Modern Distribution Management™

Distribution Market Intelligence

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November 2022

IN THIS ISSUE *CLICK HEADLINES TO READ*

Workforce Strategy Remains Top-of-Mind

Talent acquisition and retention have always been popular educational topics for keynotes and workshop sessions at various industry events in distribution, but labor has taken center stage in 2022. While supply chains have smoothed out throughout the year and distributors have taken advantage of historic inflation, the labor situation has improved only incrementally for distributors. Most firms are still struggling to find the perfect formula for attracting talent to fill labor gaps and getting them to stay in a time when employees have more leverage than ever.

It's been interesting to see such an emphasis on talent thought leadership and best practices during the busy fall industry events season, and MDM Premium content reflected that in November. My Nov. 2 "Are You Hiring Honestly?" piece (pg. 5) recapped an informative session from the ISSA Show North America that focused on transparency in the recruiting and onboarding stage — and making sure you're not just talking the talk about your workplace culture when wooing new candidates. And my Nov. 21 piece stems from the B2BOnline event a week earlier in Orlando, recapping a lively debate about in-person vs. hybrid vs. remote work and the state of hybrid work for distributors (pg. 7).

Given the demand for flexibility from employees across all industries, I can't help but wonder what percentage of distributors are actually requiring all employees to work on-premises every day, and what policy changes may be in store for the start of 2023.

The economy remains a conversation piece, as distributors are keeping a close eye on factors impacting customer demand and frequently checking in with suppliers on what they're hearing from the field. In a Nov. 16 piece, I discussed the wholesale trade data released Nov. 9 from the U.S. Census Bureau, which showed that 2023 revenue expectations among most industrial and commercial verticals were up at the end of September compared to a year earlier (pg. 10). That article also examined takeaways from R.W. Baird's 2022 Industrial Conference held Nov. 8-10. The firm's distribution report noted that overall feedback from the 18 distributors on-hand indicated demand remains strong in the industrial/manufacturing complex, with additional tailwinds expected ahead from drivers like reshoring, infrastructure spending, industrial automation and more.

Other November Premium content examined how the different ways distributors bet on themselves (pg. 11); how to use reporting and data in channel incentive programs (pg. 13); and rewriting your strategy to meet the needs of the self-service customer (pg. 15).

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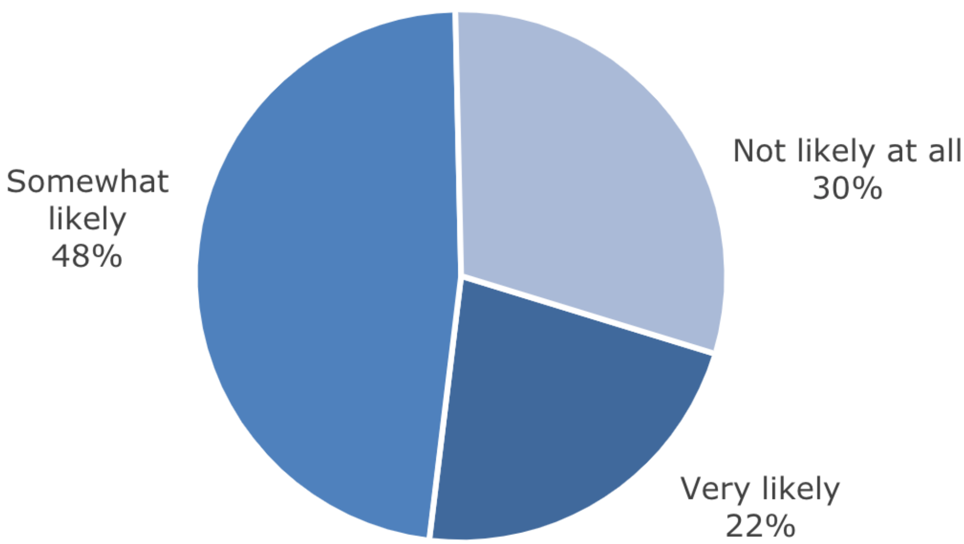
DATUM

An Appetite for Nearshoring

The topic of nearshoring and reshoring had already gained steam before 2020, but the COVID-19's pandemic on supply chains thrust it into the spotlight in procurement discussions. Shortening supply chains makes sense from a logistical perspective, but how many distributors are likely to get on board with it in today's hyper-global economy?

In the 3Q Baird-MDM Industrial Distribution survey, we asked this very question, and the results from the poll's 350-plus respondents — primarily distributors — showed that the vast majority are at least somewhat likely to move some of their product sourcing to domestic suppliers in the next few years.

How likely is your company to shift more of its sourcing to domestic suppliers over the next 3 years?



Source: 3Q22 Baird-MDM Industrial Distribution Survey

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Industry News Digest: November 2022

Click on the link in each news item to read the full report

Distribution News

East Dubuque, Illinois-based Crescent Electric Supply Company closed on a deal to acquire Georgia-based Lowe Electric Supply Co.

Roofing and building products distributor Beacon announced its acquisition of Jacksonville, Florida-based Coastal Construction Products from distribution-focused private equity firm Supply Chain Equity Partners, along with current and former members of Coastal's management

Allied Electronics & Automation, a trading brand of industrial and electronics distributor RS Group, said goodbye to President Ken Bradley, who left the company to pursue a new opportunity at the end of October.

Wisconsin-based fastener distributor Endries International Inc. announced its acquisition of Alliance Nut & Bolt, LLC.

New York-based industrial and MRO distributor Global Industrial Company announced the opening of a new distribution center in Toronto.

Applied Industrial Technologies is continuing its investment in the automation industry, announcing its acquisition of Minneapolis-based Automation Inc.

Building materials distributor US LBM announced the acquisitions of structural and floor trusses in Georgia and North Carolina. The company also announced the opening of a new location in the New York metropolitan area. CEO Dave Flitman also stepped down as president, CEO and member of the board of directors.

Houston-based industrial distributor SBP Holdings announced its acquisition of Central Hydraulics Inc., which operates five locations across Florida.

Michael Cinquemani was named as the 31st recipient of the PTDA's Warren Pike Award for lifetime achievement in the power transmission/motion control industry.

Wesco International — a distributor of electrical, communications, security, utility and broadband services — reported 2022 third-quarter net sales of $5.4 billion, a 15% increase over the same quarter last year.

Houston-based NOW Inc. — a supplier of energy and industrial products and packaged, engineered process and production equipment — reported $577 million in revenue for 2022's third quarter.

Pennsylvania-based industrial distributor Motion & Control Enterprises announced Nov. 1 its acquisition of Nightwine Valves & Actuation, Inc.

Chicago-based Distribution Solutions Group reported 2022 third-quarter net sales of $347.2 million, an increase of $215.1 million or 162.8% over the same quarter last year. DSG also announced that Robert Zamarripa has been appointed to the company's board of directors.

Industrial fastening, packaging and supply solutions distributor LINC Systems announced that Kelly Evans retired as the company's CEO, and that Michael "Mick" Beyer has been named his successor.

East Hartford, Connecticut-based construction supplies distributor NEFCO has opened a new fulfillment center in the Columbus, Ohio, area.

Winona, Minnesota-based Fastenal Company announced it has reached $1 billion in eCommerce revenue within a calendar year for the first time.

JanSan, foodservice and packaging supplies distributor Envoy Solutions has acquired Bristol, Pennsylvania-based United Packaging for an undisclosed amount. The distributor also announced its acquisition of Surtec.

Dallas-based construction materials distributor Builders FirstSource reported 2022 third-quarter financials, which showed $5.8 billion in net sales but a slowdown in growth compared to the first two quarters of the year. The company also told investors and analysts it slashed 2,600 jobs.

Houston, Texas-based industrial PVF products distributor MRC Global reported continued sales growth when it announced its 2022 third-quarter earnings.

Sonepar Group subsidiary Sonepar USA recently announced that Houston-based Crawford Electric Supply has surpassed $1 billion in sales.

