



# mdmpremium monthly

April 2023

## IN THIS ISSUE [CLICK HEADLINES TO READ](#)

**Datum:** Disinflation Going Forward? ..... p. 2  
**Industry News Digest** ..... p. 3

### **Data: Distributors See Slightly Improved Staffing Amid Inconsistent Labor Market**

Distribution executives commented on their current staffing situations in response to the Baird-MDM 1Q 2023 Distribution Survey. ....p. 5

### **April Wholesale Data: Industrial Distributors' Optimism Hard to Ignore**

While talks of a slowdown persist, industrial distributors outperformed nearly all other wholesale sectors in 1Q's first two months. ....p. 7

### **How Did Pricing Inflation Affect Gross Margin in 2022? Here's What Distributors Said**

We asked distributors if their gross margin was over- or under-inflated in 2022 thanks to pricing inflation. Here's what the data says. ....p. 8

### **How to Refresh and Refine Your Customer Segmentation**

This MDM Premium piece from Redwood Advisors focuses on how your organization can develop a detailed customer segmentation methodology. ....p. 9

### **How to Map Your Customers to the Right Channels and Reps**

In this second of a two-part series by Redwood Advisors, learn about the final steps to optimizing an expansive sales force: mapping your accounts to the right sales channel and assigning them the right rep. ....p. 11

### **What Distributors Stand to Gain from America's Factory Building Boom**

Factory construction spending hit a record level in 2022, and it hasn't slowed down in 2023. Mike Hockett breaks down the numbers and what this means for distribution. ....p. 12

### **Breaking Down the DSG-Hisco Acquisition and its Market Impact**

It combines the No. 34 and No. 38 companies on MDM's 2022 Top Industrial Distributors List. Mike Hockett dives into the details. ....p.15

## **U.S. MARKET PROFILE**

### **Market Snapshot:**

Abrasives .....p. 17  
 Abrasives (cont.) .....p. 18

## **April Content Focus on Market Outlook, Sales Optimization**

I distinctly remember April 2022 as when I first started seeing economic forecasts for a considerable economic and industrial slowdown that would take hold late this past year.

A year later, that hasn't happened. At least not in-full. Yes, certain industrial individual product markets have seen reduced demand, and the numerous leading economic indicators showing contraction or slowing activity shouldn't be ignored. But overall, sentiment in the industrial supply realm remained positive entering May 2023.

I witnessed this first-hand at the 2023 NAHAD Convention — which was a destination event at the Atlantis Paradise Resort in the Bahamas (rough life, I know). It wasn't just the plentiful white sand beaches, resort scenery and tropical weather that had the hose distributor and manufacturer attendees in a good mood.

I asked company leaders and NAHAD Board members about the product demand temperature, and they voiced a similar message I've heard all of 2023: backlogs remain near record highs and their year-over-year and month-over-month sales numbers are holding strong. The same sentiment was heard repeatedly at ISA23 in mid-April in Phoenix. These executives aren't ignoring the economic warning signs. They're trusting their data and what they're seeing and hearing from their customers and sales reps, and it's still predominantly positive.

MDM's Premium content in April reflected recent market data, including our 1Q MarketPulse Report that shared a wealth of data from the 1Q23 Baird-MDM Industrial Distribution Survey of 500+ respondents, along with plenty of colorful commentary from those respondents about what they're seeing out there. Additionally, our 1Q M&A Report provided a new snapshot of dealmaking activity. Find both those valuable reports on [www.mdm.com](http://www.mdm.com).

We likewise shared industry sentiment in a trio of Premium articles in April. An April 26 piece focused on 1Q Baird-MDM Survey results to our question of how respondents' labor situation is now compared to a year ago (pg. 5); an April 18 piece distilled the latest wholesale sector data from the U.S. Census Bureau (pg. 8); and an April 17 piece shared 1Q Baird-MDM Survey results to our question that asked respondents to what extent that pricing actions impacted their 2022 revenue figures (pg. 9). April also featured a two-part Premium series from Redwood Advisors' John Nantz and Sabrina Franco about how to optimize an expansive sales force — diving into developing a detailed customer segmentation methodology (pg. 10), and mapping your accounts to the right sales channel and rep (pg. 12.)

Elsewhere in April Premium content, I examined what distributors stand to gain from the U.S. ongoing manufacturing construction boom (pg. 14); and a thorough breakdown of Distribution Solutions Group's pending acquisition of fellow large distributor Hisco (pg. 16).

**DATUM****Disinflation Going Forward?**

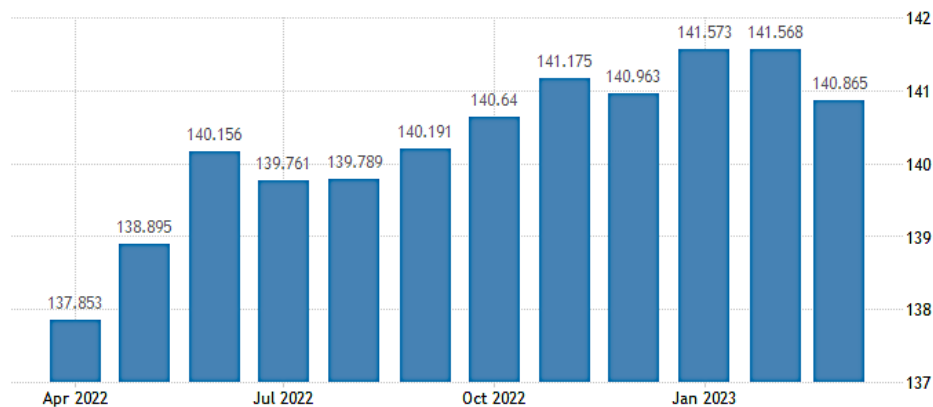
The U.S. Bureau of Labor Statistics' March Producer Price Index delivered some long-awaited reprieve on the inflation front, showing that the index decreased 0.5% from February — an unexpected result according to major economist sources, who had predicted a 0.3% increase.

Core inflation (excluding volatile food and energy categories) dipped 0.1%. Of course, this doesn't mean we've hit deflation, but rather suggests the U.S. economy has finally turned the corner to a period of disinflation — a slowing rate of inflation. Good news nonetheless for a wholesale trade sector that has had to manage consistently rising producer prices for three years.

At the NAHAD 2023 Convention of hose products

distributors and manufacturers, keynote speaker Patrick Luce of ITR Economics noted that disinflation is likely to hold through mid-2024 and then trough. But as ITR economists' have voiced repeatedly this year, the conditions that underpin current inflation conditions — including labor market struggles and reshoring — are likely to drive an inflation resurgence then after.

Quarterly earnings reports from publicly-traded industrial distributors in 4Q22 and 1Q23 indicated that these major firms have paused enacting price increases in these past two quarters, but often added that those actions could resume depending on market conditions. Further out, Luce said the U.S. economy is most certainly headed toward a mild recession — with ITR predicting a 2023 real GDP increase of 0.9%; followed by a 0.3% decline in 2024; and then bouncing back with 2.5% growth in 2025.

**U.S. Producer Price Index: April 2022-March 2023**

Source: [TradingEconomics.com](https://tradingeconomics.com) | [U.S. Census Bureau](https://www.census.gov)



MDM Premium Monthly (ISSN 0544-6538) is published monthly by Modern Distribution Management, a brand of Gale Media, Inc., 6309 Monarch Park Place, Suite 201, Niwot, CO 80503. Annual MDM Premium Membership price is \$395; this individual use license provides access to MDM Premium Monthly, exclusive industry reports and discounts on MDM's other proprietary market intelligence and conferences.

Site licenses and multi-user pricing are available for those who wish to distribute MDM Premium Monthly and Premium reports throughout their firms. Contact us for details at [info@mdm.com](mailto:info@mdm.com), call (303) 443-5060 or visit our website at [www.mdm.com](https://www.mdm.com).

[Mike Hockett](#), Executive Editor  
[Mark Powell](#), Associate Editor  
[Brad Star](#), Associate Editor  
[Tish Drake](#), Publisher  
[Tom Gale](#), CEO  
[Marlyn Forberg](#), Customer Service

**MDM Editorial Advisory Board**

Mark Bray, President, ACR Supply  
 Chester Collier, SVP, Walter Surface Technologies  
 Ted Cowie, Vice President Sales, Safety & Industrial Products, Motion Industries  
 Larry Davis, CEO & Founder, AgoNow  
 Julia Klein, Chairwoman & CEO, C.H. Briggs Company  
 Doug Savage, President & CEO, Bearing Service Inc.  
 Ted Stark, President, Dalco Enterprises

This PDF is licensed for individual use only. All other distribution prohibited without permission.

