mdmpremium monthly

June 2023

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June Content Sees Lasting Market Optimism & Goes Behind 2 Deals

As we embark on the second half of 2023, I will be interested to see how long the 'cautious optimism' remains throughout the distribution sector. My many conversations with distribution executives during May and June, I frequently asked what the demand outlook was for their company's core product categories. And the most common things I heard were that while these executives aren't ignoring the many economic red flags as of late June, their optimism remains buoyed by strong order backlogs and feedback from customers telling them that demand is still solid overall, albeit choppy.

This year's second quarter was indeed more choppy than 1Q, and we'll dive into the demand metrics in the results of the Baird-MDM's 2Q23 Industrial Distribution Survey in mid-July, so stay tuned for that Premium-exclusive research and insights. In the meantime, my June 13 blog (pg. 5) examined the latest wholesale trade economic data, how distributors' expectations changed month-to-month, and other economic indicators and what it all means for this industry.

Two June Premium blogs offered a behind-the-scenes perspective on two recent distributor acquisitions. One featured a chat with Global Industrial Company CEO Barry Litwin on his company's $69 million purchase of St. Louis-based Indoff (pg. 7). The other featured insights from BlackHawk Industrial CEO John Mark on its acquisition of Stock'd Supply (formerly known as Bolts and Nuts Corp.) and how that addition fits in with BlackHawk's other recent acquisitions (pg. 8). Both pieces touched on what led to the deal, why each distributor target was chosen and what Global and BlackHawk's plans are for that new entity going forward.

To cap off June, I distilled some of the key takeaways (pg. 9) from MDM's spring research project in the field of customer experience and what distributors are doing to improve. We surveyed a pool of 130-plus distributors during April-May about how they've seen customer engagement change; the tools their utilizing to offer the customer experience buyers expect today; and how they foresee those trends shaping in the near future. This research was shared in a June 22 webcast and an accompanying whitepaper, which dive much deeper into the results than what I had space to touch on in that blog. And while not Premium-exclusive, June also saw the launch of MDM's 2023 Top Distributors Lists — our 14th annual feature that ranks North America's largest distributors of industrial, commercial and building supplies by their annual revenue within 17 different product sectors.

MDM is all set for our Virtual Profitability Summit, to be held July 19 from 10 a.m.-4 p.m. ET. Conducted in partnership with Dorn Group, the FREE event will deliver best practices, emerging innovations, impacts of AI and other technologies that your peers are leveraging to expand margins today.

Mike Hockett, MDM Executive Editor

DATUM

Data: Logistics Costs Jumped 19.6% in 2022

Amid all the analysis of increased product costs in a year of historic inflation, what was overlooked by many was the likewise major increase in the cost of moving those products throughout the supply chain.

In 2022, U.S. business logistics costs hit $2.3 trillion, representing the highest percentage (9.1%) of the national gross domestic product ever, according to the 2023 State of Logistics report.

The report is produced annually for the Council of Supply Chain Management Professionals (CSCMP) by global consulting firm Kearney and gives a snapshot of the U.S. economy through the lens of the logistics sector.

U.S. business logistics costs grew 19.6% year over year, driven by a 52% year-over-year increase in inventory carrying costs (storage, financial cost, and other factors such as insurance, obsolescence and shrinkage). Transportation costs also rose 7.4% vs. 2021, and shipper administration and carriers' support activities costs rose 17.3%.

"Coming off this performance, supply chain demand is likely to remain stagnant or even diminish over the remainder of 2023," according to the executive summary of the report.

The report identified four key findings: 1) eCommerce sales aren't slowing down, with the U.S. market growing 8% in 2022; 2) Third-party logistics providers are investing more capital into their technology offerings; 3) the reshoring movement continues; and 4) the once red-hot demand for warehousing has waned, resulting in overstock.