Continued on next page

Toronto, Ontario-based industrial distributor Wajax Corp. reported $470.8 million in revenue for the third quarter of 2022, a 17.3% increase over the same period last year.

Yearly sales growth continued for Houston-based pumping solutions and MROP supplies distributor DXP Enterprises, which reported 2022 third-quarter sales of $387.3 million, a 33.8% increase over the same quarter a year before.

Tulsa, Oklahoma-based metalworking and MROP supplies distributor BlackHawk Industrial acquired Akron-based L.A. Tool & Supply Co.

Cleaning industry trade association ISSA announced it has formed a new national distribution partnership program with office supplies provider Staples.

Home improvement retailer The Home Depot reported 2022 third-quarter sales of $38.9 billion, a 5.6% increase over the same quarter in 2021.

Home improvement retailer Lowe's Companies, Inc. reported 2022 third-quarter sales of $23.5 billion, an increase over the same quarter last year but a decline from the $27.5 billion it reported in 2022's second quarter.

Associated Builders and Contractors said Milton Graugnard was elected the 2023 national chair at a board of directors meeting held during ABC's annual Leadership Institute.

The Specialty Tools & Fasteners Distributors Association elected new leadership for 2023 during the Association's 46th Annual Convention & Trade Show.

Greenville, South Carolina-based New South Construction Supply acquired Malone Steel Corporation, a company based in Ponte Vedra Beach, Florida.

Salt Lake City-based Industrial Supply Company announced the opening of a new distribution center in Chandler, Arizona, the company's first in the state.

Columbus, Ohio-based industrial distributor Kimball Midwest announced Nov. 21 the opening of its new distribution center in Newtown, Connecticut.

Fluid and material conveyance solutions distributor ERIKS North America appointed Annette Camuso-Sarsfield as its Chief Human Resources Officer.

Affiliated Distributors selected the M.K. Morse Company, an Ohio-based cutting tool manufacturer, as an authorized supplier, effective Jan. 1, 2023.

JanSan distributor Jon-Don acquired two industrial distributors: Norkan Industrial Supplies and CRT Industrial Equipment.

Richmond, Virginia-based Owens & Minor reported 2022 third-quarter financial results, including $2.497 billion in revenue, a slight decrease from the $2.502 billion reported during the same quarter in 2021.

Minneapolis-based Sonepar subsidiary Viking Electric has announced two recent hires: Robert Hoke as the company's new eMobility Specialist and Jen Pytleski as a new Enterprise Account Executive.

Manufacturing News

Berwyn, Pennsylvania-based manufacturer AMETEK said Gene Hahnenberg has been appointed Vice President of Strategic Procurement. The company also announced the appointment of Jose Munoz as Vice President of Operational Excellence.

For its fiscal 2023 second-quarter, Connecticut-based RBC Bearings Inc. reported net sales of $369.2 million, an increase of 129.4% over the same quarter last year.

Cutting tools manufacturer Sandvik Coromant appointed Nick Falgiatano as Marketing Manager, Sales Area Americas.

Tampa, Florida-based door and door systems manufacturer Masonite International reported that 2022 third-quarter net sales increased 12% over the same quarter a year ago.

Illinois-based fasteners manufacturer and distributor Optimas Solutions announced the opening of its new Center of Excellence at its Monterrey, Mexico headquarters.

Precision tools maker Walter USA announced this week that it has relocated its Americas technology center and regional business operations from Waukesha, Wisconsin to Greer, South Carolina, to move closer to a growing customer base amid a strengthened manufacturing presence in the U.S.

Sweden-based bearing and seal manufacturer SKF is continuing to increase its manufacturing and engineering capabilities across Asia.

HUMAN RESOURCES

Are You Hiring Honestly?

Does the messaging in your hiring materials and practices reflect what it's really like to work at your company? Mike Hockett recaps an ISSA Show session that dove into the nuances of being transparent in all phases of the recruitment and onboarding process.

By Mike Hockett

I spent Oct. 10-12 at ISSA Show North America 2022, where more than 500 exhibitors showed off every facility sanitation and hygiene product you could think of — anything you would find in a commercial restroom or custodian's cart and much more — inside the south wing of the cavernous McCormick Place Convention Center in downtown Chicago. The event had more than 11,000 total cleaning industry professional attendees — a 10% increase over last year's event in Las Vegas.

ISSA, or 'The Worldwide Cleaning Association,' per its branding, also made sure that the event's attendees had plenty of opportunities to network and learn about the latest trends and solutions for cleaning, disinfection and infection prevention.

But beyond those topics that have been evergreen for decades, ISSA went heavy on topics of talent recruitment and retention, as the JanSan industry is just one of many in the greater industrial, commercial and construction supplies sector MDM covers that are battling a historically challenging labor market. It was those labor-based educational sessions I was most interested in attending while at ISSA.

One of those sessions I had circled on my event agenda was titled, "Honest Hiring: Growing a Workforce that Stays," and was presented by Scott Perelstein, chief operating officer at business consultancy Alchemie Academy and a member of ISSA's Cleaning Management Institute Workloading & Benchmarking Council. I found his speaking session to provide a lot of great insight into why transparency is key to not just adding needed stuff, but getting them to stay. His advice could equally be applied to distributors, manufacturers and businesses of all types.

Perelstein began his session with an anecdote about how he, a vegetarian like myself, appreciates when restaurants that aren't vegetarian-friendly make that attribute clearly apparent. It makes it easy for Perelstein to rule out such eateries from their list of options, rather than a steakhouse that says it has vegetarian options, when really, those options are just a choice of potato and a side salad. Sure, they were technically correct, but as Perelstein noted, trying to market to vegetarians with those lackluster offerings will only leave them disappointed and likely to leave a negative review.

Honest hiring is the exact same process, he advised. Above all else in the hiring process, employers should be honest about who they are and not try to cater to absolutely everyone when they don't have the job attributes, management or culture to do so.

"It helps (candidates) decide if you are a good fit for them or if they would be uncomfortable," Perelstein told the breakout audience on the expo floor, adding that candidates self-selecting out of the hiring process early on saves both themselves and the company a lot of time.

This honesty element, he said, starts in job postings and other marketing to potential candidates. Does your job ad tell them what it's like to work at the company every day? Putting the appropriate terminology in your hiring documents is critical, as they should use vocabulary that reflects the business culture and day-to-day atmosphere.

We all know the common phrases businesses love to use in job postings: "We're a family, "We work hard and play hard," etc. Don't use those terms and phrases if your workplace doesn't truly feel like that, Perelstein said. "It will save you tons of trouble." He noted that perhaps those enticing attributes may be true for one company department, but does that also apply to the warehouse? To the sales department, customer service and marketing? If not, then it's not true about the whole company, and all it takes is one bad or misleading experience compared to the job description to make a new hire want to leave shortly after getting started with the company.

"People stay at jobs because they feel emotionally safe, feel engaged and connected," Perelstein advised. "You must encourage that engagement piece throughout the whole process and be consistent about that marketing."

This means candidates should find and hear the same message in each phone or in-person interview and all email correspondence and when they are in training with the company.

"When people feel the authenticity of consistency, they feel comfortable, and when they feel comfortable, they stay," Perelstein emphasized.

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Hiring for Fit

Given distributors' shortage of labor — especially in warehousing and driver positions — it's easy for hiring departments to want anyone and everyone as bodies to get the job done. The "beggars can't be choosers" mantra will only cost employers time and resources that are already stretched thin if those candidates hired primarily out of desperation aren't a good fit and leave the company early. Worse, a bad fit hire can have a negative influence on a whole department or the entire company at smaller firms.

"It's your job to protect the team, and one bad apple can ruin it," Perelstein said. "It takes so much energy to get rid of the wrong hire."

He added that hiring for culture fit isn't just corporate speak as something that sounds good. It has tangible benefits, and not doing so has tangible consequences. But first, a company has to actually know what its culture is and be able to communicate that to candidates and new hires. And at medium- to large-sized companies, there may be different cultures for different positions (warehouse, sales, administrative, executives, etc.).

Along with that self-awareness, Perelstein explained, is the crucial ability to know what 'fit' to look for in a candidate.