## Industry News Digest: April 2023

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

### Distribution & Manufacturing News

Lake Forest, Illinois-based industrial distributor [Grainger](#) reported 1Q sales of \$4.1 billion, a 12.2% increase year-over-year and up 14.5% on a daily, constant-currency basis.

Cleveland, Ohio-based [Applied Industrial Technologies](#) announced its fiscal 2023 third-quarter earnings, which showed net sales of \$1.1 billion, a 15.4% increase over the same quarter in fiscal 2022.

Electrical, communications and data networking products distributor [Graybar](#) has entered into an agreement to acquire Valin Corporation, the company announced. [Graybar](#) also posted 1Q net sales of \$2.7 billion, an increase of 12.2% year-over-year.

Getzville, New York-based motion technology manufacturer [Columbus McKinnon Corporation](#) has entered into a definitive agreement to acquire montratec GmbH, the company announced.

Chicago-based [Flexpak LLC](#) — a distributor and supplier of packaging supplies — announced that it completed the acquisition of select assets in St. George, Utah.

Swedish bearings manufacturer [SKF](#) reported first-quarter net sales of SEK 26.5 billion (\$2.57 billion USD), a 15.7% increase compared to 1Q 2022.

[Amazon](#) plans to expand its business efforts for selling office supplies internationally — including in Europe — after the COVID-19 pandemic led to more companies shopping online and looking for bulk discounts.

Chicago-based gypsum wallboard and building materials distributor [L&W Supply Corporation](#) has acquired Old Fort Building Supply, the company announced.

Dublin, Ireland-based power management company [Eaton](#) announced April 24 that it has completed its acquisition of a 49% stake in Jiangsu Ryan Electrical Co. Ltd.

PPE supplies and household adhesives manufacturer [3M](#) plans to eliminate 6,000 positions amid financial restructuring, the company announced when reporting its first-quarter earnings on April 25.

[Boeing Distribution](#) announced that it has signed an exclusive distribution agreement with Ontic, an OEM of certified aircraft parts, that will allow Boeing to provide aftermarket distribution for Ontic's Staverton product line.

MRO parts distributor [Motion](#) has promoted Patrick Cummings to Senior Vice President and Chief Financial Officer effective immediately, the company announced.

Fairfield, Ohio-based industrial distributor [AFC Industries](#) has acquired fasteners distributor QFC Industries, the company announced April 24.

Miami, Florida-based HVACR equipment distributor [Watsco](#) announced slower sales growth during the first quarter of 2023 despite reporting a 2% increase in sales over the same period last year to a record \$1.55 billion.

[Genuine Parts Company](#) reported its 2023 first-quarter financial results, showing that its industrial parts segment, Motion, is still benefiting from its acquisition of Kaman Distribution Group over a year after the deal closed.

Swimming pool equipment and outdoor living products distributor [Pool Corporation](#) reported 2023 first-quarter net sales of \$1.2 billion, a 15% decrease from 2022.

[CK Supply Inc.](#) — a distributor of compressed gases, dry ice and welding equipment — announced it had completed its acquisition of Welds Supply Inc., a Kansas City, Missouri-based supplier serving similar markets.

France-based electrical distributor [Rexel](#) said its 2023 first-quarter North American sales were up 8.7% compared with the same period in 2022.

Kenosha, Wisconsin-based tools manufacturer [Snap-on](#) reported 2023 first-quarter sales of \$1.18 billion, up 7.8% year-over-year.

Home improvement retailer [Lowe's](#) announced details of rooftop solar panel installations at 174 store and distribution center locations nationwide, including 20 sites currently in operation.

Dallas-based rubber and fluid products distributor [SBP Holdings](#) has rebranded as Singer Industrial.

*Continued on next page*

The [Industrial Supply Association](#) announced that Craig Vogel is the recipient of the 2023 John J. Buckley Lifetime Achievement Award, the highest honor bestowed by ISA to an individual in the MROP channel for their longstanding service in the industrial supply industry.

The [Industrial Supply Association](#) announced that Kim Shacklett, Senior Vice President of Sales & Customer Success at MSC Industrial Supply Co., was named the winner of the 2023 Women's Influence Award.

Houston, Texas-based [Bishop Lifting](#) — a portfolio company of Altamont Capital Partners — announced the acquisition of General Work Products, a provider of access to safety-critical cordage, rope and fall protection products also based in Houston.

Wood Dale, Illinois-based fasteners manufacturer and distributor [Optimas Solutions](#) has appointed Phil Battaglia as its Chief Financial Officer, the company announced.

Independent distributor organization [AD](#) has been named a Top Workplace in the Delaware Valley for the fifth consecutive year, the association announced.

Dayton, Ohio-based construction executive Andrew Goetz was named the new president of [Wilcon Corporation](#), a Winsupply Company, according to a news release.

Global electrical products distributor [Sonepar](#) announced it would invest over \$1 billion in its digital transformation over the next five years to focus on a personalized customer experience. [Sonepar](#) also entered into an agreement to acquire Butler's Electric Supply.

OEM foodservice equipment parts distributor [Parts Town](#) has launched its HVAC parts category, the company announced April 13.

Procurement and supply chain solutions provider [AFFLINK](#) announced that longtime President and CEO Dennis Riffer plans to retire.

Houston-based Sonepar subsidiary [Crawford Electric Supply](#) has hired Chastity DeVito as its Houston Sales Leader, the company announced.

Industrial technology company [Acuity Brands](#) announced it has reached an agreement to acquire Washington, Missouri-based KE2 Therm Solutions, Inc., which develops and provides intelligent refrigeration control solutions.

Fargo North Dakota-based electrical distributor [Border States](#) announced that Tyler Klose has been named Pricing Strategy Manager.

[Fastenal](#) shared its 2023 first quarter financial results on April 13, and it showed what is likely to be a common theme for fellow industrial distributors in the current earnings reporting period: slower sales and margin growth alongside a smaller pricing impact.

St. Louis, Missouri-based [Emerson Electric and National Instruments](#) have finally agreed to a deal that will allow Emerson to purchase NI for roughly \$60 per share in cash at an equity value of \$8.2 billion.

Alabama-based [Birmingham Fastener](#) recently announced the opening of its newest branch, Phoenix Fastener in Arizona.

Cleveland, Ohio-based [Hospeco Brands Group](#) — a manufacturer of personal care, cleaning, and protection products — announced it has merged with Philadelphia-based Monarch Brands, a wholesaler and manufacturer of microfiber, commercial laundry linen, institutional textiles and wiping products.

Irving, Texas-based truck and trailer parts distributor [FleetPride Inc.](#) announced that Kevin Weadick is the company's new CEO.

## Economic & Trends News

Real gross domestic product increased at an annual rate of 1.1% in the first quarter of 2023, according to the "advance" estimate released by the [Bureau of Economic Analysis](#).

U.S. cutting tool consumption in February was \$196.9 million, according to a new report from the [U.S. Cutting Tool Institute](#) and The Association For Manufacturing Technology.

[Major ports across the U.S.](#) saw their volumes drop last month to levels not seen since before the COVID-19 pandemic due to a decline in imported cargo, exports and empty containers, Transport Topics reported on April 20.

The [International Longshore and Warehouse Union](#) and the Pacific Maritime Association reached a tentative agreement "on certain key issues" that could open the door to more negotiations, the ILWU said in a statement.

## OPERATIONS

## Data: Distributors See Slightly Improved Staffing Amid Inconsistent Labor Market

Distribution executives commented on their current staffing situations in response to the Baird-MDM 1Q 2023 Distribution Survey.

By Brad Star

Despite incremental improvements in the greater labor market since the start of 2022, hiring and staffing still appear to be very challenging aspects for employers in the distribution industry.

Overall, labor conditions have improved since last year, but on somewhat of an inconsistent basis. Employment in the wholesale trade sector was up a solid 2.3% year-over-year in March, according to the Bureau of Labor Statistics, though that followed an insignificant 0.1% year-over-year increase in February.

One of our rotating questions in the 2023 1Q Baird-MDM Industrial Distribution Survey asked distributors, “How would you rate your current staffing situation compared to a year ago?”

The approximately 500 respondents, primarily consisting of distributors, illustrated the unsteady state of the industry’s labor market: 12% said their staffing situation is “much better” compared to a year ago; 30% said “slightly better”; 43% said “about the same”; 14% said “slightly worse”; and 1% said “much worse.”

This rotating question also featured an open-ended response component, which garnered commentary from over 100 distribution executives regarding their staffing situations. Responses were kept anonymous.

