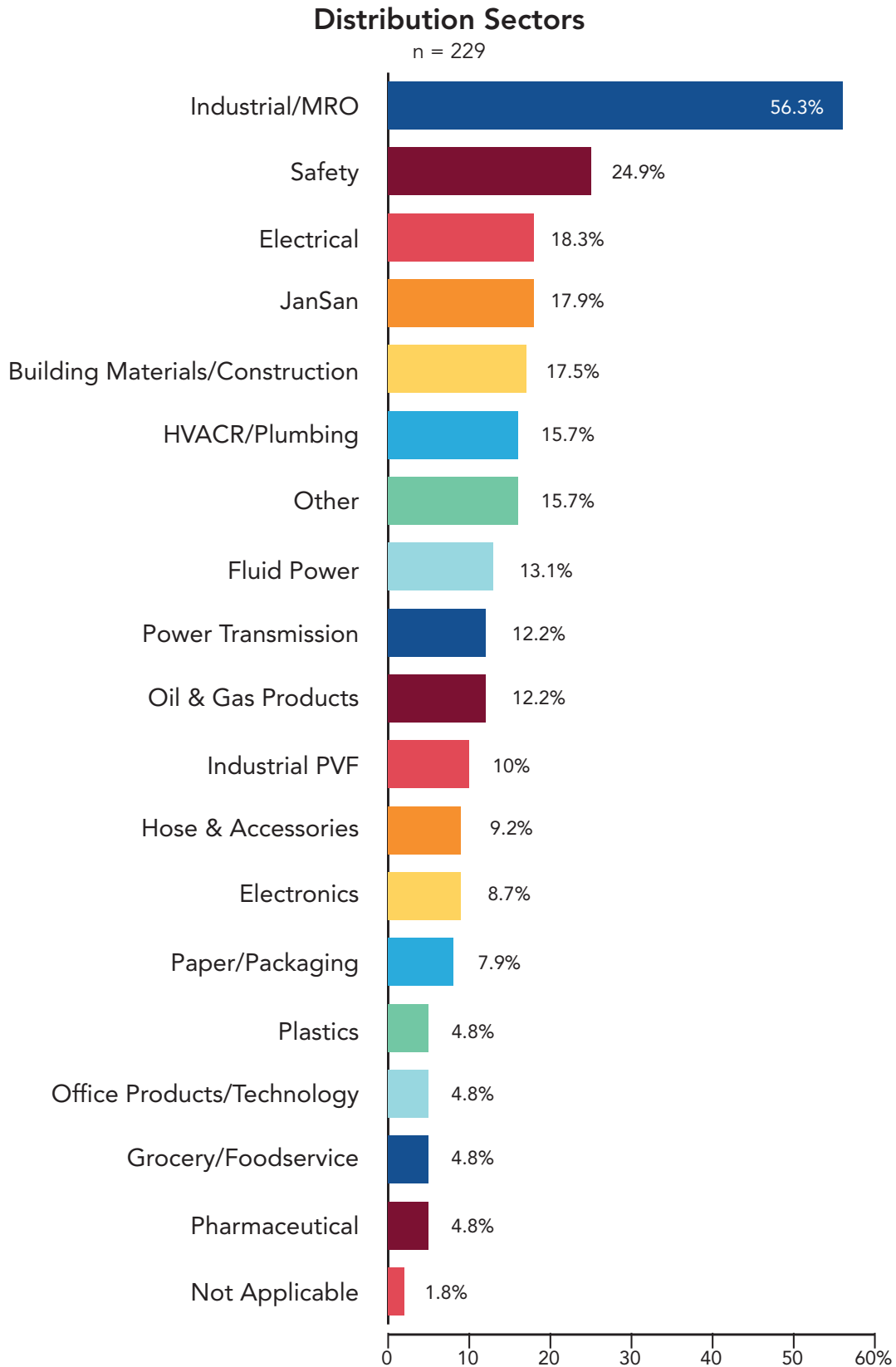
n = 224



Number of Employees

n = 226





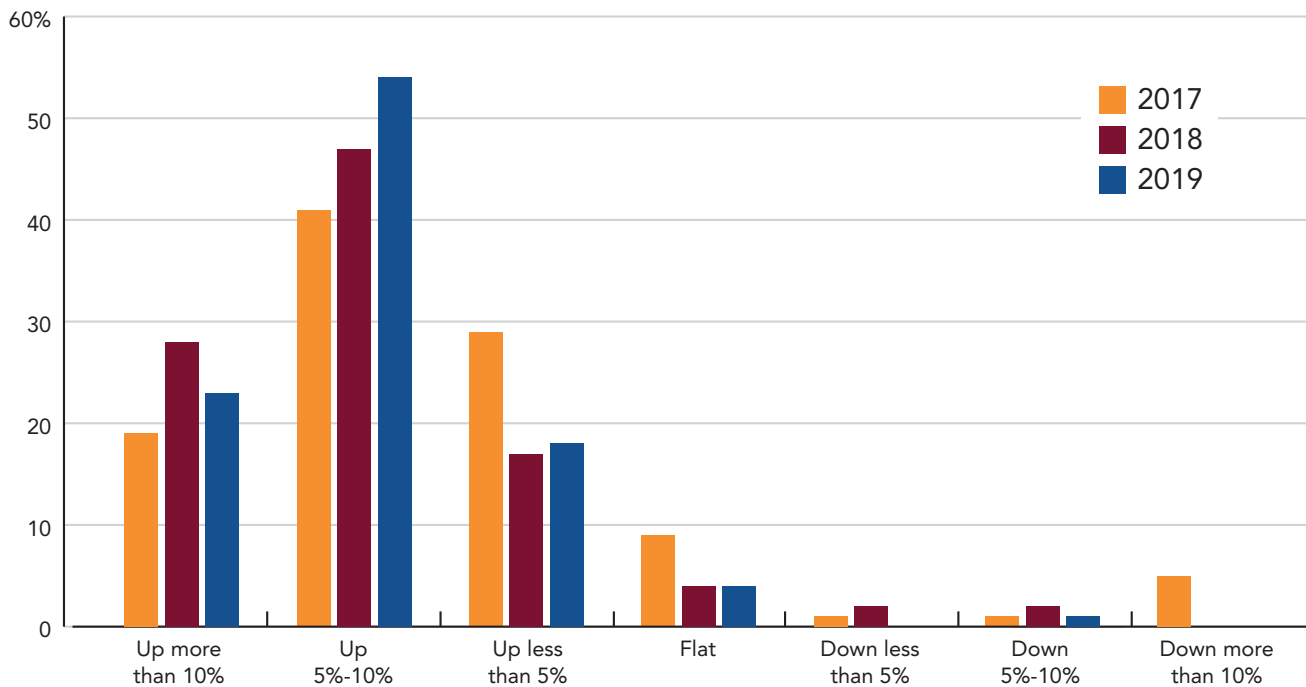
Growth Outlook

Sales growth expectations are strong for 2019, although moderated somewhat from 2018. The percentage of respondents expecting growth of 10% or higher slipped from 28% in 2018 to 23% for 2019, while the number expecting growth of 5 to 10% went from 47% to 54%. The other categories were essentially the same as for 2018.

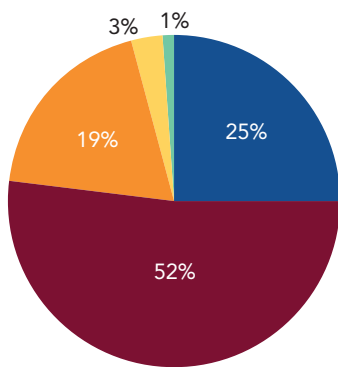
Growth Outlook (Industry Overall)

Revenue Growth Expectations (2019)