"There's a good chance that a candidate will have exactly what you're looking for, but your brain won't know how to see it," he said, advising that the person in charge of hiring should write down the skillset they are looking for. "It only works if you pre-program your brain for what that should look like. You have to know and define what fit is."

Perelstein continued that hiring someone primarily because they've worked at the same company previously — those who return to previous employers are known as boomerang employees — isn't always a legitimate criterion. Cultures change, and there are reasons such employees originally left the company in the first place.

"Just because they have worked somewhere before, it doesn't mean they are a fit to work there again," Perelstein said.

Onboarding

Perelstein advised that the onboarding process is the most powerful and valuable time you have with a new hire. It's when they get their first firm impression of how the company operates, who their coworkers are and what the day-to-day will be like. Further, the first time they learn their expectations is highly impressionable.

"It is 10 times harder to get someone to unlearn something than it is to teach them it the first time," Perelstein emphasized. "Onboarding is the strongest lever you have. It combats all of the 'we always used to do it this way,' and 'I miss when we did it this way' notions."

He added that employers should help new hires not only understand their tasks, but teach them about the company, its culture, its philosophy and what it's like to work there. Again, this should be a consistent message that mirrors what was promoted earlier in the hiring process.

"A standardized onboarding program is your strongest lever towards change," Perelstein said.

The Final Word

Summing up, Perelstein finished by saying honest hiring results in honest employees who stay. He also brought up a commonly cited fact I've heard at industry events this year — the top reason employees leave a company is because of their immediate manager/supervisor. Do your managers have the leadership abilities to get employees to stay?

To help attendees bring honest hiring back to their company, Perelstein provided a checklist designed to illuminate the process for bringing new hires into an organization. See it below:

Honest Hiring Checklist

- Do you have job postings that match your workplace culture?
- Do you have a documented hiring process in your organization?
- Do you have an employee recognition program?
- Do you foster a culture of membership and belonging?
- Do you have a standardized onboarding process?
- Does your onboarding process prepare new hires for being successful in your organization?
- Do you have a consistent training program for new hires?
- Do you hire candidates who are a good cultural fit for your organization?
- Have you identified what your workplace culture is?

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OPERATIONS

In-Office vs. Remote vs. Hybrid: The Great Debate

Mike Hockett takes a deep dive into the new normal of different working environments in distribution and recaps a lively B2BOnline debate session on this topic.

By Mike Hockett

For millions of workers, the prospect of working from home has gone from a nice-to-have before 2020, to a necessity, and to now a preference more than two and a half years since the COVID-19 pandemic began.

And employers are adapting. Forrester's Spring 2022 American Opportunity Survey found that nearly six in 10 (58%) of 25,000 respondents said they are able to work from home at least one day per week, with 35% indicating they work from home on a daily basis. Only 13% of respondents said they have the opportunity to work remotely but choose not to.

To look specifically at how the work-from-home/hybrid element is impacting distribution, we asked respondents in the 2Q22 Baird-MDM Survey, "Do you plan to mandate or at least encourage your office staff to return to the physical office full-time in the next 12 months?" As detailed in a July Premium blog, 44% of approximately 500 respondents — predominantly distributors — said they had already returned all workers to the office full-time; 36% said they planned to remain in a hybrid setup; 13% said they indeed plan to mandate a full return to office; and 7% said they don't intend to.

So, the stats tell us a large portion of the distribution sector certainly has an appetite to work from home. But that hasn't ended the discussion of whether distributor employees SHOULD work from home.

That was the topic of conversation in a panel session at B2BOnline, an industry conference held Nov. 13-15 in Orlando that brought together approximately 375 distribution and manufacturing attendees to learn about a variety of best practices in digital transformation and eCommerce. In arguably the event's most entertaining session, Master B2B Co-Founders Brian Beck and Andy Hoar hosted a debate between two proponents of working remotely — Brooke Logan, NAPA Auto Parts Director of Pro Digital and Boris Lokschin, Co-Founder and CEO of Spryker Systems; and two proponents of having everyone work in the same facility when possible — Eric Rehl, Head of Digital Transformation at Avnet; and Gireesh Sahukar, Vice President of Digital at Dawn Foods.

Beck and Hoar emceed the lively session that was themed as a boxing match setup, with each two-person team donning robes and taking the stage after hyped-up introductions. Beck took the side of work-in-person, and Hoar led the remote work team — having the two teams alternate between asking questions to defend their position.

Beck and Hoar prefaced the debate by sharing a couple of interesting stats from Forrester's "Master The Messy Middle Of Hybrid" report (released Sept. 28) that polled 46 companies and 722 employees about the changing world of hybrid work.

- Asked what percentage of respondents would agree with the statement "I would prefer to continue working from home," 41% answered in the affirmative, compared to 52% in Forrester's 2021 report.
- The 2022 report also found that while 87% of employees report that they are productive at work, only 12% of company leaders say they have full confidence that their team is productive.
- Further, 73% of employees indicated they need a better reason to go into the office than just company expectations.

I thought both debate teams made great points for their case. Here's a sampling of how each team responded to three rounds of questions, along with how the audience polled in response to those same questions via scanning a QR code that took them to a digital vote.

Productivity

"Are employees more productive for the company when they're in the office, or remote?"

Rehl, Avnet: Productivity does not equal quality. And for me, this is all about the whiteboard. Collaboration is not the same as co-innovation, and the ability of a team to come together in a room and start drawing on the whiteboard and come up with creative and great ideas is quality that cannot be replicated in a virtual environment. I know they've got Miro and (Microsoft) Teams is headed to their whiteboard app, but there's nothing like that compares to bringing those people together face-to-face and hammering out those great ideas on a whiteboard.

Logan, NAPA: I was just talking to somebody last week and he said 'I live only three miles from the office, but it

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takes me 45 minutes longer to get ready to get there.' You have to get all this stuff together and sit in the office and then just be disrupted by all the people that are there wanting to chat with you. So no, absolutely far more productive at home using the tools that we have for collaboration, which I think are great. You know, where you want to build relationships by having good strategic times together out in the field with our customers or other places, but absolutely more productive being able to really control your space."

Culture

"Is it easier to promote the company's culture when employees are in the office, or remote?"

Sahukar, Dawn Foods: If you have a team of 40 people, it takes 1,560 conversations over five months of time to align them if you're doing it one at a time. That can be happening in a 30- minute in-person conversation. I just had 12 of 15 days of in-personal meetings over the last three weeks, and we have advanced our cause, our mission, by leaps and bounds in those kinds of days. We couldn't have done that in a remote setting.

Rehl: Effective culture, especially in a big company, walks around on two feet. It doesn't float out in the ether somewhere. And you can sink your teeth into it. It's tangible. You can feel it that happens in-person.

Logan: I disagree. I think saying that culture needs to exist within the four walls of the office is like saying you can only see God in the four walls of a church. It's the same thing. And I disagree with you (Rehl) completely that culture needs to be on two feet because exactly what you described as this energy between people. It's about the relationships that you build — even in a remote way — and the policies and the ways that you can work. That becomes your culture and has nothing to do with being here in-person one way or another.

Lokschin, Spryker Systems: You can't contain culture. We have 650 people scattered across 55 different countries, and this gives much more diversity. This gives different perspectives and opinions. People sitting in an office are usually living nearby or the same neighborhoods, so it has less diversity and is a less interesting environment to work in.

Hoar, Master B2B: Culture is not a place, it's a thing that exists beyond the four walls, like Brooke pointed out. The reality is culture is going to find its own place. Like water, it finds its own level. And people are going to work wherever they want to work.

Recruiting

"Which attracts more top talent…companies that focus on having employees primarily work in the office, or remotely?"

Beck: A lot of you here are in management, coaching and getting people activated in their roles and things like that. At the end of the day, I believe it's easier to do in-person is otherwise much, harder to communicate. I mean, in my company, Enceiba, when we onboard employees, we do that in-person. We're not doing that on Zoom.