Overview of 2023 USBLC figures ($ billion)

	2022	2021	2020	YoY 2022/2021	YoY 2022/2020	5-year CAGR
Transportation costs						
Full truckload	403.8	380.4	313.6	6.2%	28.8%	7.9%
Less-than-truckload	96.3	90.6	74.8	6.4%	28.8%	6.9%
Private or dedicated	395.8	373.5	304.5	6.0%	30.0%	8.0%
Motor carriers	896.0	844.5	692.9	6.1%	29.3%	7.8%
Parcel	217.3	207.5	181.0	4.7%	20.1%	13.7%
Carload	64.7	55.0	48.3	17.6%	33.9%	2.3%
Intermodal	34.5	29.4	26.2	17.6%	31.7%	10.5%
Rail	99.2	84.4	74.5	17.6%	33.1%	4.8%
Air freight (includes domestic, import, export, cargo, and express)	66.8	65.7	40.2	1.7%	66.3%	-2.9%
Water (includes domestic, import, and export)	36.4	30.7	25.7	18.4%	41.8%	1.4%
Pipeline	75.7	63.2	56.3	19.8%	34.4%	10.2%
Subtotal	**1,391.4**	**1,296.0**	**1,070.5**	**7.4%**	**30.0%**	**7.6%**
Inventory carrying costs						
Storage	218.5	185.1	154.1	18.1%	41.8%	9.5%
Financial cost (WACC x total business inventory)	313.0	164.5	123.3	90.2%	153.9%	15.4%
Other (obsolescence, shrinkage, insurance, handling, others)	227.8	149.8	118.9	52.0%	91.6%	12.7%
Subtotal	**759.3**	**499.4**	**396.2**	**52.0%**	**91.6%**	**12.7%**
Other costs						
Carriers' support activities	93.8	78.6	62.4	19.3%	50.3%	10.0%
Shippers' administrative costs	72.3	63.1	57.6	14.6%	25.5%	7.5%
Subtotal	**166.1**	**141.6**	**120.0**	**17.3%**	**38.4%**	**8.9%**
Total US business logistics costs	**2,316.7**	**1,937.0**	**1,586.8**	**19.6%**	**46.0%**	**9.2%**

Council of Supply Chain Management Professionals' 2023 State of Logistics Report (executive summary), in partnership with Kearney.

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Mike Hockett, Executive Editor
Vesna Brajkovic, Senior Editor
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Tom Gale, CEO
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Industry News Digest: June 2023

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

Distribution & Manufacturing News

MRO and metalworking supplies distributor MSC Industrial Supply reported double-digit sales growth for the fifth consecutive quarter during its 2023 third-quarter fiscal results, which covered March 4 to June 3 of this year.

eCommerce behemoth Amazon announced a program it has been building since 2020 that will pay small businesses to deliver packages as part of its "last mile delivery service," according to media reports and statements from Amazon.

The Industrial Supply Association (ISA) on June 30 announced its newly appointed board of directors for the 2023-2024 term.

Over 600 participants joined the Independent Welding Distributors Cooperative's (IWDC) annual Sales & Purchasing Convention, a record number for the group.

Industrial and contractor supplies buying group NetPlus Alliance on June 29 announced it added two members to its growing team.

Atlanta-based lighting products manufacturer Acuity Brands reported its fiscal 2023 3Q earnings, including net sales of $1 billion — a decrease of 5.7%, or $60.3 million — compared to the same quarter last year.

Hydraulics manufacturer Bosch Rexroth opened a new production plant in Mexico that will strengthen its international production network, create solutions for the electrification of mobile machinery, and provide shorter delivery routes with reduced emissions.

The Power Transmission Distributors Association (PTDA) on June 27 launched an online learning management system for power transmission/motion control distribution companies.

St. Louis-based electrical, communications and data networking products distributor Graybar announced that Christopher M. Burrow has been named the company's Vice President of Acquisitions, Financial Planning and Analysis.

Retailer Ace Hardware Corporation announced its plans to open a new Retail Support Center in Kansas City, Missouri.

Home improvement retailer The Home Depot announced plans to cut $500 million in supply chain costs by sometime in 2024, according to analysis by Supply Chain Dive.

Four weeks after appointing a new company President and Chief Operating Officer, safety products maker MSA Safety announced a new leader for its Americas region and a new legal head.

Wholesale building materials supplier OrePac Building Products on June 24 announced the purchase of a 130,000-square-foot facility near Roseburg, Oregon, for the purpose of manufacturing moulding and millwork products.

Foodservice disposables and JanSan products distributor BradyIFS announced that has acquired FPC Distribution, Inc., a foodservice, dry goods and JanSan distributor serving Maryland and Virginia.

