

# Executive Summary

## CHAPTER ONE: PRIVATE LABEL PRODUCTS

Private label products—products branded by a wholesaler-distributor—represent a break from the more traditional wholesale distribution approach of reselling manufacturers’ branded products. The use of private label strategies by wholesaler-distributors will expand substantially over the next few years. Global sourcing from Asia and South America provides a source of low-cost manufacturing capacity for distributors looking to offer their own private label products.

Private labels will strengthen wholesaler-distributors’ relationships with their customers. However, they will strain distributors’ relationships with their suppliers by challenging the wholesale distribution channel’s traditional role as an extension of a manufacturer’s sales and marketing activities. Distributors will need to build new capabilities in manufacturing and design in order to create products with unique, premium benefits. They will also have to select the right opportunities for private labels and manage the new supply chain risks associated with their own products.

## CHAPTER TWO: DEMAND-DRIVEN CHANNELS

The term *demand-driven* refers to the idea that products are pulled down the supply chain to the market based on actual customer demand data. It also represents a contrast from the more traditional notion of products in a marketing channel being pushed by manufacturers toward the customer. Both manufacturers and distributors will be able to manage their respective inventories better when demand-based information is shared. Three key enabling factors for a demand-driven channel will become more prominent over the next 5 years, thereby creating the conditions for demand-driven channels in many wholesale distribution lines of trade. These factors are

- An automated order stream from wholesaler-distributors
- Upstream visibility into actual demand from the customers of wholesaler-distributors
- Adoption of automatic product identification technologies by wholesaler-distributors.

Wholesaler-distributors can succeed with demand-driven channels by developing appropriate supply chain data transmission standards in their lines of trade, evaluating new profit streams from data transmissions to suppliers, and applying demand-driven concepts to their own businesses.

## CHAPTER THREE: NEW PROFIT MODELS

Manufacturers will increase their share of a wholesaler-distributor's profit margin from product distribution, and this will lead to greater use of pay-for-performance channel compensation models by manufacturers. Wholesaler-distributors will need to understand whether their companies are truly profitable channel partners.

Nevertheless, wholesaler-distributors can benefit from better measurement of performance and can derive new profit streams in the supply chain. One example is outsourced fulfillment as a fee-based service to traditional suppliers. This allows distributors to beat back the threat from logistics companies. Many wholesaler-distributors are also successfully creating new profit models through fee-based services to customers, and this trend will keep growing across most wholesale distribution industry segments.

Ongoing success will require wholesaler-distributors to master the financial dynamics of a services business, which are different from a product distribution business. Wholesaler-distributors will also need to monitor new developments at competing logistics companies and avoid their overconfidence in the unique value of their own logistics prowess.

## CHAPTER FOUR: CONNECTED CUSTOMERS

**W**holesaler-distributors must fully embrace the Internet in their business activities now that it is a normal part of everyday life in the United States and Canada. Online search capability is becoming a primary way for customers to find new suppliers, so wholesaler-distributors should shift their marketing resources online to reach potential customers who are looking for suppliers. Online collaboration tools, such as online work spaces and virtual trade shows, will emerge as new ways for wholesaler-distributors to interact with their customers. However, customers will increasingly gather information from other customers, thereby bypassing traditional marketing messages from both upstream manufacturers and their wholesaler-distributors.

Adoption of self-service technologies, which has grown significantly in the past 3 years, will continue, so wholesaler-distributors must allow customers to gain information, place an order, and solve simple problems themselves when appropriate. Success in the ever-evolving online business environment will require wholesaler-distributors to use their Web sites as an effective sales lead generation tool and information resource to respond to their customers and to teach their sales reps to sell and communicate using new technologies.

## CHAPTER FIVE: EMERGING TRENDS

**T**he wholesale distribution industry is going through a very active wave of merger and acquisition activity that is led by both strategic buyers and financial buyers, such as private equity firms. Although executives in most markets expect continued acquisition activity, there is little consensus about the ultimate impact on the wholesale distribution industry.