Lockschin: If I think about our onboarding sessions, we sometimes have people joining from six or seven different times zones or from five or six different countries making sure that this new employee gets not only the functional graso but also get the cultural grasp.

Logan: It's all about intentionality. You can be intentional with onboarding and bringing people into your culture in a remote and safe way. It should be like that in the office, but maybe we were never that great about that. I think there are also many times we've all had bad onboarding experiences. I think in remote way we actually need to become much more intentional about it, very deliberate, and make sure that we're sharing with people in that way, and then it's a culture they're excited to be a part of.

Rehl: So, you say need to we need to be more intentional. Having those people in the office makes that process much more supportive, much faster, and they're not on their own. This conversation about returning to the office isn't talking about just one location. We (Avnet) are global company with an extremely diverse workforce. I'm in the office and I work with people from all over the world. So diversity is not an issue here. And I say you can have just as much diversity in a return to work setting and a global company as you can by working remote.

Sahukar: If you're hiring new college grads, how do you teach them your company processes? How do you enable them? How do you teach how to become a professional in the workplace? Those are things that are near impossible to write documents for, to write policies on. When they have questions, a new hire can turn to the the person sitting next to them in the office.

Closing Argument

Each debate team was then allowed to give their closing argument, in which both teams seemed to agree that a hybrid

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work environment is the best solution.

Rehl: The key word here is flexibility. That's what top talent wants. They want flexibility. They want to be able to come into the office when they need to or when they're expected to. And when there's opportunities for more from home, they can do that, too. So that hybrid model is the key to what top talent wants. But there's one other important point here is what a top talent also wants — and should want — is to rise within your organization, rise to make an increasingly meaningful contribution to your organization. And what that requires is being heard. And I think, more often than not, being heard means being seen face to face on a consistent basis.

Logan: We've talked a little bit about diversity and attracting diverse talent. And we've talked a lot about geographic diversity, but we haven't talked about it other kinds of diversity. I have two kids. I don't want to have to go into the office every day, and I think you might be missing out on top talent because of that. It's one of the first things that people ask us when they're going to start the interview process, 'Am I able to work remotely?' They don't want to move. They don't want to relocate their families. They don't want to have to come into the office. They want to be able to go and pick up their kids. I agree flexibility is key, but I think you'd have the most flexibility when you have the freedom to work remotely.

The Final Word

As evidenced above, there are pros and cons to each side of this argument. There is undoubtedly a camaraderie that comes with physically being in the same office as your coworkers that just can't be replicated remotely. But at the same time, time spent preparing for work and commuting to/from the office is time that really adds up over the course of the week and can be better spent doing almost anything else. While digital collaboration tools have been immeasurably valuable these past few years, it's also great to be able to ask a co-worker something in-person rather than wait and hope they saw your email or Teams message in a timely fashion.

There's also the element of remote work opening up the labor pool for distributors to potentially hire nationally and internationally instead of just within a 20-mile radius of an office. But when Hoar brought up that point, Sahukar rebutted that it isn't as simple, as employers then have to factor in cost-of-living differences, international labor laws, foreign exchange issues and any other jurisdiction matters that need to be set up before a company can pursue a remote superstar employee. To that, Lokschin rebutted that there are service providers who specialize in handling those out-of-state and international roadblocks that may exist in the hiring process.

It's also important to address the elephant in the room for distributors in this debate: the warehouse. Unless a distributor has the financial resources to employ a team of robots so that a warehouse is fully automated, employees are required to be there every day to physically move product around. The debate didn't get into that aspect, as it was focused purely on positions traditionally office-oriented. Still, I'm sure distributors have weighed whether allowing office workers to work remotely may cause friction from warehouse staff who don't get that perk. At the same time, perhaps warehouse staff are more understanding off the dilemma given the nature of their job.

Obviously, there is so much nuance here. I don't think either fully in-office or fully remote is overwhelmingly the 'right' choice, as every distributor and employee is different. What works for one may not work for another. That's why I'm fully on team hybrid — in distribution and all industries — when it's possible for employers to offer. Given the demand for flexibility from today's worker, offering current and potential employees the ability to work remotely if they'd like is a crucial perk in making jobs more appealing. If someone wants to work in the office, find a way to let them. If they want to work remotely, find a way to let them.

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STRATEGY & RESEARCH

Distributors' Market Optimism Rises Despite Economic Indicators

Distributors and their suppliers say they continue to see strong demand for industrial and commercial products, with no real slowdown in sight.

By Mike Hockett

Perhaps 2023 won't be so scary after all. At least not for most distributors in industrial and commercial markets.

While the greater U.S. economy is still facing a potential economic slowdown in the first half of 2023 — which could dip into recession territory — distributors in the areas of industrial supplies, electrical products, HVAC, plumbing, power transmission and more continue to voice heightened optimism about the prospect for strong customer demand through not just 2022's closing, but for well into next year.

And the numbers are backing up that sentiment. The latest wholesale trade figures out of the U.S. Census Bureau — released Nov. 9 and compiled for MDM by the Leeds School of Business at the University of Colorado Boulder — show that the total U.S. distribution sector is now expecting 2023 revenue growth of 3.5% as of the end of September. That's a considerable improvement from the 2.1% at the end of August.

We see month-to-month improvements in 2023 revenue expectations for 15 out of 19 sectors. This includes percentage point increases of 3.7 in Electrical and Electronics, 5.4 in Industrial, 4.2 in Motor Vehicles & Parts; 10.6 in Building Material and Construction; and 4.2 in Hardware, Plumbing and Heating Equipment.

While the 2023 outlook for Building Material and Construction is still negative, that sector's major increase in expectations is particularly interesting given the state of homebuilding demand that resulted in Builders FirstSource (MDM's No. 1 Building Materials and Construction Distributor) shedding 2,600 jobs during this year's second and third quarters amid other cost cuts enacted. We'll have to see if its 10.6-point increase was a one-month aberration.

Meanwhile, the latest 2022 overall wholesale expectation of 17.2% growth ticked up 0.1 percentage point from October.

The heightened optimism matches the temperature I've picked up on during a busy fall industry events travel season. The straw polling I've done at those events found the vast majority of distributors and suppliers saying product demand for general industrial, electrical, power transmission and contractor supplies is holding strong and they expect it to remain so well into 2023.

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Expectations by Sector – As of September 30

Major Sector (Largest to Smallest Sector Revenues)	2020 Revenue	2021 Revenue	2022 Forecast	2023 Forecast	2024 Forecast
Oil and Gas Products Wholesale Distributors	-29.6%	73.5%	43.7%	-9.2%	-12.4%
Pharmaceutical Wholesalers	5.8%	8.9%	10.9%	11.9%	7.4%
Grocery and Foodservice Wholesale Distributors	-1.4%	13.5%	13.4%	7.7%	3.5%
Electrical and Electronics Wholesalers	1.6%	20.2%	15.7%	5.8%	6.0%
Industrial Distributors	-2.9%	16.3%	15.5%	5.4%	1.0%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	-9.0%	13.9%	11.6%	16.9%	10.4%
Miscellaneous Durable Goods Wholesale Distributors	7.5%	32.7%	4.8%	-7.3%	1.1%
Other Consumer Products Wholesale Distributors	1.0%	11.9%	15.1%	5.3%	4.4%
Computer Equipment and Software Wholesale Distributors	1.1%	9.7%	8.5%	-1.1%	1.2%
Commercial Equipment and Supplies Wholesale Distributors	-4.1%	16.7%	5.9%	1.1%	4.9%
Agricultural Products Wholesale Distributors	0.3%	33.9%	30.4%	12.3%	4.5%
Metal Service Centers	-19.6%	59.5%	19.3%	1.5%	3.0%
Building Material and Construction Wholesale Distributors	5.2%	30.5%	20.6%	-5.8%	-0.2%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	2.8%	12.3%	14.3%	1.7%	1.6%
Beer, Wine and Liquor Wholesalers	7.4%	8.5%	2.8%	4.2%	4.9%
Apparel and Piece Goods Wholesale Distributors	-21.1%	28.0%	7.2%	2.8%	1.9%
Chemicals and Plastics Wholesale Distributors	-8.9%	24.0%	23.6%	7.3%	5.2%
Furniture and Home Furnishing Wholesale Distributors	-0.3%	16.6%	14.5%	-5.0%	-3.0%
Office Product Wholesalers and Paper Merchants	-7.4%	14.1%	18.3%	8.1%	5.3%
Total Wholesale Distribution Industry	-4.6%	22.6%	17.2%	3.5%	2.2%

Leeds School of Business, University of Colorado Boulder

Source: U.S. Census Bureau, Monthly Wholesale Trade; MDM 2022 Wholesale Distribution Economic Trends Report.