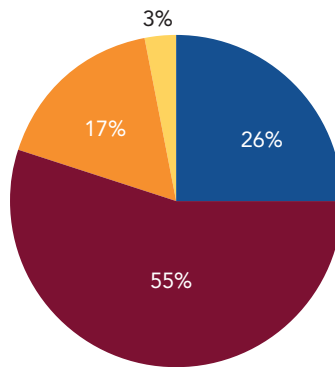
n = 211



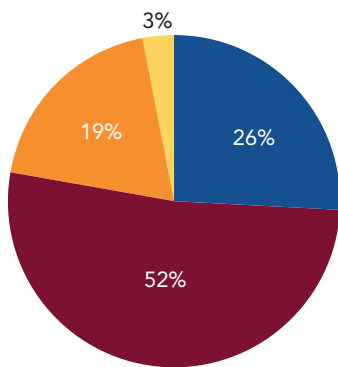
Growth Outlook by Sector



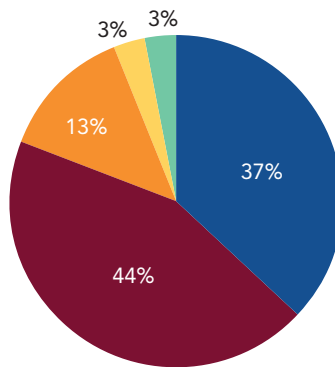
Industrial/MRO



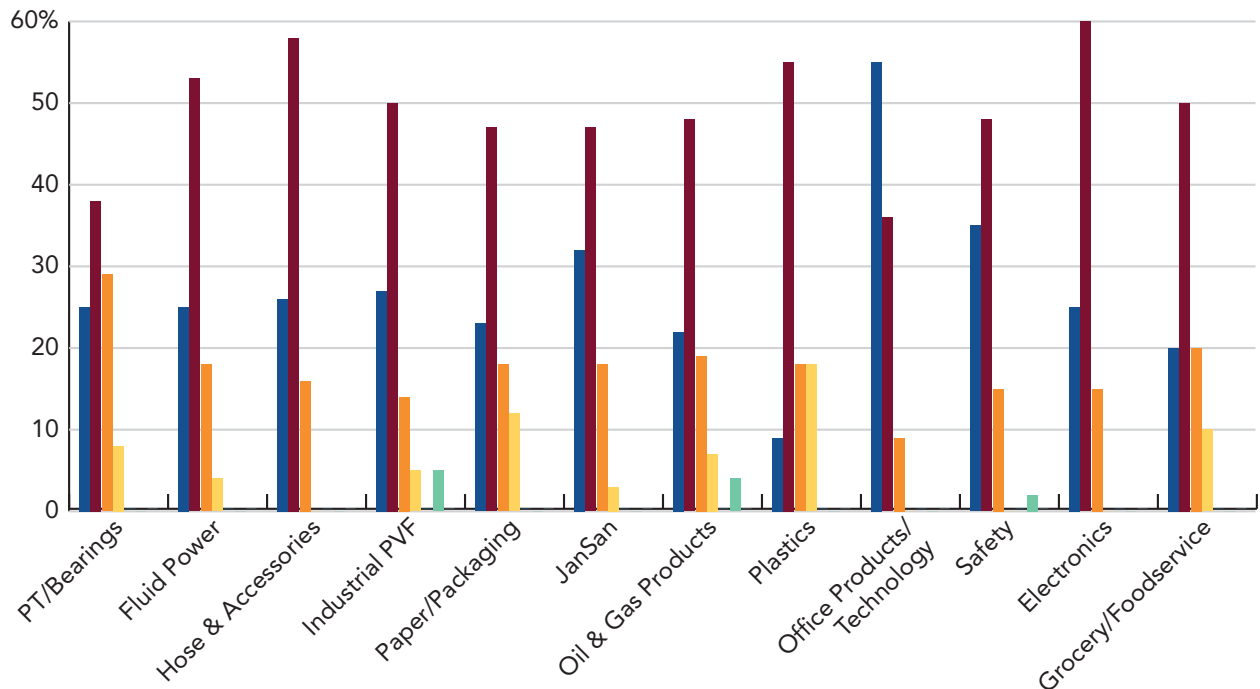
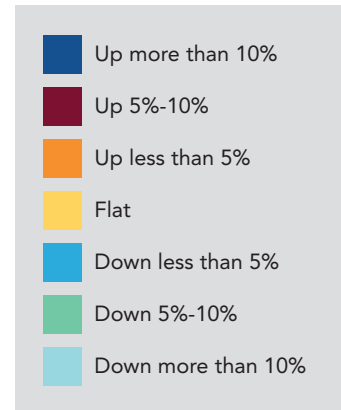
Building Materials/Construction