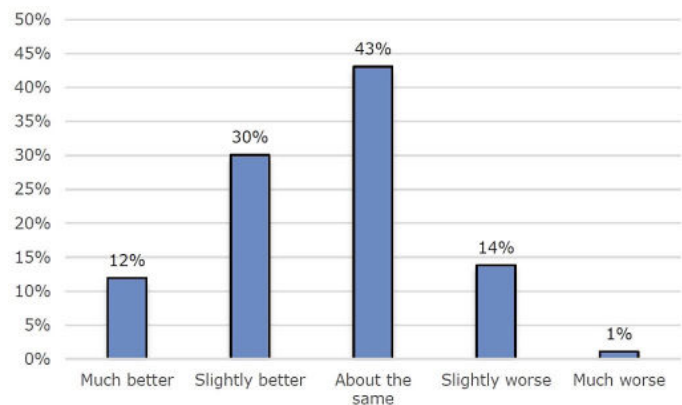
A theme among polled distributors is that they are now able to better retain staff compared with the past few years, but hiring remains difficult.

“Prices have gone down a little, and people are not looking as much at leaving,” one executive said. “I think inflation has caused this change.”

“Competitive pressures seem to have abated,” another said. “Retaining/attracting still requires a lot of focus and resources, but it is not as frantic as it once was.”

“From my view, companies that went into 2020 with cashflow weaknesses or thin margins are now (2023) ‘leaking’ employees who are looking for better pay, better bennies, more opportunity for advancement, better company culture and more stability,” an executive suggested.

The following includes additional commentary from the survey's open-ended response component:



Source: Baird-MDM 1Q23 Industrial Distribution Survey

- “Considering a reduced or shared work (schedule).”
- “Lack of applicants. Highest wages we (have) ever paid and can't attract enough employees.”
- “Hard to find people to keep up with growth.”
- “We are getting more, better applicants for the positions we are looking to fill with the exception of sales engineers - those continue to be tough.”
- “Hard to find qualified people for skill positions. They are happy where they're at or if an offer comes in, their current employer will give them whatever they need to stay.”
- “Quits have slowed somewhat, but it's still very difficult to find new people.”
- “Budgets tight to rehire and fill positions including backfills and planned hires.”
- “Company has not met the salary needs of managers, so lost many.”
- “Retention has improved and finally have all the right players in the right seats.”
- “We have had no discernible staffing issues for several years now other (than) one retirement.”
- “Compensation pressures appear to be easing with the number of layoffs increasing.”
- “We still have openings, but fewer.”
- “Staffing is very fluid. Of 4 hires in 2022, only one is still with us.”
- “Have had turnover, but replacing with better talent.”

*Continued on next page*

- “We have no major staffing-related issues, and do not expect any for the remainder of 2023.”
- “We continue to hire due to growth. The labor market remains tight and finding qualified candidates is difficult.”
- “The overall quality of candidates has definitely improved.”
- “We are getting more qualified applicants for all job postings.”
- “Definitely harder to find warehouse employees but we have been successful so far.”
- “Identifying, recruiting and retaining talent remains a challenge.”
- “Able to add incremental headcount to support growth, but attracting, and retaining good people is getting harder.”
- “We are not intending to add to total head count until later in the year pending results.”
- “Very similar to last year. We are a bit heavy currently as we prepare to fill roles to eventual retirements.”
- “Have caught up on our backlog so we currently are good with staffing.”
- “Even though we hired more people, the pick of the pool is not what it once was. The talent is coming from outside the industry too.”
- “Difficult to keep talent, especially in analytics and eCom.”
- “A year ago we would routinely fail to meet our hourly staffing headcount levels. Today we are always able to meet those targets, although hourly worker quality is still down from Pre-2020 and turnover remains elevated.”
- “It's difficult to find suitable people (especially) in areas like Conover, NC, where our plant is.”
- “Job applicants are much better and easier to find than last year.”
- “We are fortunate to find qualified candidates for our open positions, but we continue to have a lot of turnover in the hourly worker areas as people often look for that slight increase in pay somewhere else. I feel like we are competitive and generous in our benefits but some people don't look at the full picture.”
- “Difficult to get good people who are committed to (a) full work week.”
- “Most of our roles are filled, but still having issues trying to find service people to work on cleaning equipment. Trying to find qualified service technicians has been an issue for the past couple of years.”
- “Still understaffed by about 5%.”
- “It seems people are finally willing to work entry level jobs again.”
- “We were able to increase our staff with quality hires.”
- “Invested in training for both sales and management.”
- “We're fully staffed for the first time since 2020.”
- “Between the job market opening up and sales trending more moderate, employment situation has improved greatly.”
- “Our workforce has been fairly stable in sales and back-office functions. The highest employee turnover has been in our warehouses.”
- “Still have open positions. Turnover of unskilled labor has lessened.”
- “You just cannot find and hire competent people that actually want to show up and work.”
- “Labor availability has greatly improved, while wage rates have largely stabilized.”
- “Still finding it very difficult to find quality candidates even with a rich offering of salary and benefits.”
- “The gig jobs like Uber and Lyft have given people other ways to have a job that accommodates his or her situation.”
- “Companies need to ensure their culture is positive, supportive and constantly reinforced and staffing takes care of itself.”
- “More applications and better quality.”
- “Staffing situation stabilized by second half of 2022.”
- “We are having a difficult time matching our labor force to flow of material from supply chain.”
- “When we can get people, we can't get parts and when parts are available, we have trouble getting people.”
- “Overworked last year, finding skilled help is nearly impossible.”
- “We continue to struggle with hiring drivers. However, we have seen improvements in staffing levels in other areas (admin, accounting and equipment operators).”
- “Lost a few people to higher paying competitors.”
- “Difficult to find college educated with up to 10 years experience.”
- “We added sales staff in 2022 and plan to continue adding through 2025.”
- “As we hear from various business sectors we are finding it difficult to staff.”
- “Fully staffed with better people this year.”
- “Improved candidate flow and follow-up.”
- “As we grow, we are staffing more critical/strategic roles that are harder to find.”
- “We have found more qualified candidates are available in the past few months.”
- “We have not had significant challenges hiring or retaining employees.”

[Click here](#) for web version, which includes far more respondent commentary. Associate Editor Brad Star can be reached at [brad@mdm.com](mailto:brad@mdm.com).

## ECONOMIC TRENDS

## April Wholesale Data: Industrial Distributors' Optimism Hard to Ignore

While talks of a slowdown persist, industrial distributors outperformed nearly all other wholesale sectors in 1Q's first two months.

By Mike Hockett

We've been hearing for over a year now about a pending economic slowdown or recession, for which an estimated arrival time seems to have been pushed out until the fourth quarter of this year.

Through mid-April, MDM's conversation with distribution executives, industry consultants and association leaders continue to paint an optimistic picture for industrial demand and what they are hearing from customers and field sales reps, signaling that many industrial end markets may prove more resilient to a forecasted slowdown if it arrives in-full. And while Fastenal's 2023 first-quarter earnings report may have thrown a bit of cold water on that optimism, the greater industrial distribution sector appeared to enter 2Q with strong momentum in the face of such headwinds.

As the U.S. Census Bureau's April Wholesale Trade Report showed through February, 2023 revenue expectations soured 1.4 percentage points compared to the end of January. But that decline was heavily weighed down by a 4.3-point decline from oil & gas products distributors — wholesale

distribution's largest sector — while grocery and foodservice distributors (third largest) also fell 1.8 points.

Contrasting that was a 1.7-point gain from industrial distributors, whose 9.7% 2023 revenue expectation through February was behind only motor vehicles and motor vehicle parts distributors' 11.4% (flat vs. January) and pharmaceutical wholesalers' 10.6% (+0.3 points vs. January) in the Bureau's 17 tracked wholesale sectors.

Thirteen of those 17 sectors saw 2023 revenue expectations fall from January to February, with the biggest drops in building materials and construction (-5.8 points); agricultural products (-5.6), oil & gas products (-4.3 points); and metal service centers (-4.2 points).

The Bureau's April wholesale trade report data was compiled for MDM by Brian Lewandowski, Executive Director of the Business Research Division at the Leeds School of Business at the University of Colorado Boulder.

Likewise, industrial distributors were second-best in month-to-month retail trade revenue performance during February at 2.9% growth vs. January, trailing only computer and computer peripheral equipment and software's 3.3%.