Optimism was also reflected in the takeaways R.W. Baird shared from its 2022 Baird Industrial Conference — held Nov. 8-10 in Chicago — where the investment bank hosted 18 distributors, including 11 on MDM's Top Distributors lists. In its distribution summary, Baird noted that overall feedback from those 18 distributors indicated demand remains strong in the industrial/manufacturing complex, with additional tailwinds expected ahead from drivers like reshoring, infrastructure spending, industrial automation and more. Baird added that feedback suggested pricing is thought to be sustainable and actually moving higher into 2023, based on preliminary supplier price increases and continued inflationary pressures.

Speaking of inflation, U.S. producer prices increased less than expected in October, suggesting inflation is subsiding. Whether it's enough to allow the Federal Reserve to slow its aggressive pace of interest rate hikes remains to be seen.

"Industrial distributors have thus far seen no change in the industrial/manufacturing demand environment," Baird said in its conference takeaways for distribution. "Customer backlogs remain strong. Activity levels are healthy with more demand tailwinds (Infrastructure spending, reshoring, industrial automation, aging customer technical workforce etc.) ahead even if the macro deteriorates. Industrial distributors are cognizant of potential slowing and prepared to manage accordingly, but to date, weakness is isolated to the consumer/housing market."

Sentiment Doesn't Match Economic Indicators

What I find most interesting from my in-the-field discussions with distribution and supplier leaders is that their rosy demand outlook contrasts with the latest economic indicators that are traditionally seen as reliable barometers of the industrial economy's health.

For example, the Institute for Supply Management's monthly Manufacturing Purchasing Managers Index (PMI) has been on a steady decline since May of this year, with October's mark of 50.2% just above breakeven for expansion. Within the PMI, the index for new orders has been in contraction territory in September and October at 47.1% and 49.2%, respectively.

Likewise, U.S. industrial production — which includes manufacturing, mining and utility output — fell 0.1% in October, following a downwardly revised 0.1% increase in September. Wall Street Journal economists expected October industrial production to increase by 0.1%.

But economic data doesn't always tell the whole story when it comes to forecasting demand.

The Final Word

If I had to choose to trust either economic indicators vs. the observations from actual distributors and their customers, I'd always choose the latter.

The latest federal wholesale data, the Baird conference takeaways, findings in the Q3 Baird-MDM Industrial Distribution Survey and sentiment shared with MDM from various executives in the past few months all suggest that distributors certainly aren't expecting a considerable demand slowdown in 2023.

Some distributors have acknowledged that they don't expect 2023 to be a banner revenue year in the way that 2021 and 2022 have been, but they expect solid revenue growth nonetheless.

Market conditions can certainly still change, but for now, it appears that a greater economic slowdown will primarily impact demand in consumer-facing segments, rather than industrial/manufacturing customers.

Click here *for web version. Executive Editor Mike Hockett can be reached at* mike@mdm.com.

STRATEGY

Distributors' Big Bets Take Many Forms

Acquisitions and technology investments remain viable ways for distributors to bet on themselves to outperform competitors, but they aren't the only options available.

By Mike Hockett

Much of the economic talk throughout the second half of 2022 has focused on a forecasted slowdown in the first half of next year, and while many business leaders see market downturn as a time to go conservative, others see it as an opportunity to gain market share.

The pandemic wasn't a great example since it was a sudden downturn thrust upon the entire global economy almost overnight, and distributors spent much of the past three years in reactionary mode. Still, once enough fires were put out, companies were able to move into proactive mode and fortify themselves against the next major disruption. Those fortifications have come in the form of investments, but in a variety of ways. Investments in mergers & acquisitions and technology have always been at distributors' disposal, but with numerous supply chains still backed up, a historically challenging labor situation and a (presumably) demand slowdown ahead, the rationale behind those investments remains fluid. A panel discussion at MDM's SHIFT conference in late September tackled the topic of strategic investment for distributors and its various forms. I found the biggest takeaway to be that, when considering investment options, distributors should think beyond just incremental growth or improvement.

"The message that I encourage distributors to take is that you can't just do everything on the list reasonably well, because everybody else is doing that, too," McKinsey & Company Senior Partner Kevin Sachs said at SHIFT. "You do have to figure out what are the one, two or maybe three things that you're going to do that are really going to be bold bets. And when I say bold bets, if you're not moving the needle 30 to 50% on whatever significant metric you want to improve, then it's not bold. So really, just think big."

Betting with M&A

The forecasted slowdown in the first half of next year hasn't put a damper on the level of activity in mergers and acquisitions for distributors and suppliers in recent months. Here on MDM, we posted news about 26 M&A items in August; 25 items in September; and 28 items in October. It hasn't let up in the first half of November, either. During SHIFT's opening keynote presentation, the McKinsey duo of Sachs and company Partner Alex Abdelnour emphasized how M&A is one of the critical growth drivers for the outperformers in industrial distribution. They shared that, at the end of 2021, the 15 largest such distributors accounted for a 7% share of the then-$3.3 trillion U.S. market, compared to 5% just five years earlier.

Of course, M&A isn't only for the big guys. As noted in my Q&A piece with Wilcox Investment Bankers Managing Director Jason Wilcox this past April, an estimated 50% of all 2021 industrial and commercial M&A was backed by private equity firms, and the vast majority of deals made by distributors during these past two years have come from companies too small to be on MDM's 2022 Top Distributors Lists. Acquisitions aren't just pursued purely for revenue growth or to fill a geographical gap. As we've seen in the past two years, many targeted bolt-ons have diversification behind them. Look at Motion and Applied Industrial Technologies making a series of automation acquisitions; look at DXP Enterprises — traditionally catering to oil & gas customers — acquiring numerous wastewater and water management distributors; look at Lawson Products' merger with Gexpro Services and TestEquity.

"It's hard to grow organically, so acquisition as a strategy is critical," Dorn Group President James Dorn said in the aforementioned SHIFT panel session. "I always say, 'It's not what your competitors do to you, it's what you do to yourself. So when you're thinking about potential acquisitions, maybe don't think about it as acquiring a couple of new lines or acquiring a company for the region, territory or country. Maybe this is a channel critically needed in your business. It's another quick way to be aggressive in your goals, but it's is also based upon how aggressive private equity firms are — they are very thoughtful about where they spend their investment."

If you haven't seen our initial marketing for it yet, MDM just announced our upcoming 2023 M&A Virtual Summit, to be held Feb. 22-23 in the form of two four-hour program blocks on back-to-back days. MDM last hosted an M&A Summit in February 2021, and a whole lot has happened since then across the distribution landscape — hence the need for an updated virtual conference aimed to give attendees the tools they need to be masters of M&A.

You can read all about the event and find registration at the webpage for it at the link above, but in a nutshell, the 2023 Summit will cover all of distributors' need-to-know

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details about the M&A deal process and what's involved. The content will span what to consider before pursuing a deal, best practices during the transactional process; and the aftermath of integration. Stay tuned for the event's agenda, as we're putting together a terrific lineup of M&A experts.

Betting on Organic Growth

Ideally, distributors could rely solely on organic sales growth to drive enough profit that acquisitions wouldn't even have to be considered. But the industry's hyper-competitive landscape and razor-thin margins (when inflation isn't historically high) tend to make organic growth a slow process. Still, there are ways to bet on organic growth.