Electrical



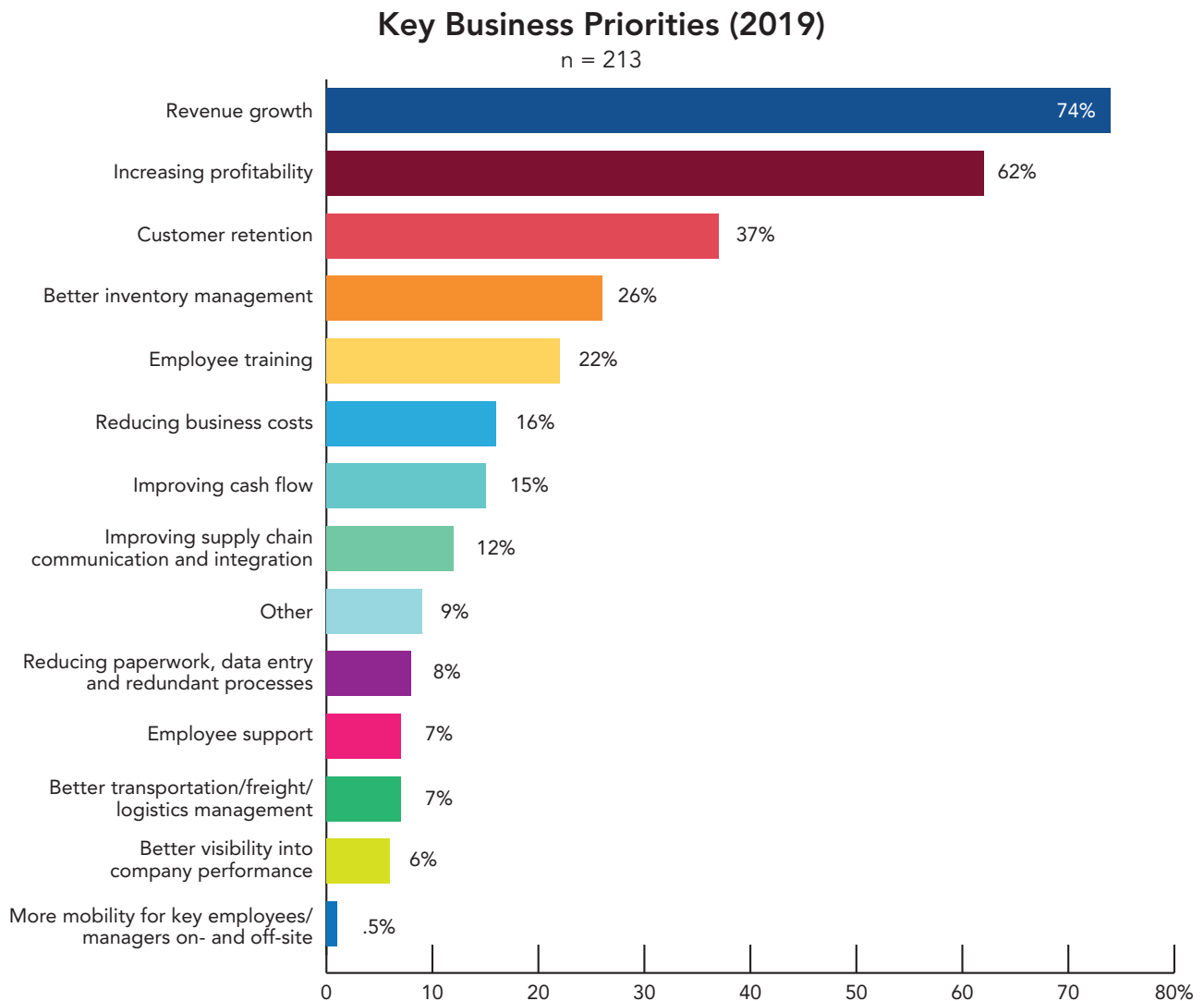
HVACR/Plumbing



Top Concerns for 2019

Company-Specific

As in previous years, responses to this question tended to focus on the basic disciplines of controlling costs, increasing revenue and profits, and keeping customers happy. The percentages that cited these concerns as priorities were essentially unchanged from 2018. Note that because respondents were asked to select their top three priorities, totals come to more than 100%.



Here is a sampling of relevant respondent comments:

- "Last year we enjoyed record revenue but the bottom line as a percentage of sales fell."
- "All of them are critical to survive, at least in the short term."
- "Competitive marketplace demands we be our best."

(continued)

- “Customers are the heart of the business. Margin is being eroded by tariff pressure, which stifles revenue growth.”
- “Economic uncertainties place a significant amount of pressure on maintaining happy, loyal customers.”

Industry-Wide

For this question, survey takers were asked to provide written responses rather than being given a list to choose from. The overall picture suggests uncertainty over an economic slowdown, the global economy, tightening margins, technology and new market entrants. A word cloud analysis shows that the following terms appeared most prominently in the responses:

- Tariffs
- Price
- Economy
- Market
- Costs
- Customer
- Amazon
- Employees
- Recession
- Changes

Top Three Industry-Wide Concerns (2019)

n = 167



Here is a sampling of typical responses:

- “Chinese trade war hurting capital investment and construction demand.”
- “Revenue growth; finding quality employees; technology.”
- “Margin deterioration; talent acquisition and retention; maintaining a unique value proposition.”
- “Amazon; freight costs; recruitment of labor.”
- “Oil and gas plummeting, and seeing into the digital side of our customers.”
- “Economic downward pressures, price pressure and inability to pass it along, retention of key employees.”
- “New competitors, maintaining mind share with our distributors, economic conditions.”

Pain Points

Respondents were also asked to identify two key issues that are causing them the most difficulty both currently and moving into 2019. The standouts are as follows:

Employee Retention. In a time of full employment, finding and holding onto qualified personnel is especially tricky and is easily the principal concern cited by respondents in this year’s survey. A few typical comments:

- “Finding qualified people is first and second.”
- “Finding new talent and finding new talent.”
- “Finding, training and retaining customer-facing staff with technical proficiency.”
- “Not enough key staff to implement all business tasks.”
- “Hiring strong and loyal labor.”
- “Understaffed; employee training.”

Technology. The continuing lag of digital adoption in the distribution industry seems to have less to do with failing to recognize its importance and more to do with the complex, multi-faceted and ever-changing nature of the challenge:

- “How out-of-date data processes are and the costs associated with fixing that.”
- “IT changes fast, more data is available but we don’t have time to synthesize it all.”
- “Extreme cost of software and support.”
- “Shoddy e-commerce capabilities.”
- “LARGE increase in IT costs.”
- “Multiple ERP systems makes financial reporting difficult.”
- “Working across multiple ERP systems; need for dynamic pricing management system.”