### Expectations by Sector – Through February

| Major Sector (Largest to Smallest Sector Revenues)             | 2020<br>Revenue | 2021<br>Revenue | 2022<br>Forecast | 2023<br>Forecast | 2024<br>Forecast |
|----------------------------------------------------------------|-----------------|-----------------|------------------|------------------|------------------|
| Pharmaceutical Wholesalers                                     | 6.0%            | 8.1%            | 11.4%            | 10.6%            | 8.8%             |
| Oil and Gas Products Wholesale Distributors                    | -29.8%          | 61.6%           | 40.3%            | -11.6%           | 0.3%             |
| Grocery and Foodservice Wholesale Distributors                 | -1.5%           | 12.6%           | 12.7%            | 4.5%             | 2.8%             |
| Electrical and Electronics Wholesalers                         | 1.0%            | 18.8%           | 9.5%             | 0.1%             | 6.8%             |
| Industrial Distributors                                        | -3.3%           | 12.2%           | 15.8%            | 9.7%             | 4.6%             |
| Motor Vehicles and Motor Vehicle Parts Wholesale Distributors  | -8.8%           | 11.1%           | 10.1%            | 11.4%            | 11.6%            |
| Other Consumer Products Wholesale Distributors                 | 2.0%            | 16.7%           | 11.7%            | -0.5%            | 2.6%             |
| Miscellaneous Durable Goods Wholesale Distributors             | 7.8%            | 30.7%           | 0.7%             | -4.9%            | 2.1%             |
| Computer Equipment and Software Wholesale Distributors         | 1.1%            | 11.1%           | 6.8%             | -7.8%            | 2.4%             |
| Commercial Equipment and Supplies Wholesale Distributors       | -2.9%           | 13.8%           | 5.0%             | 1.3%             | 3.9%             |
| Agricultural Products Wholesale Distributors                   | 3.0%            | 29.4%           | 25.7%            | 4.6%             | 2.6%             |
| Metal Service Centers                                          | -19.7%          | 52.4%           | 15.6%            | -6.3%            | 6.9%             |
| Building Material and Construction Wholesale Distributors      | 5.1%            | 29.3%           | 15.3%            | -12.8%           | -1.2%            |
| Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers | 2.7%            | 18.5%           | 14.7%            | 0.6%             | -0.3%            |
| Beer, Wine and Liquor Wholesalers                              | 7.5%            | 9.4%            | 2.1%             | 3.2%             | 5.7%             |
| Apparel and Piece Goods Wholesale Distributors                 | -22.2%          | 24.6%           | 4.3%             | -2.2%            | 3.1%             |
| Chemicals and Plastics Wholesale Distributors                  | -8.5%           | 26.1%           | 20.8%            | -8.1%            | 1.7%             |
| Furniture and Home Furnishing Wholesale Distributors           | -1.3%           | 14.8%           | 15.1%            | -5.2%            | -4.9%            |
| Office Product Wholesalers and Paper Merchants                 | -7.4%           | 9.4%            | 14.9%            | -4.9%            | -1.6%            |
| <b>Total</b>                                                   | <b>-4.5%</b>    | <b>20.5%</b>    | <b>14.8%</b>     | <b>0.3%</b>      | <b>4.2%</b>      |

## PRICING

## How Did Pricing Inflation Affect Gross Margin in 2022? Here's What Distributors Said

We asked distributors if their gross margin was over- or under-inflated in 2022 thanks to pricing inflation. Here's what the data says.

By Mark Powell

Last month, the Producer Price Index for Final Demand fell 0.5% — the largest decline since the start of the COVID-19 pandemic in early 2020 — while U.S. consumer inflation eased to 5%, the smallest 12-month increase since the period ending May 2021. The prospect of potential continued declines in inflation, coupled with an expected economic downturn later this year or early next year, has kept an aura of uncertainty around industrial distribution markets. What we already know for sure is how pricing inflation has affected the bottom lines of many industrial distributors and manufacturers.

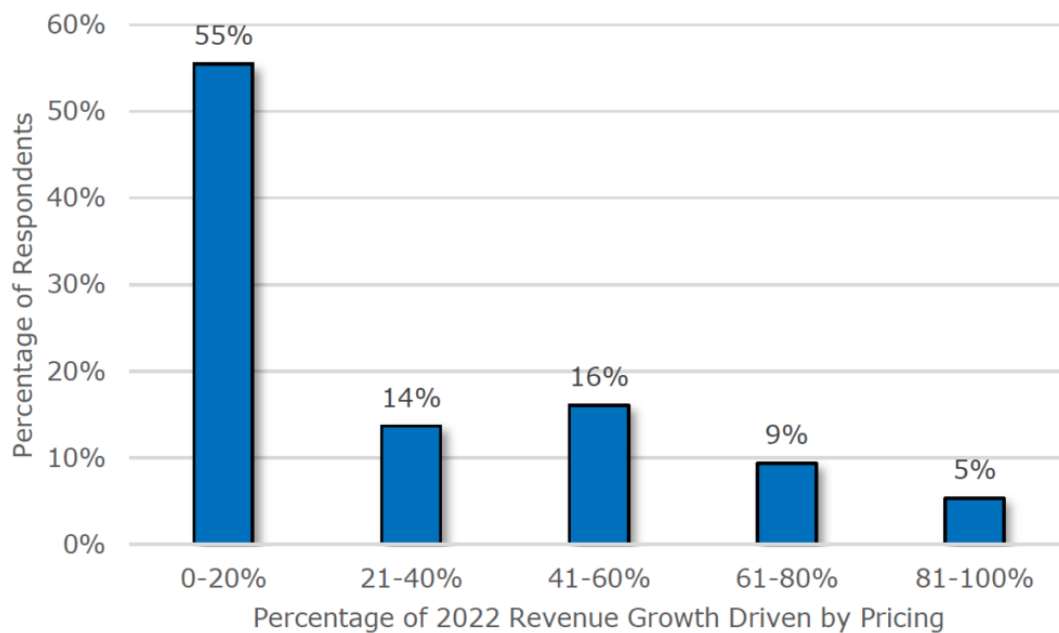
In January, MDM reported findings from the 4Q 2022 Baird Analysis Baird/MDM Industrial Distribution Survey, which included asking the question, “What percentage of your company’s 2022 revenue growth was attributable to pricing impacts?” Of those who responded, 55% said between 0-20% of growth was attributable to pricing impacts; 14% said 21-40% was due to pricing; 16% said 41-60% was due to pricing, 9% said 61-90% was due to pricing;

and just 5% answered that 81-100% was due to pricing.

For the 1Q 2023 version of the survey, Baird and MDM went back to that well. We asked approximately 500 companies (primarily distributors), “How much do you think your gross margin was over- or under- inflated in 2022 thanks to pricing inflation?” Respondents from all 18 industries that answered the question said their gross margin was over-inflated in 2022 due to pricing inflation, ranging from a low of +0.7% (OEM fasteners) up to +1.7% (datacomm).

Waterworks products reported +1.6% inflation, while roofing reported +1.5%, according to the survey. HVAC (+1.4%), plumbing (+1.3%), electrical (+1.3%), pool & spa (+1.2%), landscape supplies (+1.1%), wallboard/gypsum (+1.1%) and industrial/energy PVF (+1.1%) all reported over-inflations of at least 1%.

Lumber & building materials, hose & accessories, and FM/JanSan (MRO) said their gross margins over-inflated +0.9%. Metalworking/cutting tools and general industrial (MRO) responded with +0.8%. Mechanical/PT and safety reported inflations of +0.7%.



Source:  
Baird-MDM  
1Q23 Industrial  
Distribution  
Survey

[Click here](#) for web version. Associate Editor Mark Powell can be reached at [mark@mdm.com](mailto:mark@mdm.com).

## SALES &amp; MARKETING

## How to Refresh and Refine Your Customer Segmentation

This MDM Premium piece from Redwood Advisors focuses on how your organization can develop a detailed customer segmentation methodology.

*By John Nantz & Sabrina Franco*

Distributors have seen several substantial changes impact the industry in the last few years, including the rise of eCommerce, powerful sales enablement technologies (e.g., CRM, mobile points of sale), changing customer priorities and increasing customer comfort with remote and online sales engagement and customer support among others. These changes have created a large opportunity for distributors to drive top and bottom-line growth by optimizing their go-to-market (GTM) strategy and approach, particularly their outside and inside sales forces. Many distributors have invested in an expensive sales force, but it's not optimized — and that puts senior management at risk.

In our experience, a re-designed and optimized sales and marketing organization can unlock up to 20% bottom-line growth over 2-3 years with most of the increase coming from increased top-line growth. Yet many distributors have not reviewed or refined their GTM model for years and sometimes even decades. Based on our work in this area, we recommend distributors follow a three-step process to optimize their GTM model and sales & marketing organization:

- **Phase 1:** Refresh and refine your customer segmentation to enable smart, effective GTM planning and execution
- **Phase 2:** Assign your now well-defined customer segments to the optimal GTM channel (e.g., outside sales rep, inside sales rep, retail, online self-service, etc.) by segment.
- **Phase 3:** For customers assigned to the outside or inside sales channel, assign customers to a clear sales territory (for customers serviced by outside reps) and rep (the primary owner for the account).