One of the most newsworthy is via adding new physical locations or company divisions. Recent examples from just the past few months from major distributors include Global Industrial opening a new distribution center in Toronto; Winsupply's new Innovation Center and drone delivery program; Digi-Key's new DC in Minnesota; Optimas Solutions re-opening its quality lab in Indiana and opening its Center of Excellence in Mexico; and Motion's expanded AI facility in Minnesota. On the smaller side, Packer Fastener just opened its fourth new location in an 18-month span, and those new locations have led to nearly 50% year-over-year revenue growth for the company. Another method of betting organically is in product line expansion or diversification. Certainly, this can be done via acquisition, but distributors can still add or pivot to a new product category, which is especially attractive at the moment given the amount of volatility certain markets have seen in these past few years. Investing in a new product line that is proven to be resilient during an economic downturn or less susceptible to major swings in demand.

Nearshoring is another organic opportunity. In the 3Q Baird-MDM Industrial Distribution Survey, 70% of respondents — primarily distributors — said they were likely to shift more of their sourcing to domestic suppliers over the next three years, including 22% who said they were very likely. In a report released this past August, that same Baird research team calculated that industrial distributors could see a $15 billion gain in incremental revenue from reshoring over the next decade, including approximately 100 basis points of growth for publicly-traded distributors like Grainger, Fastenal, Wesco International, MSC Industrial Supply and Applied Industrial Technologies, while building materials distributors would benefit as well. Baird said the revenue gains would result from increased domestic MRO opportunity and significantly improved supply chains

Betting with Internal Investments

M&A isn't the only way for distributors to bet on themselves to outperform their competitors. We've consistently discussed digital transformation at length here on MDM — whether that's in the long-range transformation that stretches back a decade, or a more rapid transformation in these past two-and-a-half years brought on by customer buying trends coming out of the COVID-19 pandemic.

Either way, investing in that digital transformation is a form of betting on yourself. Distributors are investing in digital tools that automate their processes — both in the office and in the warehouse; enhance customers' eCommerce experience; make sales staff more effective; significantly improve internal and external communications; and much more. MDM's webcasts throughout 2022 have reflected this.

Investments in technology and systems certainly isn't as sexy and headline-making as an acquisition, but the dividends can be just as lucrative in terms of increased production. As featured in MDM's Oct. 26 webcast, truck parts distributor Midwest Wheel Companies has seen up to a 30% reduction in time processing sales orders after implementing an AI-based automation tool that was developed, tested, validated and deployed to a 75-person sales team in just under four weeks.Distributors' labor struggles — illustrated by colorful commentary in MDM's quarterly survey commentary — can't be solved with an acquisition. That's where betting on your ability to improve productivity alongside hiring and retainment tactics takes hold. Beyond technology, distributors' internal big bets can also be in their culture and people. If top leadership knows that the company's working atmosphere is in a bad place or needs some invigoration, a culture overhaul may make sense. On the people side, there may be an individual manager that's creating an operational or culture bottleneck, and leaders have to be bold enough to make a change. Again, such moves aren't attention-grabbing from a customer's view, but betting on that change to pan out is often more successful than just maintaining the status quo.

The Final Word

Given the fragmentation within distribution and the myriad of market demographics across the sector, there is no right or wrong way to make these aforementioned big bets for really moving the needle in terms of business growth. For one distributor, an acquisition may make the most sense.
For another, a tech investment is their best option.

"If you're a distributor, you're driving for sales performance, or pricing or improving your product category offering. And that's great, but everybody is doing that," Sachs said at SHIFT. "The folks that are successfully transforming are the ones that are making bold enough bets to do stuff that — if it really pays off, and they do it successfully — it makes a big difference."

Click here *for web version.*

DATA & ANALYTICS

How to Use Reporting and Data in Channel Incentive Programs

Nichole Gunn dives into the ways distributors and manufacturers can access and wield incentive program reporting and data to elevate sales and marketing strategies.

By Nichole Gunn

Manufacturers and distributors have historically struggled to manage incentive programs. An effective incentive program requires resources, including time and expertise. Not only do incentive programs require an informative and attention-getting launch, they must be continuously monitored, updated and tracked to optimize for success. The good news is that a well-run incentive program not only yields more sales and improved performances, but valuable customer data.

Let's dive into the ways distributors and manufacturers can access and wield incentive program reporting and data to elevate sales and marketing strategies.

Collect Enrollment Information

When you run an incentive program, you can control participation by restricting access to those you've specifically invited. This "closed" enrollment is beneficial if you have a specific, pre-determined incentive program audience or you want to keep the number of participants under a certain amount. On the other hand, an incentive program with "open" enrollment is a great way to collect data about buyers you know little to nothing about.

Many manufacturers' customers buy products from brands that mean nothing to them. Plenty of consumers have a favorite clothing or coffee brand, but who talks about their favorite HVAC or plumbing supplier? An incentive program not only gives these customers a reason to get familiar with your brand — it provides manufacturers with data about these buyers they otherwise know nothing about.

Offer an incentive program enrollment form that's publicly available to everyone and you can collect the customer data you're missing. Now you can connect with and marketing to those customers! But don't abuse this data once you have it. Customers will quickly unsubscribe if they see no value in your communications, and you don't want that to be one of their only associations with your brand.

Use Incentive Rewards to Encourage Data Submission

An incentive program allows you to reward channel partners for all sorts of behaviors, not just making sales. When you reward channel partners for submitting data, you can gain access to more sales and customer insights — with real-time speed, even!

When you use incentive technology with an online file upload feature, channel partners can submit documents such as invoices, receipts and warranty registrations to claim their sales rewards. They can upload files in document format (.pdf, .doc, etc.) or even snap a picture of the document with their phone camera to upload the claim when they're in the field or in the middle of a sale or installation. Because of the instant gratification of the reward and lowered participation barriers, channel partners are more motivated to submit sales data, even beyond the reward itself.

Use High-Engagement Reward Moments to Collect Data

Partner audiences are more engaged with marketing content when it's related to rewards. Studies have found that email click-rates on rewards-related emails are 419% higher than industry averages.

What does this have to do with data? This incredibly valuable moment of your channel partners' attention and engagement presents an opportunity to collect data. If you strategically relay related information and requests alongside incentive marketing messages, partners are more likely to engage with those messages. For example, you could send an email with a message such as "You have 5,000 points waiting in your account! By submitting this customer satisfaction survey, you could earn 500 more!"

Increased engagement with channel partners leads to more insights about their needs and better, more positive experiences with your brand.

Integrate Data Between Channel Platforms

Your organization likely already uses multiple channel platforms, such as customer relation management (CRM), through-channel marketing, inventory management, or sales enablement programs. These programs all collect data about your sales and buyers. Incentive programs, too, collect unique information about channel partners and their engagement with incentive sales promotions. None of this information across various systems is valuable to you, however, if it takes teams hours to find it, export it and interpret it into meaningful reports.

Data is only as good as the insights and strategies it yields. Tech integration is your key to developing those insights and strategies. Expect your incentive technology

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to provide technology that can integrate with your existing channel software. Work with incentive providers that have reliable programming and onboarding support, as well as API integration that facilitates two-way data exchanges.

With integrated channel partner data, not only can you develop more effective sales and marketing strategies, you can anticipate partners' needs and provide them with more relevant, personalized communications and offers.

Measure Key Performance Indicators (KPIs) and Return on Investment (ROI)

Like any other channel marketing initiative, it's important to justify your incentive program to stakeholders. You need to prove the program's ROI and show that your incentive strategies are achieving their goals. This is where incentive program KPIs come into play. Your KPIs should be a set of metrics that reliably paints a picture of how well the program is performing. Some examples include:

- Open and click-rates of emails related to the program
- Program enrollment
- Program account activation
- Program engagement and activity
- Reward distributions and redemptions

The ultimate indicator of your program's success is the performance of participants compared to non-participants. When you can definitively show that those engaged in your incentive program sell or buy more products than other channel partners, you'll know you've made the right investment in a program that shed light on buyer trends while helping you incrementally increase sales.