Tariffs/Uncertainty. Respondents also frequently cited the complications caused by increased costs of imports as a result of the ongoing trade war with China:

- “Margin erosion due to tariffs and steel inflation.”
- “Tariffs and raw material costs.”
- “China instability.”

Top Two Pain Points Experiencing Right Now

n = 132



(continued)

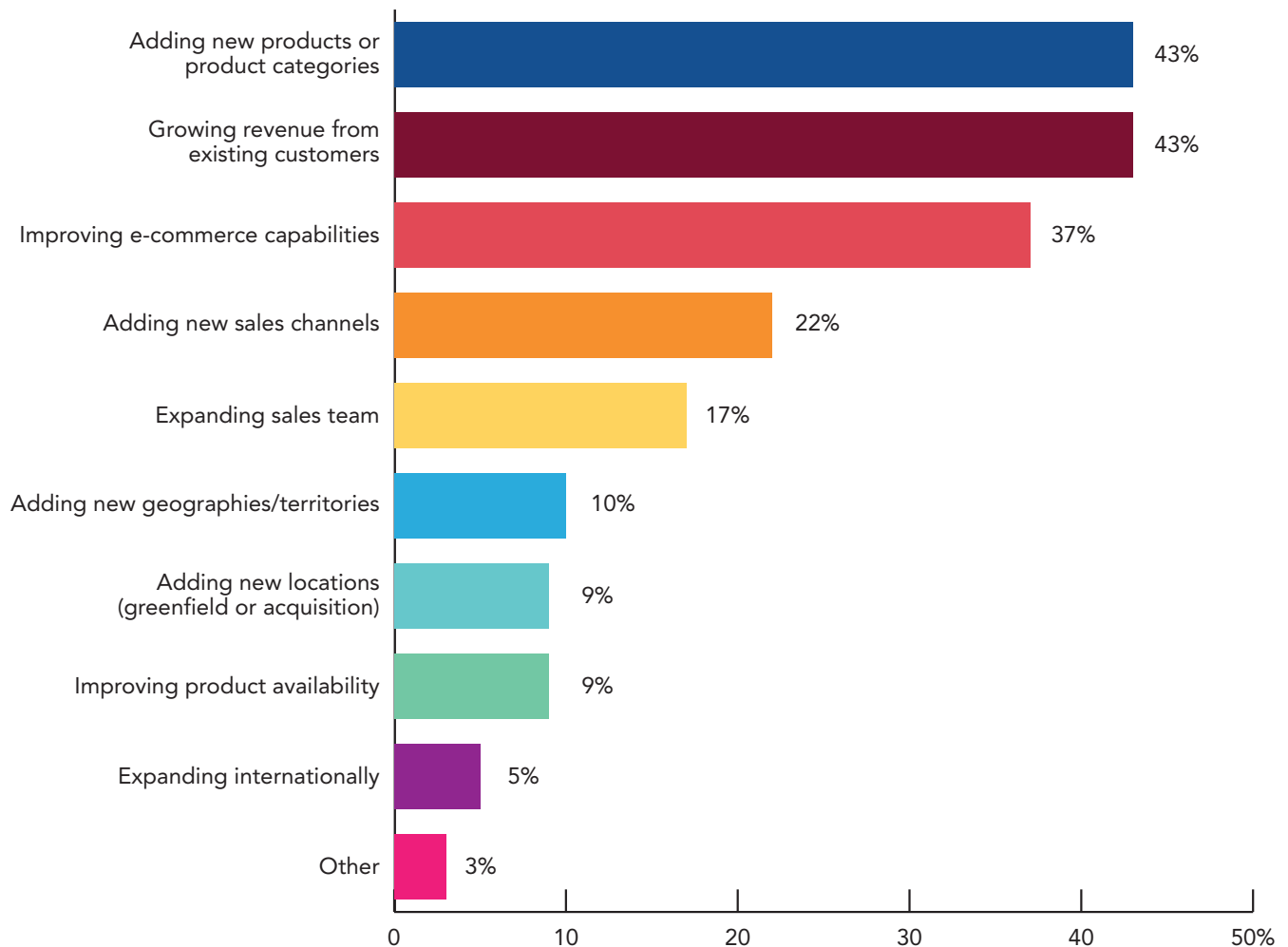
- "Vendor increases due to tariffs."
- "We are currently moving a factory out of China and moving it to India."
- "Dealing with ongoing price changes and tariffs."

Plans for Building Revenue

The top three options for building revenue are the same as for the previous year's survey and the percentages for each are close year over year. One notable change, however, is in the percentage of respondents who plan to add revenue by expanding their sales teams, which plummeted from almost 33% last year to just 17% this year, a drop of almost half. This may reflect a de-emphasis on the "boots on the ground" approach to sales as e-commerce expands.