Successfully executing on this overall process can be challenging, but the rewards are often quite substantial and well worth the investment. In this piece, we'll focus on how your organization can develop a detailed customer segmentation methodology.

In our experience, refreshing and refining your customer segmentation may be the most critical step in optimizing a distributor's go-to-market approach, yet it is often overlooked. In general, distributors cannot effectively redesign and optimize their GTM approach and sales

organization without a thoughtful, quantitative, and ideally rigorous update of their customer segmentation. This is the first key step in the overall process.

Each distributor should approach customer segmentation differently. A one-size-fits-all approach simply does not work well for most distributors. Consequently, we recommend distributors build out a customized segmentation approach that provides important, practical insights on how to best sell, serve, and support different types of customers. Important dimensions vary by distributor and often include product portfolio areas (i.e., buckets of similar products), consumables vs. durables bought (both overall sales and % of sales by customer), additional services sold (if any), region, cost-to-serve, and margin profile to name some of the most common, customized categories.

While we do recommend building out a customized, insightful segmentation model, we generally find that four dimensions represent a powerful starting point for segmenting distributor customers: (1) customer size or value, (2) customer-level product mix, (3) customer purchasing pattern (i.e., how they buy whether online, in-person, etc.), and (4) estimated share of wallet. Not every distributor has these data points, and getting these data points often requires data gathering, analysis, and estimation. But this almost always proves to be a highly valuable exercise as these four dimensions powerfully highlight differences between customers - and how different types of customers can and should be best sold and serviced.

The first dimension is customer size or value. This is a critical dimension and one that's been used by distributors to segment customers for decades. You can measure customer size (or value) in terms of both revenue, gross margin, or net margin. In general, we find that gross margin (if available) often represents the best metric to use. Revenue only includes top-line contribution, but customers often vary significantly in their overall gross margin and cost-to-serve. This makes either gross or net margin most attractive. In our experience, net margin often can be hard to rigorously calculate at the account level and often does not change the answer much in comparison to gross margin, which is often easier to pull or calculate. We thus generally recommend using gross margin as a way to measure customer size or value.

*Continued on next page*

The next dimension is customer-level product mix. This gets at what specifically each customer is purchasing from you. In our experience, most distributors have several meaningfully different segments based just on what products or services different customers buy. For example, for distributors that sell both durables and consumables, one common difference we see between customers is that some largely buy consumables, others largely buy durables (or capital equipment), and others buy a good amount of both. Of course, most customers will buy some of both. The difference is what % of sales come from each category. For example, some customers largely buy lower-cost, higher-volume products (e.g., tapes, blades, wheels, lines) while others spend significant amounts on larger, durable products or pieces of heavy equipment that can help improve output, productivity etc.

Differences in this dimension meaningfully impact customer segmentation and ultimately best sales channel to use for a given customer. Customers repeatedly purchasing consumables can often do so easily via e-commerce and inside sales channels whereas durable goods and capital equipment often require more high-touch sales engagement via outside sales reps or even technical experts. Understanding what your customers purchase gives you a strong sense of what type of sales engagement will work best (e.g., personalized, on-point digital marketing emails, an easy-to-use online e-commerce experience, an inside sales rep able to quickly recall and reproduce past orders, an outside sales rep able to share important tips and tricks on how to best use and install a large piece of capital equipment).

The third segmentation dimension is how each customer makes their purchases. In other words, you want to understand what sales channel(s) a customer usually uses to make purchases. Key sales channels include outside sales, inside sales, e-commerce, retail, and mobile delivery (i.e., products

brought to the customer in vans or trucks) to name some of the more common. This segmentation often meaningfully informs later phases of work with customers who largely purchase online or via retail locations often making better candidates for self-service or inside sales than outside sales.

Finally, if possible, we often see a significant amount of value in analyzing customers based on your estimated share of wallet. This is often the most difficult of the four dimensions to estimate as few customers are willing to voluntarily share how much they spend in the product and service portfolio a distributor offers. But this does not mean this cannot be done. For purposes of this analysis, we recommend and often find that high-level estimates of wallet share can work really well, particularly for those customers serviced by a sales rep today. With an estimated share of wallet in place, customers can be placed into one of three buckets (focused on how sales reps need to engage with this client): acquire, develop, and retain. Each of these buckets maps to what percent of the customer's share of wallet you think you have. We recommend mapping customers with 0-10% share to “acquire”, 10%-50% to “develop”, and over 50% to “retain”. This often becomes a critical dimension to use in later phases.

Taken together, these four dimensions create a strong foundation for insightful and highly useful customer segmentation - and provides an in-depth view of your customers and how to best interact with them. All this then represents the critical input to an optimized GTM strategy and approach. Powerful customer segmentation is a key first step to unlocking a significant opportunity to drive top and bottom-line growth, particularly through best-in-class outside and inside sales forces. We highly recommend investing real time and resources on this step as everything that comes later is based on the rigor and comprehensiveness of the segmentation work.

[Click here](#) for web version. John Nantz is a Founding Partner at Redwood Advisors.  
Sabrina Franco is an Associate Consultant at Redwood Advisors.

## SALES &amp; MARKETING

## How to Map Your Customers to the Right Channels and Reps

In this second of a two-part series by Redwood Advisors, learn about the final steps to optimizing an expansive sales force: mapping your accounts to the right sales channel and assigning them the right rep.

*By John Nantz & Sabrina Franco*

Most distributors have a significant opportunity to drive top and bottom-line growth by optimizing their go-to-market (GTM) strategy and approach, particularly their outside and inside sales forces. Many distributors have invested in an expensive sales force, but it's not optimized — and that puts senior management at risk. In this second article by Redwood Advisors, learn about the final two key steps to getting this right: mapping your accounts to the right sales channel and the right sales rep.

Similar to customer segmentation, a customized approach to this account-to-channel mapping will often generate meaningfully better and more optimal results. One-size-fits all does not work well here. But a few key steps and principles are often helpful for most distributors.

One key mapping is figuring out what customers should be “self-serve” and not mapped to the outside or inside sales channels. In general (although certainly not always), customers below a certain size can be mapped to this category. The specific threshold may vary by distributor but can be determined based on comparing an overall cost-to-serve estimate and estimated gross margin with common thresholds being at \$5K, \$10K, and even \$25K depending on what's being sold etc. Most customers below that threshold can then be mapped to the “self-serve” channel.

Conversely, customers above a certain threshold can be mapped to the outside sales channel as a thoughtful starting point. The specific threshold varies by distributor with some common thresholds including \$10K, \$20K, and \$50K. In most cases, customers above that threshold for that distributor will be serviced by an outside sales rep.

Customers between the two thresholds — the self-serve and outside-sales thresholds — can then be serviced by your inside sales force. In general, these customers generate real margin and offer some upside to personalized sales engagement but not enough to warrant the expense of an outside sales rep.

All these thresholds can be thoughtfully set by taking into consideration the estimated impact of serving a customer with a given sales channel and cost-to-serve (or sell). For example, if the fully-loaded cost of an outside sales rep (OSR) is ~\$200K and they can serve ~100-120 customers per OSR, you would want to assume that serving those

customers with an OSR generates an additional ~\$2K of gross margin per customer (minimum). If you pay an ISR ~\$100K to serve ~400 customers, you would want to assume that ISR sales engagement generates ~\$250 of additional gross margin per customer (minimum). Size often represents the most straightforward and important dimension to use when mapping accounts to channels and a good starting point.

Other dimensions can help meaningfully improve and enrich this customer to channel mapping. For example, distributors can make a mistake in only taking into consideration customer size (or value) and not taking into consideration customer purchasing pattern (i.e., how they buy whether online, in-person, etc.). For example, some customers may buy most or even almost all their purchases online. In some cases, although these customers may qualify for an outside sales rep engagement based on their size, these customers may actually prefer — and be better sold and serviced — either via an inside sales rep or even via self-serve, depending on those customers' preferences. One simple way to take this into consideration — although not always the best — is to simply exclude retail and e-commerce revenue (or gross margin) from each customer's total revenue or gross margin when determining whether that customer hits a certain threshold or not. As a starting point, this makes some sense since sales earned via retail or e-commerce are not necessarily related to or driven by sales force engagement. Self-serve or inside sales engagement often works better for these types of customers, depending on their overall size etc.

Another important cut we recommend is identifying what customers purchase products that may require or benefit from in-depth product knowledge, such as how to best install and use a large piece of capital equipment. Customers who purchase heavy equipment may be more likely to value the input or expertise of an outside sales rep or technical expert, especially one who can visit their actual location and help explain how the equipment can best meet their specific needs. On the other hand, customers who frequently purchase the same materials (particularly simple consumables) may have less need for an outside sales rep. In the case of relatively large customers who rely on check-ins or reminders to put in orders, inside sales reps can sometimes be the better fit.