SRS Distribution Inc. announced that it has acquired Washoe Building Supply Inc., a distributor of residential & commercial roofing products.

Milwaukee-based global wire and cable product distributor IEWC has become a member of Affiliated Distributors (AD), an international organization with over 850 independent distributor members serving the U.S., Mexico, and Canada.

3M will pay up to $12.5 billion to settle an environmental lawsuit brought by cities that claimed the chemicals in the firefighting foam provided to them contaminated drinking water.

Electronic components and automation products distributor DigiKey Electronics announced that it has expanded its portfolio by adding over 175,000 new stocking parts year-to-date including nearly 40,000 newly introduced product SKUs across its core business.

NetPlus Alliance announced that its distributor members "remained optimistic about 2023 revenue, despite talent challenges and lingering inventory obstacles," according to the latest NetPlus Alliance Industry Outlook.

Tucker, Georgia-based building products distributor GMS Inc. reported financial results for its fourth quarter and fiscal year, which ended April 30.

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Building product distributor BlueLinx Holdings on June 16 announced it has expanded its distribution partnership with wood building product manufacturer Louisiana-Pacific Corp.

France-based digital automation products manufacturer Schneider Electric announced the appointment of Michael Lotfy Gierges as Executive Vice President for its global Home & Distribution division.

Representatives of Cleveland-based Applied Industrial Technologies rang The Closing Bell at the New York Stock Exchange on June 21, as part of the company's 100-year anniversary, which is being celebrated throughout 2023.

F.W. Webb announced the acquisition of two Pennsylvania-based plumbing, heating and industrial supply distributors: Rising Sun Plumbing Supply in Philadelphia and Steinberg Plumbing Supply in Elkins Park.

Fluid and material conveyance solutions distributor ERIKS North America promoted Daron Steinmann to Key Industry Director of Refining and Petrochemical.

Home improvement retailer Lowe's Companies announced the appointment of Quonta (Que) Vance as Executive Vice President of two of the company's key growth areas: Pro and Home Services.

PPE products maker Protective Industrial Products acquired Ultimate Cleaners Industrial, Ltd, a Wolverhampton, U.K.-based manufacturer of hand protection and other PPE products that does business as Ultimate Industrial.

Irving, Texas-based truck and trailer parts distributor FleetPride announced that it has acquired the assets of RPM Truck Repair, a provider of comprehensive truck and repair services with locations in Effingham and Mount Vernon, Illinois.

Kentucky-based private equity firm MiddleGround Capital acquired Oak Brook, Illinois-based A.M. Castle & Co., a provider of metals, services, and supply chain solutions serving industrial and aerospace customers.

The Far West Equipment Dealers Association Board of Directors voted to ratify a merger with Associated Equipment Distributors, according to an association news release.

Meritus Gas Partners — a national network of independent distributors of industrial, medical, and specialty gases and welding and safety supplies — announced it has acquired specialty gas distributor and manufacturer Global Calibration Gases.

Bluon, a mobile app platform provider connecting HVAC technicians and contractors with local distributors, has partnered with XOi to streamline parts and materials purchasing.

SPATCO Energy Solutions, an infrastructure services provider for petroleum and EV market segments, has acquired Dallas, Texas-based petroleum services company MSCS Ltd.

Southwire announced that Norman Adkins, formerly President of Wire and Cable and Chief Operating Officer, will assume responsibility for the company's Tools, Components and Assembled Solutions (TCAS) business following the departure of Brandon Moss.

Economic & Trends News

According to a new poll from Forbes, Xometry and Zogby, roughly nine out of 10 manufacturers intend to raise prices in the second half of this year.

In 2022, U.S. business logistics costs hit $2.3 trillion, representing the highest percentage (9.1%) of the national gross domestic product ever, according to the 2023 State of Logistics report.

Seasonally-adjusted U.S. imports value fell 2.7% month-to-month in May, according to data from the U.S. Census Bureau, with imports value of $254 billion at its smallest reading in six months.

New orders for key U.S.-manufactured capital goods surprisingly increased in May, according to data released by the U.S. Census Bureau on June 27.