Plans to Build Revenue (2019)

n = 195

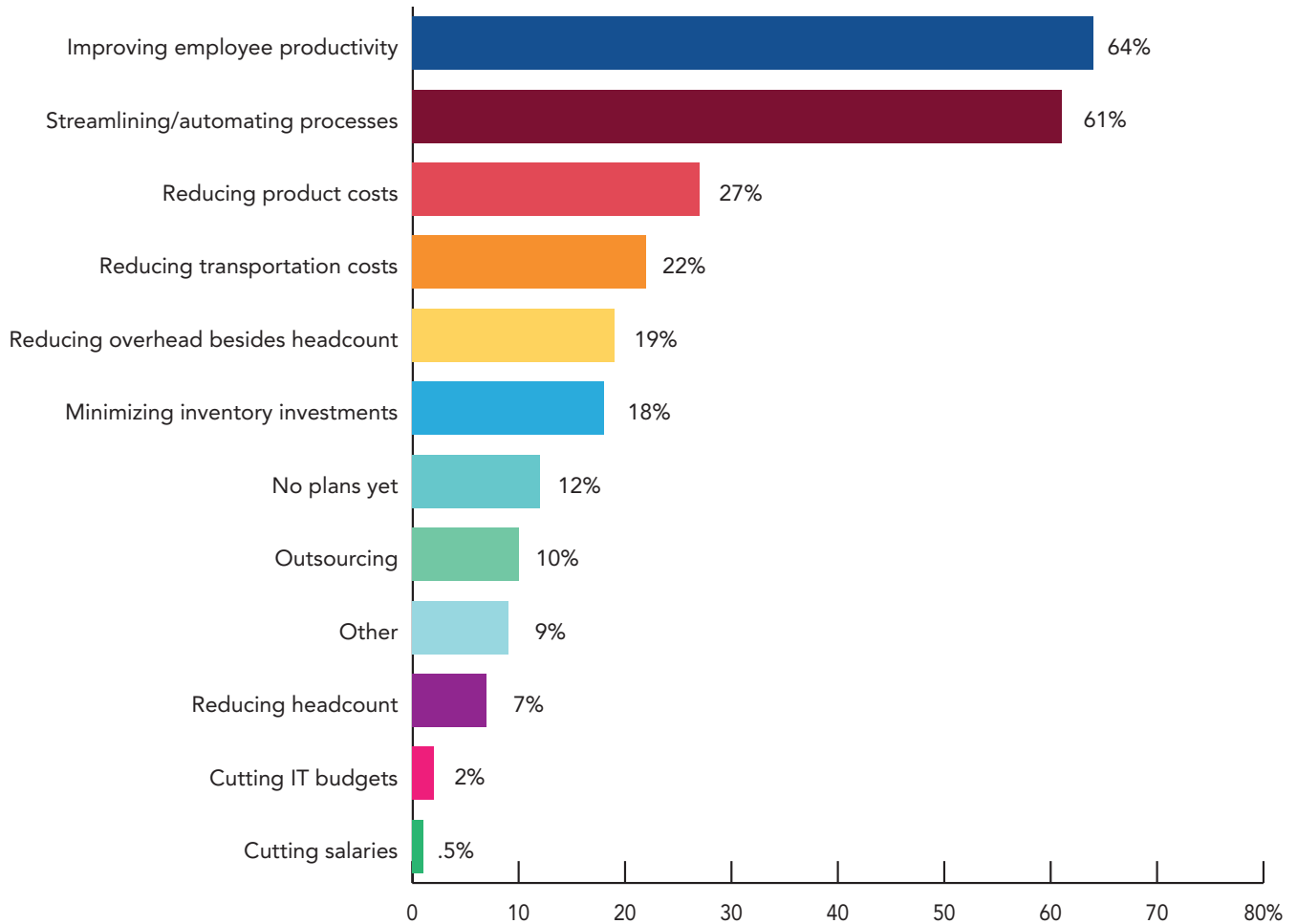


Plans for Cutting Costs

The top three responses are unchanged from last year’s survey, although the percentage who plan to cut costs by streamlining and/or automating their processes rose significantly from about 49% to about 61%. Percentage variations for the other categories were not statistically significant.

Plans to Cut Costs (2019)