Like most industries, manufacturing and distribution markets are experiencing an influx of software to help them manage their distribution channels. The right channel software saves you time and resources, while yielding valuable and accessible data that can give you a competitive edge. With effective incentive program data management strategies, your incentive program can tell you more about channel partners and what motivates them, so your partnership drives more revenue for you both.

Click here *for web version. Nichole Gunn is Chief Marketing Officer at* Incentive Solutions.

STRATEGY

Rewrite Your Strategy to Win the New Self-Serve Customer

The end customer desires to buy from you like they do in their everyday personal life. If you aren't rewriting your strategy to meet the needs of the self-service customer, you are in danger of falling behind.

By James Dorn and J Schneider

In our personal life, we have been trained to become self-service experts. You probably find yourself ordering at Chipotle, Starbucks, or McDonalds using an app quite often. You track packages, order groceries, and now you can even see what the mailman is going to deliver in the mailbox today on your hand-held supercomputer (what some people still call a phone).

How you transitioned to "self-service" ordering probably happened so gradually you didn't even notice the change. As a distributor or manufacturer in your work life, you understand that you lowered the cost for the company or restaurant you order from by doing the work for them. You are making them more efficient and profitable, by doing some of the work they used to have to pay people to do for you.

This self-service change is increasing the threats facing your traditional distribution business model. It's now very easy to sell direct. More manufacturers are investing in technology to sell direct, marketplaces are expanding, and distributors are expanding into adjacent and new channels.

The self-serve end customer is now in control, and they have less time or desire than ever to interact with your account managers. Account manager sales are not dead, but how to use our outside sales resources effectively is changing.

You can view these changes as threats or opportunities. I say enough about the threats, because there are ways that you can stay relevant and beat your competition — without having to sell your business like some consultants recommend.

Here are five key steps we use with our clients to help them get their team inspired and focused on building a

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modern strategy to win more loyalty with the new self-serve customer.

1. Focus on an Audience: Be intentional on which audience segments you will serve and build moats around them. Which segments are core versus non-core? Which segments are forecasted to grow (tailwinds)? Which segments are profitable and would value more solutions from you? We recommend that you rate, score and prioritize these audiences and segments into a scorecard.

2. Identify Pain: Learn everything you can about your core audience segments. Develop teams and continuous processes to research and observe your customers' behavior and operations. Understand how they are changing their buying habits — and why — and identify areas of pain in their business.

There is one big trap: don't rely solely on feedback from your sales team. They are trained to solve problems with products and can jump to solutions sometimes too quickly. You need good listeners and observers to document insights into Customer Journey Maps. By developing a map, you can share with all your teams to help them understand where your gaps and areas of improvement exist. If you have already developed customer journey maps, then I recommend you create and overlay a competitor journey map to understand where you can take share.

3. Reset the Supplier Partnership Structure: The distributor-supplier partnership structure has not changed in decades. Now is the time to rebalance the risk and reward aspects of the relationship. Some distributors have reduced their carrying inventory, and some manufacturers have cut back on technical support resources. Reset the value delivered by each party and consider adding new dynamics like lead sharing, point-of-sale intelligence, etc. Your manufacturers are ready for this, and they are asking for it.

4. Joint-Innovation Roadmap: Share your customer research and intelligence with key supplier partners to jointly develop new solutions to solve end customer pain. Think about it: Distributors have a front-row seat to their customers' operations. Distributors are ideally positioned to bring suppliers together into larger solutions to solve end customer challenges. Joint innovation can be in the form of value-added services or a seamless end-to-end integrated buying experience. This is not a one-and-done type of project, it's an iterative process. With a roadmap, you can continue to learn and evolve your solutions around the changing needs of the end customer.

5. Reallocate Sales & Marketing Resources Around the New Buying Behavior: The selling process is evolving as more and more buyers are seeking a self-led experience and limiting their interaction with account managers. You need to ensure that you properly allocate enough resources to your inside, digital and field selling teams. The sales coverage mix has drastically changed. Building a modern sales and marketing team that allows the customer to navigate through the process and engage with team members at crucial stages to help them get the best solution is critical. I suggest you aggressively market your new joint-innovation offering and over-communicate the value that it is delivering. This approach will help you keep the business sticky for your customers.

The Final Word

If you keep the customer at the center of your strategy good things will happen. The end customer is in control today. To remain competitive in the face of market forces, you need to build stronger value moats around your customers and really understand your customers' buying process.

The distributors that are winning market share are focusing on key segments, identifying their customer pain points and designing programs and services to change their business to meet the new self-service customer's needs.

Click here *for web version.* James Dorn *is the president & CEO of the Dorn Group.* J Schneider *is managing director of the consulting practice at Dorn Group.*

LEADERSHIP

Financial Acumen: The Not-So-Secret Fundamental of Distribution Leadership

The ability to understand, manage and interpret numbers is a critical soft skill that enables distribution leaders to speak the language, make managerial decisions and understand implications of financial data.

By Read Frymire

Good leadership has many components, including soft skills like people management and coaching. One critical component that sets the foundation for leadership in any business, including distribution, is financial acumen. Financial acumen involves having financial knowledge and discipline that empowers you to understand, manage and interpret numbers.

And because accounting and finance are the universal language of business, it is effortless to see how command of numbers is foundational. Having confidence in accounting and finance means knowing how to speak the language, make managerial decisions, and understand the implications of the numbers so you can interpret them for yourself. Having such a command automatically sets you apart from your peers, gets you noticed faster and likely lands you in a different room.

Know the Numbers, Gain an Edge

The goal that distribution education programs need to set for their students is to understand the financial discussions happening at the table with the C-Suite and have a command of the subject. Emerging leaders need to perform their own analysis and read the financial statements with confidence. With this command and confidence, they will get the attention other peers will not, and their skills will set them apart. They can take what they have learned, enter a room of people with deep financial backgrounds, have the confidence to contribute, and ask intelligent questions from a financial perspective.

Managerial accounting and financial language of business knowledge can be applied in any industry, not just distribution. Moreover, it is fundamental knowledge for a range of experience levels. No matter what your responsibilities or goals are in a business, you must understand the numbers to become a well-rounded leader.

How Distribution Education Sharpens Financial Skills

In our curriculum, we teach experience with Excel spreadsheets so students can develop a deeper understanding of how the numbers interrelate and behave as they manipulate a spreadsheet. One of the best ways for students to learn the fundamentals of accounting and finance is through repetition. Every module has a spreadsheet template to help instill familiarity and confidence with the tool. With such confidence, they can perform their analysis to confirm or deny information they are getting from elsewhere in the company.

An example of a course that increases command of financial knowledge is MID Distribution Profitability Analysis. Finance is the common language for business worldwide. My co-instructor and I are enthusiastic about imparting this knowledge. If we had this knowledge at an earlier point in our careers, we would have excelled at a faster pace. In my class, what students learn gives them the freedom and power most people don't have: the freedom to understand the numbers and make better and different decisions, the confidence of knowing what decisions to make based on facts, and the power to have command over the business.

We also teach word economy — the practice of using fewer words to say more. We have exercises and modules that require writing to express financial outcomes, with strict parameters to encourage students to use concise language. Finance professionals want the brass tax about what the numbers are telling us. The course is rigorous for most students. I would rather you fail here and learn here than learn the hard way in the board room.

Acquiring an Industry-Specific Degree on the Path to Leadership

The MID program is the leading master's program for industrial distribution. The knowledge imparted is a mile deep in the world of distribution, whereas an MBA is a mile wide but only an inch deep in business knowledge. In the MID program, students gain a deep understanding of all fundamental business topics and the science of distribution and distribution profitability. When students emerge from this program, they are light years ahead in the distribution world.

I have carried what I learned as a graduate of the Industrial Distribution program with me throughout my career, across industries and my adult life.

The best student testimonial is when one of my students tells me that they received a promotion or were able to take advantage of a job opportunity because of the knowledge they discovered and learned in my class.