The Biden Administration said it is recognizing the symbiotic relationship between chipmakers and suppliers by incentivizing those suppliers as it continues to support and fund U.S.-based semiconductor production.

The U.S. Court of Appeals for the District of Columbia Circuit struck down provisions of the Environmental Protection Agency's allocation rule that would ban the use of non-refillable cylinders and require QR code tracking of refrigerant cylinders.

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ECONOMIC TRENDS

Data: Wholesale Optimism Grows for Soft Landing

Global Industrial CEO Barry Litwin shares what made Indoff the perfect fit to be the industrial distributor's first acquisition since 2015.

By Mike Hockett

At the start of 2023, whispers of a predicted U.S. economic recession were easy to overhear. There were projections abound of a significant slowdown in industrial demand and output that would be felt on earnings reports in earnest by late in the year.

Five months later, the temperature has shifted in an optimistic direction. While economic red flags are still everywhere, general sentiment amongst the economist community has largely settled on a better alternative to a recession: a soft landing.

I've seen mentions of a soft landing pop up seemingly everywhere over the past month — including within the industrial sector — as enough positive economic indicators have led to a mixed-signals environment, rather than a dominantly negative one that may have been expected at the mid-point of this year.

On the negatively-trending front in recent weeks:

- ISM's May Manufacturing PMI indicated faster contraction, as did China's May industrial production.
- The U.S. Leading Indicators Index fell for a 13th straight month in April.
- U.S. metalworking orders saw a significant drop in April.

But on the flipside:

- April U.S. manufactured goods orders rose for the fourth time in five months
- April U.S. construction spending was up 1.2% from March and up 7.2% year-over-year
- April Core U.S. Capital Goods Orders unexpectedly rose 1.4% vs. March and rose 2.7% year-over-year
- S&P Global's Flash U.S. Composite Purchasing Manager's Index (PMI) report showed economic activity rose to a 13-month high in May despite a cooldown in the manufacturing sector

Meanwhile, April wholesale trade revenues were up 0.2% from the revised March level but down 3.4% from the revised April 2022 level. The Bureau estimates that April 'Real' wholesale revenues — which remove factors of variable pricing movements/inflation — decreased 0.5% vs. March and was flat year-over-year.

Total April wholesale inventories were down 0.1% from the revised March total and up 6.3% year-over-year.

I'm not trying to paint an overly-optimistic picture — as the majority of economic indicators are still trending negative — but merely reflect that there are enough indicators still in the black or at least holding neutral to support predictions of a soft landing for both the broader U.S. economy and industrial sector. Recent reports from Bloomberg, Axios, Morgan Stanley and Reuters concur.

Updated Distributor Expectations

According to the latest monthly wholesale trade data from the U.S. Census Bureau — packaged for MDM by Brian Lewandowski, Executive Director of the Business Research Division at the Leeds School of Business, University of Colorado Boulder — overall wholesale trade revenue 2023 expectations regressed modestly in May compared to April.

The Bureau's May data — issued in early June and encompassing wholesale trade through the end of April (see p. 6), showed that wholesale distributors now expect 2023 baseline revenue to be up 0.6% vs. 2022. That's down from a 0.8% increase expectation issued in early May. Meanwhile, expectations for 2024 grew slightly more optimistic, forecasting 4.5% growth compared to 4.4% issued in early May.

Of the 19 wholesale trade industries the Bureau tracks, 15 saw 2023 expectations move more pessimistic during May, 2 were flat and two grew slightly more optimistic. Here's how they trended for 2023 and 2024 revenue expectations in May vs. April, in order of largest to smallest industry:

- Oil and Gas Products: -0.1%, +0.2%
- Pharmaceutical: -0.9%, -0.1%
- Grocery and Foodservice: -0.2%, 0.0%
- Electrical and Electronics: -0.2%, 0.0%
- Industrial Distributors: -0.2%, 0.0%
- Motor Vehicles and Parts: -0.3%, +0.1%
- Miscellaneous Durable Goods: -0.6%, +0.5%
- Other Consumer Products: -0.2%, 0.0%
- Computer Equipment and Software: +0.1%, 0.0%
- Commercial Equipment and Supplies: 0.0%, +0.1%
- Agricultural Products: -0.5%, -0.4%
- Metal Service Centers: -0.2%, +0.4%