n = 192



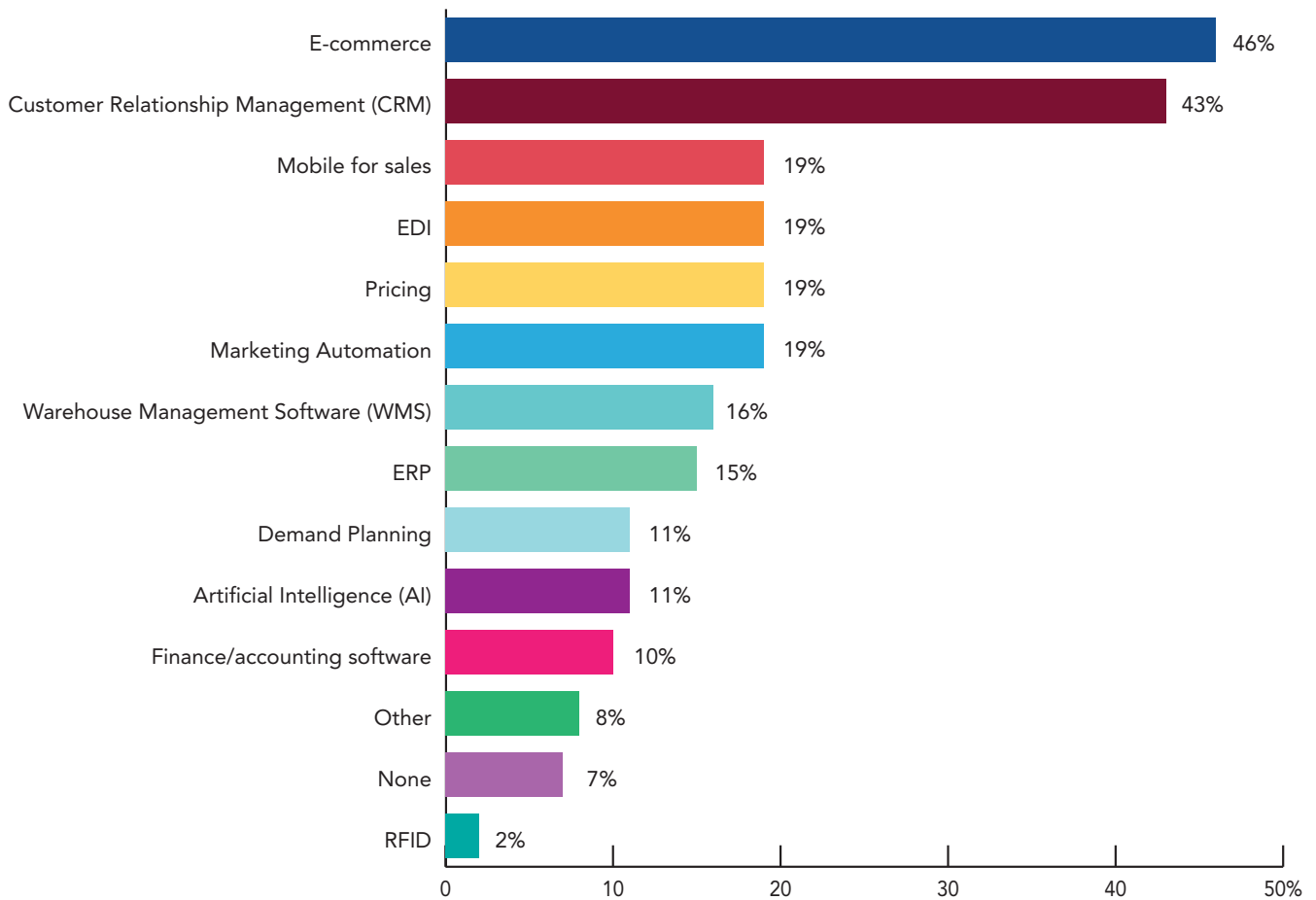
Technology Plans

E-commerce was the industry’s top technological priority for the fourth year in a row, with the percentage who gave it top priority bumping slightly from 42% to 46%. This sustained interest suggests that the persistent lag in the level of e-commerce adoption in the industry has less to do with recognizing its importance and more to do with the technical, logistical and financial demands of fully operational e-commerce solutions.

As with last year’s results, CRM and Pricing software were the second- and third-highest technological priorities.

Technology Investment Plans (2019)