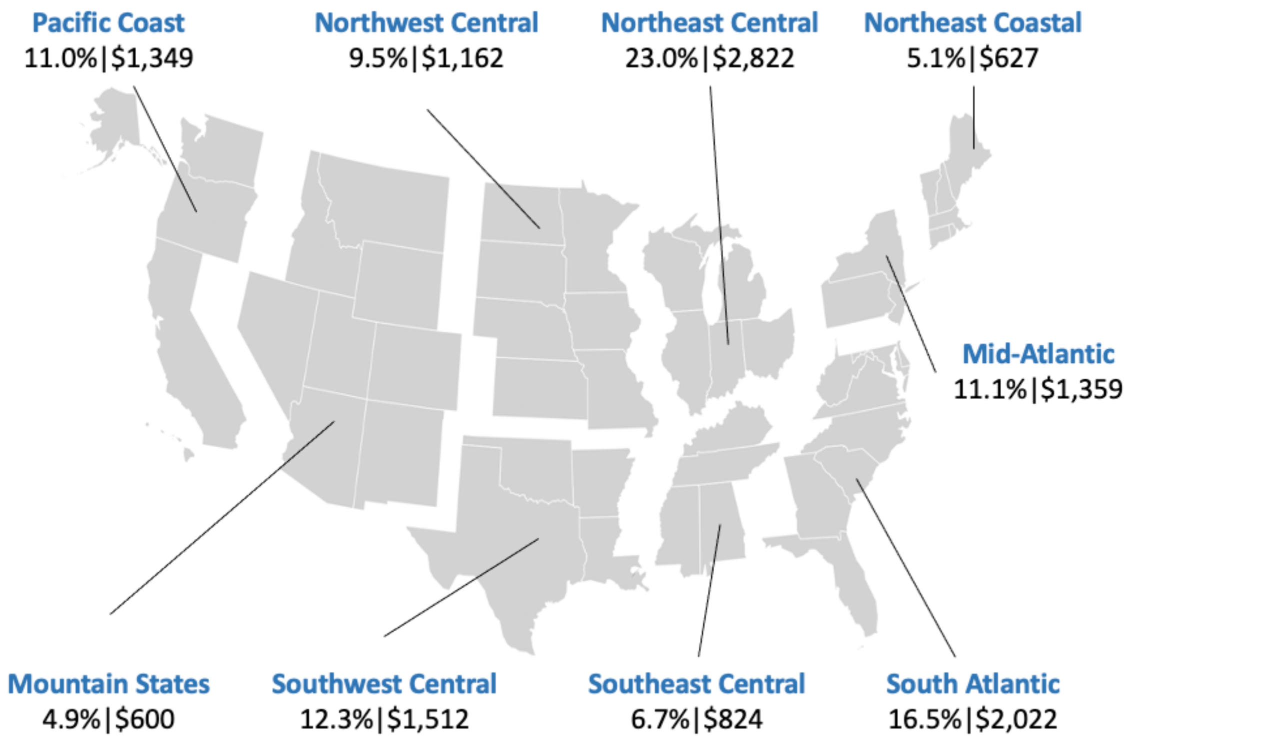
Click here *for web version.*

U.S. MARKET PROFILE

Motors (Integral) Demand Totals $12.3 Billion

Market demand for motors (integral) totaled $12.3 billion according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin.

Market Demand for Motors (Integral) by Region, $Millions (2022)



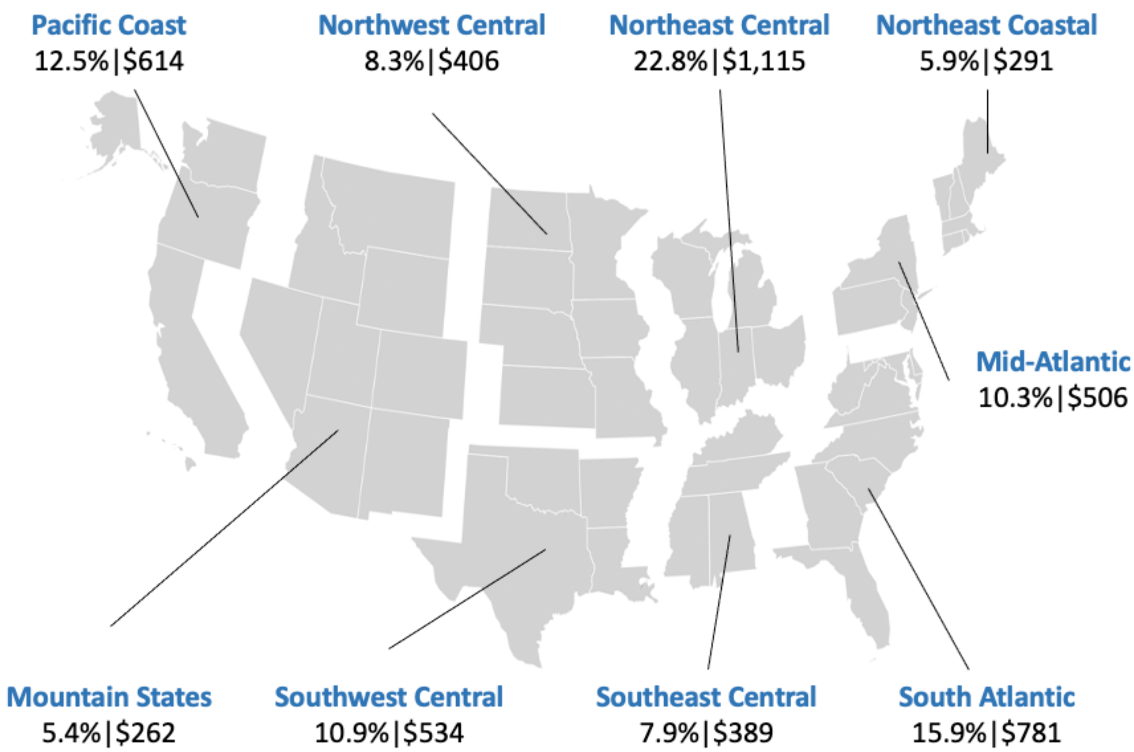
NAICS 6	Description	Total Demand	Accounts
333415	Air-Conditioning, Air Heating, Refrigeration Equipment	$1,640,789,366	2,641
238210	Electrical Contractors/Other Wiring Installation Contractors	$1,584,026,356	115,895
333120	Construction Machinery Manufacturing	$849,909,157	3,928
333914	Measuring, Dispensing, Other Pumping Equipment	$832,626,040	1,360
333248	All Other Industrial Machinery Manufacturing	$533,191,695	3,943
322120	Paper Mills	$483,046,153	2,097
333413	Industrial/Commercial Fan and Blower and Air Purification	$475,665,290	1,143
333912	Air and Gas Compressor Manufacturing	$315,139,936	728
333310	Commercial, Service Industry Machinery Manufacturing	$311,789,641	7,938
238220	Plumbing, Heating, and Air-Conditioning Contractors	$301,682,066	192,861

U.S. MARKET PROFILE

Motors (Fractional) Demand Totals $4.9 Billion

Market demand for motors (fractional) totaled $4.9 billion according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin.

Market Demand for Motors (Fractional) by Region, $Millions (2022)



NAICS 6	Description	Total Demand	Accounts
333415	Air-Conditioning, Air Heating, Refrigeration Equipment	$851,916,394	2,641
238210	Electrical Contractors/Other Wiring Installation Contractors	$510,120,336	115,895
333310	Commercial, Service Industry Machinery Manufacturing	$342,918,126	7,938
335220	Major Household Appliance Manufacturing	$244,470,152	884
335210	Small Electrical Appliance Manufacturing	$240,620,175	3,943
333914	Measuring, Dispensing, and Other Pumping Equipment	$204,092,187	1,360
238220	Plumbing, Heating, and Air-Conditioning Contractors	$126,749,306	192,861
334118	Computer Terminal and Other Peripheral Equipment	$124,755,488	2,825
333413	Fan, Blower, Air Purification Equipment Manufacturing	$101,905,602	1,143
333414	Heating Equipment (except Air Furnaces) Manufacturing	$75,429,035	709