The U.S. workforce is becoming older and more diverse as the baby boom generation ages, mirroring broader changes in the U.S. population. These demographic changes could have substantial impacts on the wholesale distribution industry, although there will not be a single point in time when these demographic changes trigger a particular crisis in the wholesale distribution industry. Distributors may face the retirement of their most knowledgeable and seasoned employees, while simultaneously competing more aggressively to attract the next generation of junior and middle managers to their companies.

Wholesale distribution executives must also recognize that unusually high commodity price inflation has made revenue growth much easier to achieve. Wholesaler-distributors are going to have to work harder for real growth as the commodity cycle changes, and this will require a more strategic and focused approach. Wholesaler-distributors will benefit by using demand-driven models (Chapter Two) and evaluating new profit sources (Chapter Three).

## CHAPTER SIX: CONSTRUCTION MARKETS

**W**holesaler-distributors of building materials and contractor supplies have shown consistent growth during the past 5 years due to strong residential construction activity, the rebound in commercial construction, and the growth of remodeling and repair work. The combination of many small customers and multiple specialties supports a diverse set of wholesale distribution lines of trade that are typically organized around product type.

The private label products trend will affect wholesaler-distributors of building materials much more than contractor supplies wholesaler-distributors. In contrast, the demand-driven channels trend will have a smaller impact on building materials markets than on any other market covered in this report. The impact on contractor supplies markets will be greater due in part to the connection to maintenance, repair, and operations (MRO) markets. The consolidation of builders is changing wholesaler-distributors' profit sources and this creates new opportunities for both fee-based services to customers and fee-for-service logistics to suppliers. The fragmented nature of contractor supplies markets suggests relatively fast penetration for the connected customers trend.

## CHAPTER SEVEN: INDUSTRIAL AND COMMERCIAL MARKETS

**D**omestic manufacturing continues to undergo a dramatic transformation, which challenges industrial MRO and original equipment manufacturer (OEM) wholesaler-distributors. Manufacturing employment has not rebounded following the unprecedented decline that began in 2000. In contrast, the commercial MRO business is much less cyclical than the industrial business because it is tied to many diverse segments of the U.S. economy.

The private label products trend is well established in both MRO and OEM markets. Almost one-half of MRO supplies distributors and nearly two-thirds of OEM and production materials distributors currently offer private label products. Demand-driven channels are coming to industrial and commercial wholesale distribution markets. By 2012, many MRO supplies wholesaler-distributors and OEM and production materials wholesaler-distributors expect to share point-of-sale data with suppliers.

Wholesale distribution executives in industrial and commercial markets expect important shifts in the composition of their gross margin. The shift to manufacturer-led compensation is most pronounced in OEM and production materials markets, whereas MRO supplies distributors are benefiting from fee-for-service offerings to customers. The Internet will grow to be a crucial sourcing tool in these markets, although the growth rates in Web site ordering have slowed in the past few years.

## CHAPTER EIGHT: RETAIL CONSUMER MARKETS

Retail sectors are becoming more concentrated and increasingly dominated by a handful of large, multiple-location chain stores, warehouse clubs, home centers, and supercenters. Wholesaler-distributors serving retail markets face a shrinking number of potential customers even though overall retail sales continue to expand. As a result, more than one-half of wholesaler-distributors in retail markets offer their private label products, which often provide unique items to help their small retail customers compete against the retail giants.

Wholesaler-distributors in retail markets share data with more suppliers than in other markets, and this reflects the fact that the demand-driven concept originated in retail industries. Similar to other markets, wholesaler-distributors in retail markets expect that manufacturers will take on more responsibility for a distributor's profit margin from product distribution. However, fee-for-service payments from customers will be harder to get than in other markets. Online ordering will see substantial growth, while ordering methods that are still termed *traditional* in other customer segments will see a sustained decline.