*Continued on next page*

Finally, we recommend enriching your account-to-channel mapping by taking into consideration whether a customer falls into the “acquire” or “develop” customer segments (based on share of wallet). Sometimes it makes sense to invest in sales engagement for customers that offer substantial growth opportunities, even if their current sales numbers are not very significant. It may make sense to dedicate some outside sales team resources on unlocking more sales from your highest-potential customers, through personalized interactions and engagement, instead of servicing high-share, lower-value customers who may be totally fine with inside sales support and your self-service options.

By making the most of your customer segmentation, you can effectively and intelligently map each of your customers and customer segments to the most optimal sales channel. In general, you want to focus your outside and inside sales force on customers that offer the highest return for this investment. This can be done effectively and thoughtfully with a well-crafted and designed customer segmentation model.

Once all customers have been assigned to a sales channel, the next and last major phase of work is mapping each customer to a specific sales rep, whether an outside or inside sales rep. In many cases, this can become a complicated task. And here again, there is no one-size-fits-all approach for different distributors. But there are some sound steps and principles that can serve as a good starting point.

To begin, you will want to pull all your self-serve customers out. These customers will not be served by your inside or outside sales but by your eCommerce, digital marketing and retail outlets.

From there, you will want to design potential outside sales territories based on the location of outside sales customers. Each potential sales territory needs to include enough customers to warrant having a full-time (or near full-time) outside sales representative. Depending on the geographic area covered and relative balance between geographically consolidated versus disparate customers, a typical outside sales representative can cover anywhere between ~80 to ~140 outside sales customers. The designed sales territory also needs to offer enough revenue and revenue upside to warrant assigning an outside sales rep.

Some outside sales customers may not fit in the geographic scope of a clearly defined outside sales territory. In other words, in some areas, there may not be enough customers clustered closely enough to warrant a single sales territory and outside sales rep. These situations tend to get complicated. In some cases, you can add some customers mapped to the inside sales channel to the potential territory to see if these added accounts help warrant outside sales coverage for the region. In other cases, it may just not make sense to service the area with a dedicated outside sales rep. In

those cases, customers assigned to the outside sales channel based on size can be serviced by a proximate outside sales rep (who’s been assigned a nearby territory) or by an inside sales representative.

In other situations, you may have a geographically sensible territory that does not include the typical number of customers. In those cases, you can identify the top inside sales customers (by revenue or potential) that fall within the territory and assign them to the designated OSR to take up the OSR’s capacity. For example, if your potential territory includes ~60 outside sales customers and your OSR can service ~120 customers, you can pull up the top ~60 inside sales customers in the potential territory and assign them to the OSR for coverage.

To merit an OSR, the sales value of all the assigned customers (i.e., those originally assigned to the outside sales channel and the top inside sales customers) should exceed an agreed-upon sales target to justify the investment of an OSR. If the sales target is met, the territory should be assigned to an OSR with the top ~120 customers assigned to them for coverage. If not, all customers within the potential territory should be covered by an OSR in an adjacent territory or inside sales.

After several iterations to fine-tune your geographic territories and assignments, you will have defined and laid out your future-state outside sales territories. From here, you can map your individual outside sales reps to individual territories. Ideally, your reps should be mapped based on their current sales territory or coverage, current customer base, and home location (to limit travel time and maximize the time available to spend with customers). Finally, reps with historically high performance should be prioritized for high-value territories. At the close of this exercise, you should have assigned each territory a well-chosen rep that can effectively service the customers in a given territory.

### **Clearly map your customers to inside sales reps**

After finalizing your outside sales mapping, you can focus on assigning your inside sales customers to inside sales reps. Similar to outside sales reps, inside sales reps should be assigned a target number of customers to serve (i.e., capacity). In our experience, ISRs generally can cover anywhere between 200 to 350 customers, depending on what’s being sold, customer expectations, etc.

The best way to assign customers to individual inside sales reps will vary based on the distributor. In some cases, mapping customers based on geographic region makes the most sense, similar to outside sales reps. Although ISRs will not be conducting in-person visits, they may be more familiar with the culture of the region and the specific needs, expectations, and use cases of customers in that area.

*Continued on next page*

In other cases, it makes more sense to assign customers based on ISR effectiveness or seniority with larger, higher-potential customers going to more productive, effective ISRs. Customers can also be mapped to inside sales staff based on product knowledge or expertise with customers assigned to individual ISRs based on each ISR's knowledge base (e.g., durables, consumables, etc.) and the individual customer's buying pattern (e.g., % spent on durables). For example, customers who frequently purchase a specific product line or type of product can be assigned to an inside sales rep with in-depth expertise of that product. This approach can be especially useful for distributors with lines of heavy machinery or specialized equipment.

Similar to OSRs, you will want to make sure that each ISR has enough customers to warrant the cost of that ISR. Here, no general rule applies as the threshold value can vary a lot based on the margin of each distributor etc. But as a rough

rule, inside sales reps generally make sense if they service a book of business somewhere in the \$1M-\$2M+ range.

### The Final Word

By the end of this exercise, your organization will have laid out best-practice outside sales territories and mapped individual customers (both inside and outside) to individual outside and inside sales reps. This type of thoughtful, comprehensive effort can help maximize the return on your sales force investment and help significantly accelerate top-line growth. In our experience, a well-designed and mapped salesforce supported with good technology and processes can increase top-line growth anywhere between 5%-20% over the subsequent three years as sales staff unlock new opportunities and increase share of wallet with better, smarter coverage models.

[Click here](#) for web version. John Nantz is a Founding Partner at Redwood Advisors.  
Sabrina Franco is an Associate Consultant at Redwood Advisors.

## ECONOMIC TRENDS

# What Distributors Stand to Gain from America's Factory Building Boom

U.S. factory construction spending hit a record level in 2022, and it hasn't slowed down in 2023. Mike Hockett breaks down the numbers and what this means for distribution.

*By Mike Hockett*

It turns out the United States' hottest production item at the moment may be factories.

U.S. Census Bureau data shows that the nation's manufacturing-targeted construction spending reached a record \$108 billion, topping capital devoted to building offices, schools and healthcare facilities. This has continued in 2023, as Census Bureau data says that manufacturing remained the top nonresidential construction spending sector in both January and February, with February 2023's manufacturing construction spending up a whopping 53.5% from a year earlier.

In this piece, we'll dive deeper into the numbers behind America's factory building boom and how distributors stand to benefit from it.

### Chip Makers & More

The biggest headlines in U.S. factory production stem from semiconductor makers, as the country looks to lessen its reliance on chips from southeast Asia in wake of the federal CHIPS and Science Act signed into law by President Biden

in August 2022. The measure provides \$280 billion in new funding to boost domestic research and manufacturing of semiconductors.

Each semiconductor factory, also known as fabs, costs about \$20 billion to construct, Intel's global operations director told CBS News in March. Through early March, CBS reports, 14 companies have either announced or broken ground on a combined 22 new chip factories in the U.S. upon the prospect of grants from the CHIPS Act, for a combined investment total of about \$160 billion — not factoring in suppliers, housing and infrastructure involved.

Beyond fabs, these new factory construction projects span the gamut from food production facilities to pharmaceutical facilities, automotive and electric vehicle battery plants, steelmakers and oil & gas production facilities. Industrial capital project intelligence and prospecting services provider SalesLeads tracked 505 new planned industrial projects (new facilities or major facility upgrades) during the month of March, up 32% from February and up 13.0% year-over-year. The 505 projects included 195 manufacturing facilities, 115 processing facilities and 198 distribution or industrial warehouse facilities.

*Continued on next page*

## Supply Chain Power

The factory boom comes as reshoring has proven to be more attractive than ever coming out of the supply chain chaos that followed the COVID-19 pandemic. For many firms in the greater manufacturing sector, speed and agility have become the most critical attributes companies can have. Respondents in the quarterly Baird-MDM Industrial Distribution Survey repeatedly noted that “inventory was gold” throughout 2021 and 2022 and emphasized the notion that “if we can get it, we can sell it.”

Perhaps the best way to ensure speed and agility in supply chains is to bring product closer to customers, and the U.S. is certainly leaning into it. Dodge Data & Analytics reported that U.S. manufacturing construction starts rose 185% in 2022 vs. 2021, dwarfing the gains of 25% in commercial facilities (office, hotel, warehouse, retail) and 19% for institutional. This cooled some to start 2023, with February manufacturing construction starts up 91% year-over-year, but that’s red-hot nonetheless.