n = 178

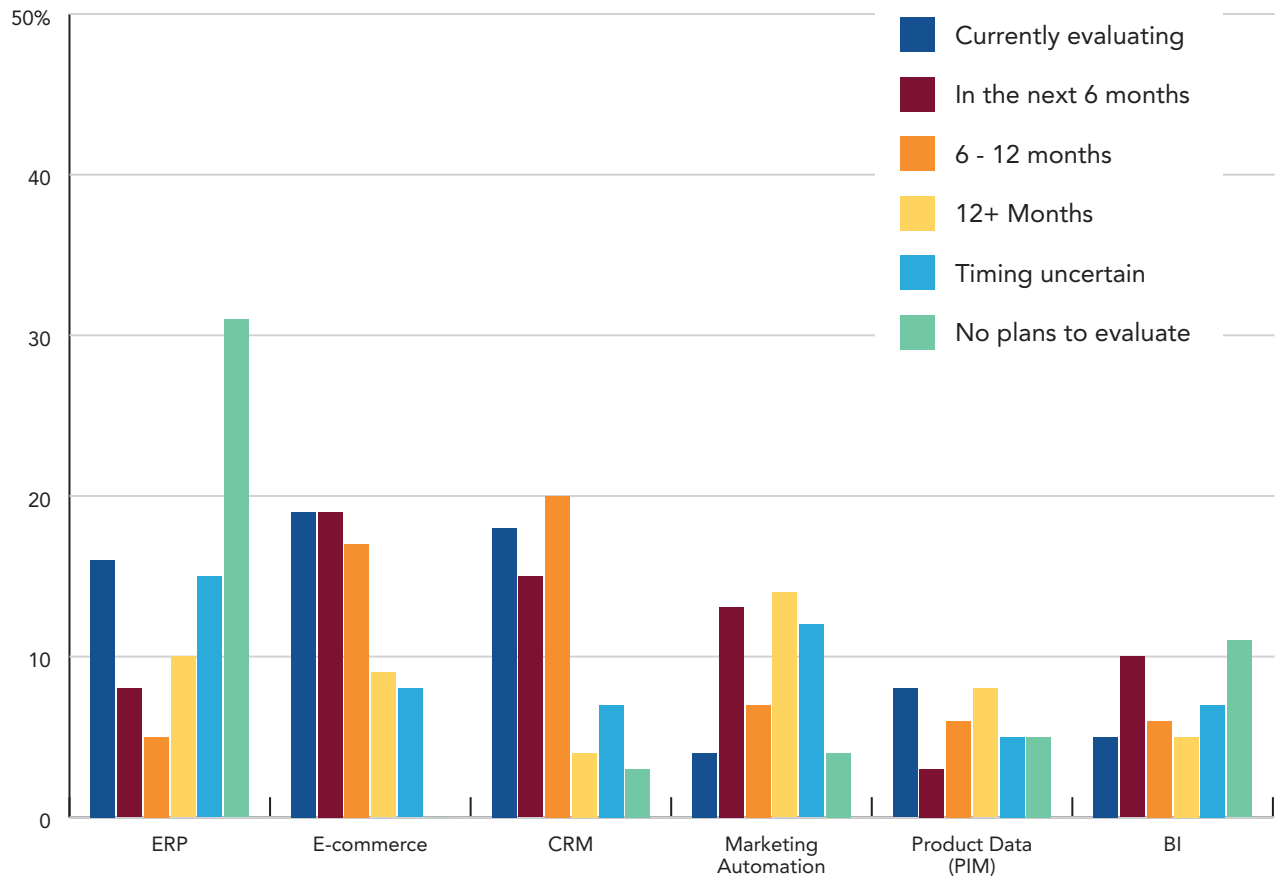


Timeframe for Upgrading Technology

The chart below displays a weighted average of implementation plans for some of the software solutions listed in the previous chart.

Software Implementation Timeframe

n = 166



Conclusion

The U.S. economy is currently in the second-longest period of continuous expansion in its history, but some economic indicators suggest that we are approaching the end of the current business cycle and that the watchword for the coming year will be “uncertainty.” Despite this, the distribution industry appears to be mostly upbeat about 2019 and the expectation is for continued, if moderated, growth. Industry fundamentals remain sufficiently sound that any economic downturn that does occur is more likely to be a soft landing than a full recession. Industry leaders indicate that in the coming year they will focus on costs, market share and customer retention.



ORACLE® NETSUITE

About Oracle NetSuite

NetSuite Global Business Unit, a wholly owned subsidiary of Oracle, empowers tens of thousands of fast-growing wholesale distributors with software to transform and accelerate their businesses. Using NetSuite, distributors can run their businesses on a single, unified platform reducing IT costs and gaining comprehensive, real-time visibility across their organizations.

NetSuite gives your company customer-facing sales force automation and B2B e-commerce, as well as marketing and customer service capabilities that link seamlessly with back-office inventory management, fulfillment and accounting. In delivering NetSuite for Wholesale Distributors, NetSuite has leveraged experience and lessons learned from thousands of wholesale distribution customers, complemented with a best practice professional services implementation methodology and customization services.

NetSuite for Wholesale Distribution

NetSuite's Wholesale Distribution Edition is designed specifically for wholesale distributors. NetSuite offers distribution businesses a complete, web-based solution, allowing them to:

- Engage their customers everywhere with omnichannel commerce, reaching them online, by phone, over email, in person and exceeding the evolving expectations of 21st century consumers.
- Monitor and manage their businesses with the ultimate customizable business dashboard, featuring built-in best practices for wholesale distribution.
- Convert leads to orders, orders to shipments and shipments to revenue with NetSuite's advanced warehouse management, inventory management and order fulfillment capabilities.
- Gain a real-time, 360-degree view of customers and provide better customer service through NetSuite's seamless integration of CRM with financials and other back-office systems.
- Grow revenues, enter new markets and improve channel partner engagements with tools for partner relationship management (PRM).
- Leverage demand planning to manage inventory optimally and seamlessly.

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