Certainly, not all these new factories are direct action manufacturers are taking to reshore operations. Some are just producers expanding organically with new greenfield facilities. Nevertheless, they stand to improve U.S. industrial supply chains once up and running.

“They all point to the same thing — a major re-assessment of supply chains in the wake of port bottlenecks, parts shortages and skyrocketing shipping costs that have wreaked havoc on corporate budgets in the US and across the globe,” Bloomberg’s Brendan Murray wrote in a July 2022 article.

MDM Contributor John Johnson tackled the reshoring topic in-depth in a two-part Premium series earlier this year, and MDM CEO Tom Gale and Dorn Group CEO James Dorn discussed its potential impact on distribution in a QuickTake Podcast posted in late November 2022.

## Capacity Outpacing Production

After the nation’s industrial capacity utilization fell about 0.75% and 2% in 2020 and 2021, respectively, it increased about 1 percentage point in 2022, and the Federal Reserve noted in March that it’s expected to rise 1 to 1.5 points in 2023.

In terms of economic data, perhaps the only downside to this factory boom is a declining production utilization rate (potential output levels being achieved). The U.S. utilization rate was at around 77.5% right before COVID hit in early 2020 and plummeted to 64% amid industrial shutdowns

shortly after before steadily improving. It began 2022 at about 79% and held at around 81% for most of 2022 (80.7% in April 2022), but fell to 79% in December 2022 and has held there since.

This recent drop could be at least partially attributed to all these new plants going online but not at full capacity when they start operating, so they may just need some time to catch up. But given the ongoing rate that construction is starting on new plants, that may take some time.

## What Distributors Stand to Gain

The potential benefits that distributors could see from this factory-building spree are largely obvious, but deserve mentioning nonetheless.

For one, if manufacturers have capital to spend on facility projects, that usually means a healthy cash flow that can be spent on distribution services.

But bigger and perhaps more immediate is the increased revenue streams distributors could see from the actual construction of all these new facilities, followed by the products needed to maintain them. Distributors of building materials and construction supplies, HVACR, plumbing and utilities infrastructure products figure to benefit most from the construction phase of these projects, while distributors of MRO supplies, JanSan products, fasteners, power transmission and other consumables figure to gain most from the ongoing maintenance at these facilities once they are online.

In late August 2022, Baird’s Equity Research unit reported that industrial MRO distributors could gain \$15 billion in incremental revenues through 2032 as a result of manufacturing reshoring.

“Shorter supply chains could allow distributors to reduce inventory safety stock, saving on working capital,” the firm noted. “Assuming U.S. production would be more costly, distributors might benefit from structurally higher prices for domestically-produced industrial supplies. These last two benefits would accrue to every distributor sourcing from a supplier that chose to reshore/nearshore manufacturing operations vs. offshore production.”

Beyond MRO distributors, Baird added that distributors of building materials and commercial construction products would also be in line to benefit from reshoring.

At one stage or another, distributors in all 17 categories of MDM’s Top Distributors Lists undoubtedly will benefit from this factory investment movement. It’s a tide that lifts all boats in industrial, commercial and building products distribution.

[Click here](#) for web version. Executive Editor Mike Hockett can be reached at [mike@mdm.com](mailto:mike@mdm.com).

## MERGERS &amp; ACQUISITIONS

## Breaking Down the DSG-Hisco Acquisition and its Market Impact

It combines the No. 34 and No. 38 companies on MDM's 2022 Top Industrial Distributors List.

Mike Hockett dives into the details.

*By Mike Hockett*

The news wave of Distribution Solutions Group's March 31 announcement that it will acquire fellow industrial distributor Hisco is still reverberating throughout our audience. But now that a week has passed, I wanted to break down the additional details and insights that DSG shared about this deal in its follow-up investor call just hours after it alerted the masses.

With a potential total purchase price of \$319 million, this deal may pale in comparison to Motion's \$1.3 billion acquisition of Kaman Distribution Group at the start of 2022, but it's arguably the biggest one since then among industrial distributors. It combines the No. 34 and No. 38 companies on MDM's 2022 Top Industrial Distributors List.

And while we've already covered the nuts and bolts of the DSG-Hisco acquisition based on what was shared in the press release for it, I wanted to break down this deal means in terms of what Chicago-based DSG will look like going forward and what the market impact is. DSG shared plenty of additional insights in its investor call about an hour after the press release went live, which I'll summarize here.

But first, a quick snapshot of what DSG gains in Hisco:

### Hisco at a Glance

- Hisco is a Houston-based distributor of specialty chemical and industrial products that serves the industrial technology market.
- The employee-owned company had 2022 sales in excess of \$400 million for its fiscal year that ended Oct. 31. (Along with adjusted EBITDA of about \$29 million.)
- Hisco has 38 branches and approximately 600 employees.
- Value added services: Custom fabrication, packaging/labeling, cold/clean room storage, vendor-managed inventory, precision slitting, die cutting, labeling/printing, prototyping
- Largest suppliers: 3M, alpha, Atlas Copco, Brady, Desco, Elkem, Henkel (via Loctite), ITW (via Chemtronics).

### Transaction at a Glance

Here are the transaction figures that DSG shared early on March 31 in announcing the deal:

- DSG will pay \$261.1 million for Hisco at closing, with a potential additional payment of up to \$12.6 million. DSG will also pay \$37.5 million in cash or DSG stock in retention bonuses to certain Hisco employees that stay with Hisco or its affiliates for at least a full year after the deal's closing, which is expected to happen by the end of 2023's second quarter.
- DSG is financing the transaction at closing via a committed expansion of the company's existing credit facility, plus approximately \$100 million of equity rights offering to existing shareholders.
- DSG plans to combine the operations of its TestEquity unit with Hisco to create one of the largest distributors serving the electronics design, production and repair industries.
- The addition is expected to be accretive on an adjusted basis in 2023.

And, just as a refresher and as detailed in Associate Editor Mark Powell's [March 22 Premium piece](#) examining DSG as it stood a year after its formation, DSG was the result of the merger of distributors Lawson Products, TestEquity and GexPro Services, which was announced on April 1, 2022 — a year and one day before the Hisco news.

- Lawson is an MRO and automotive parts distributor. Its 2022 revenue was \$429.7 million, up 15.6% vs. 2021.
- TestEquity is a distributor of electronic test and measurement equipment and solutions, electronic production supplies and tool kits that support the technology, defense, automotive, electronics, education and medical industries. Its 2022 revenue was \$392.4 million, up 48.5% vs. 2021.
- GexPro Services is a provider of global supply chain services and C-parts to OEM and aftermarket customers. It specializes in the development of mission-critical production line management, aftermarket and field installation programs. Its 2022 revenue was \$385.3 million, up 50.4% vs. 2021.

Those three fairly equally-sized legs combined for \$1.27 billion in DSG's total 2022 revenue, up 35.3% vs. 2021 on a combined basis and vs. how those three units previously performed individually. DSG had approximately \$123 million in 2022 EBITDA.

*Continued on next page*

So, what will DSG look like once the Hisco transaction is complete?

### **Distribution Solutions Group: A \$1.7 Billion Industrial Distributor Going Forward**

In its investor presentation, DSG said adding Hisco gives the combined company approximately \$1.7 billion in 2022 revenue. That will likely place the company at around the No. 22 mark on MDM's 2023 Top Industrial Distributors list, which will debut in June alongside 16 other lists ranking distributors across numerous industry verticals.

The resulting company's combined 2022 EBITDA was approximately \$158 million.

DSG President and CEO J. Bryan King said his company had been eyeing an entry into the industry technology for the past five years and that DSG has "known and followed Hisco's success for many more years."

"We believe that its (Hisco) highly complementary fit with TestEquity will greatly enhance the competitive position of our industrial technology vertical under Russ' (TestEquity CEO Russ Frazee) leadership," King said.

King noted that DSG is buying Hisco at an initial purchase price of 9.4x EBITDA, which DSG believes will be under 6x EBITDA within the first two-and-a-half years after closing. He supported this by pointing to the performance of DSG's past five acquisitions, for which the purchase multiple was a combined 7.7x EBITDA and dropped to 6.2x within a year.

While DSG stated that it plans to essentially combine Hisco with the company's TestEquity unit, Lawson Products and GexPro Services will also see benefits from it.

### **Impact on TestEquity**

Once the deal is completed, TestEquity/Hisco is expected to comprise approximately 48% of DSG's total revenue. DSG describes the combined unit as a "leading supplier of electronic & specialty production supplies and test & measurement equipment across OEM and MRO markets."

The majority of Hisco's revenue is comprised of consumable products that end up in a bill of materials. King

noted that its addition means the reconstituted Test Equity-Hisco unit will be two-thirds weighted towards "reoccurring sticky, less capital-focused production supply products and value-added manufacturing."

### **Impact on Lawson Products**

Upon the closing of Hisco, Lawson Products is expected to comprise approximately 29% of DSG's total revenue.

King acknowledged that Lawson Products' broadline industrial supplies portfolio significantly overlap with Hisco customers that are looking for fasteners and cutting tools.

"We believe (Lawson Products CEO Cesar Lanuza) and the Lawson team have a new pipeline of customers within the 10,000 customers in Hisco serves, and a significant untapped pipeline of opportunity in Mexico," King said. "Our desire with Hisco was to secure a leadership position for DSG in adhesives and solder, which we believe are growing with many of our customers at a faster rate than our established strong market position in fasteners are."

### **Impact on GexPro Services**

On the GexPro Services side, the unit is expected to comprise approximately 23% of DSG's total revenue once Hisco is aboard.

King said DSG believes Hisco's packaging, repackaging and labeling capabilities mesh well what GexPro Services currently offers.

### **More DSG Expansion on the Horizon**

While Hisco represents a landmark addition for DSG, we can expect more expansion news out of the company going forward. CFO Ron Knutson closed the presentation portion of the company's investor call by noting that, prior to Hisco, the DSG platform had acquired 13 businesses since 2017, including five in 2022.

"With the expansion of our credit facility and the expected equity raise, this puts us at a very comfortable leverage position post-close, giving us ample firepower to continue our acquisition strategy as the right opportunities present themselves," he said.

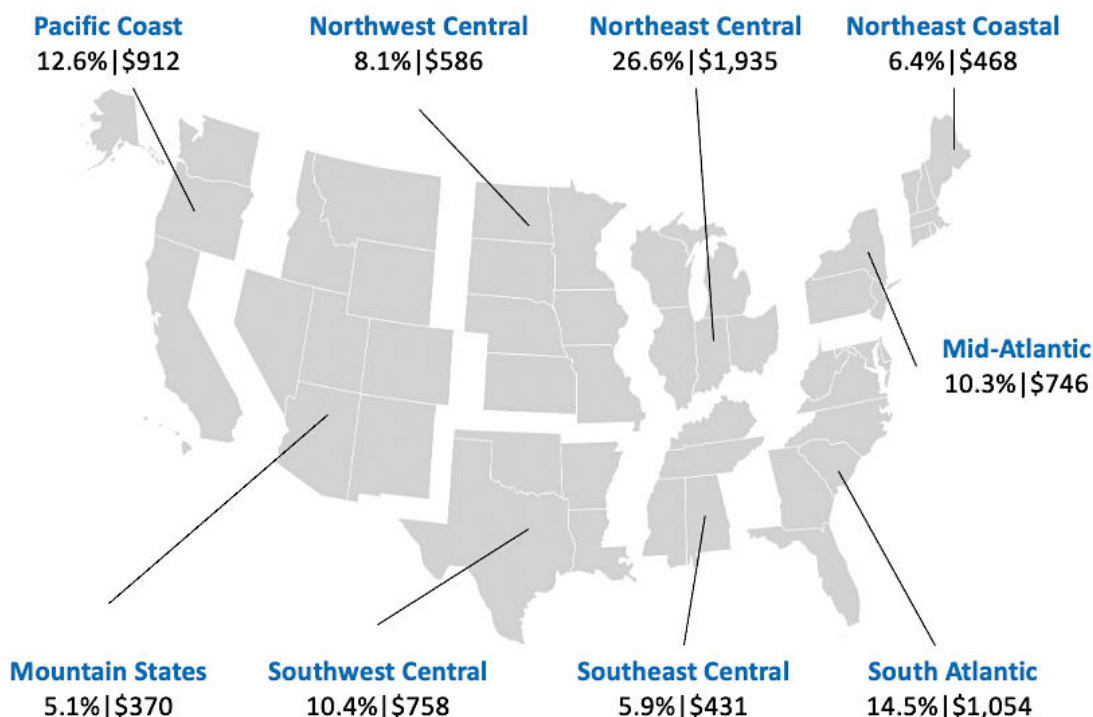
[Click here](#) for web version. Executive Editor Mike Hockett can be reached at [mike@mdm.com](mailto:mike@mdm.com).

## U.S. MARKET PROFILE

## Abrasives Demand Totals \$7.3 Billion

Market demand for abrasives totaled \$7.3 billion, according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin.

## Market Demand for Abrasives by Region, \$Millions (2023)



Source: [www.mdm.com/mdm-analytics](http://www.mdm.com/mdm-analytics). © 2023 MDM Analytics. All rights reserved. Contact [info@mdm.com](mailto:info@mdm.com) for permission to reprint/share.

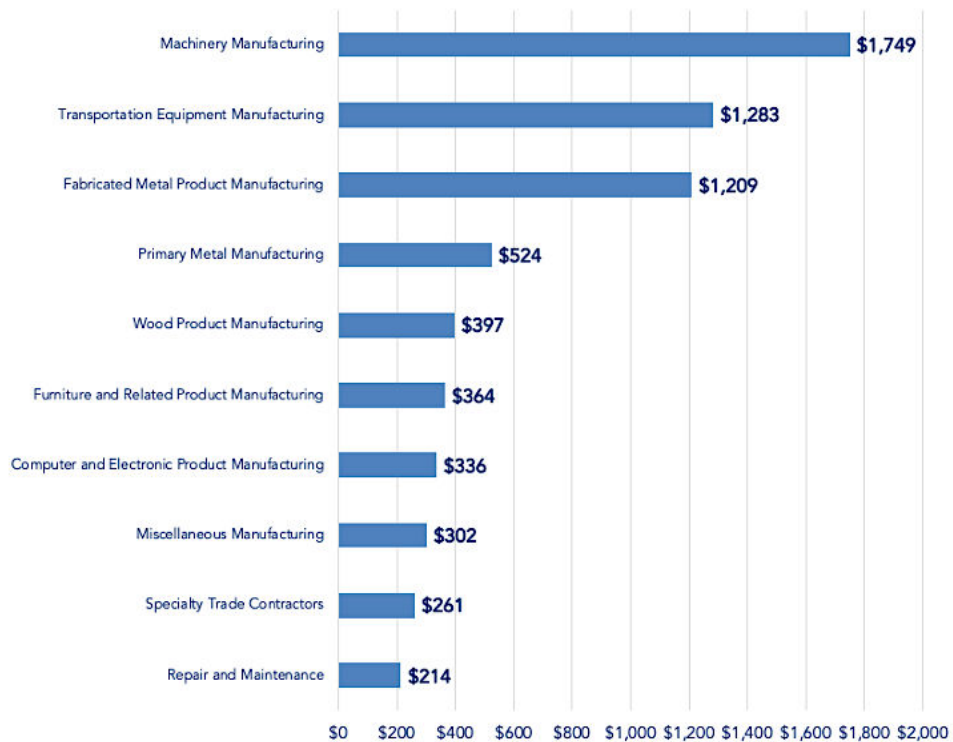
| NAICS 6 | Description                                                 | Total Demand  | Accounts |
|---------|-------------------------------------------------------------|---------------|----------|
| 336412  | Aircraft Engine and Engine Parts Manufacturing              | \$382,443,589 | 1,288    |
| 333120  | Construction Machinery Manufacturing                        | \$193,670,046 | 3,959    |
| 336390  | Other Motor Vehicle Parts Manufacturing                     | \$185,740,164 | 5,706    |
| 332710  | Machine Shops                                               | \$176,119,380 | 20,814   |
| 337110  | Wood Kitchen Cabinet and Countertop Manufacturing           | \$158,572,180 | 11,416   |
| 333111  | Farm Machinery and Equipment Manufacturing                  | \$154,139,154 | 3,162    |
| 811121  | Automotive Body, Paint, and Interior Repair and Maintenance | \$147,153,768 | 50,411   |
| 333517  | Machine Tool Manufacturing                                  | \$145,464,472 | 2,947    |
| 336413  | Other Aircraft Parts and Auxiliary Equipment Manufacturing  | \$138,606,183 | 3,397    |

## LEARN MORE &gt;

## A Trusted Analytics Source for More than 30 Years

Hundreds of distributors, manufacturers, global consultants and private equity firms have made MDM Analytics their #1 strategic planning partner to provide the most comprehensive market sizing, segmentation and forecasting down to postal code and discrete product category levels. No other resource maps the unique demand patterns at postal/metro levels as precisely as MDM's proprietary models for the United States, Canada and Mexico.

*Continued on next page*

**U.S. MARKET PROFILE****Top 10 Industries By NAICS 3 Digit****Abrasive Products Breakout**