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Expectations by Sector (Through April)

Major Sector (Largest to Smallest Sector Revenues)	2020 Revenue	2021 Revenue	2022 Forecast	2023 Forecast	2024 Forecast
Oil and Gas Products Wholesale Distributors	-29.8%	61.6%	40.3%	-13.1%	3.7%
Pharmaceutical Wholesalers	6.0%	8.1%	11.4%	11.5%	8.7%
Grocery and Foodservice Wholesale Distributors	-1.5%	12.6%	12.7%	5.3%	2.8%
Electrical and Electronics Wholesalers	1.0%	18.8%	9.5%	1.0%	7.3%
Industrial Distributors	-3.3%	12.2%	15.8%	10.2%	3.9%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	-8.8%	11.1%	10.1%	12.4%	10.4%
Miscellaneous Durable Goods Wholesale Distributors	7.8%	30.7%	0.7%	-5.0%	2.5%
Other Consumer Products Wholesale Distributors	2.0%	16.7%	11.7%	-2.8%	2.3%
Computer Equipment and Software Wholesale Distributors	1.1%	11.1%	6.8%	-7.6%	2.3%
Commercial Equipment and Supplies Wholesale Distributors	-2.9%	13.8%	5.0%	2.7%	3.7%
Agricultural Products Wholesale Distributors	3.0%	29.4%	25.7%	4.2%	2.5%
Metal Service Centers	-19.7%	52.4%	15.6%	-4.6%	6.3%
Building Material and Construction Wholesale Distributors	5.1%	29.3%	15.3%	-12.8%	-1.1%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	2.7%	18.5%	14.7%	0.2%	-0.4%
Beer, Wine and Liquor Wholesalers	7.5%	9.4%	2.1%	4.1%	5.3%
Apparel and Piece Goods Wholesale Distributors	-22.2%	24.6%	4.3%	-1.8%	2.9%
Chemicals and Plastics Wholesale Distributors	-8.5%	26.1%	20.8%	-6.6%	1.1%
Furniture and Home Furnishing Wholesale Distributors	-1.3%	14.8%	15.1%	-3.2%	-5.6%
Office Product Wholesalers and Paper Merchants	-7.4%	9.4%	14.9%	-4.2%	-1.2%
Total Wholesale Distribution Industry	**-4.5%**	**20.5%**	**14.8%**	**0.6%**	**4.5%**

Leeds School of Business

Source: U.S. Census Bureau, Monthly Wholesale Trade; MDM 2023 Wholesale Distribution Economic Trends Report.

- Building Material and Construction: -0.1%, +0.3%
- Hardware, Plumbing and Heating Equipment/Supplies: -0.3%, +0.1%
- Beer, Wine and Liquor: -0.2%, +0.1%
- Apparel and Piece Goods: 0.0%, -0.1%
- Chemicals and Plastics: +0.1%, +0.1%
- Furniture and Home Furnishing: -0.1%, +0.2%
- Office Products and Paper: -0.1%, 0.0%

Here's what Grainger Executive Vice President Paige Robbins, who leads the distributor's Grainger Business Unit, told me in an interview MDM showed in our 2023 Top Distributors Webcast on June 8:

"If you follow market projections, they have been constantly changing. What we see is that many of our customers in the industrial space continue to see solid end-market demand for their products. However, we do see some customers with more consumer-facing exposure heading into a softer demand cycle. At Grainger, we just really focus on what we control can control and what we are doing to drive growth greater than the market."

Employment Update

According to the U.S. Bureau of Labor Statistics, May wholesale employment was a flat 0.0% vs. April — tied with manufacturing for second-to-last among the 20 sectors the Bureau tracks (information was last at -0.3%). Retail was up 0.1% year-over-year, while construction was at 0.3%. On a year-over-year basis, wholesale trade employment increased 1.5% in May — identical to manufacturing employment growth and topping retail trade's 0.6% while trailing construction's 2.5%.

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MERGERS & ACQUISITIONS

Behind the Deal: Global Industrial Finds Strategic Fit in Indoff

Global Industrial CEO Barry Litwin shares what made Indoff the perfect fit to be the industrial distributor's first acquisition since 2015.

By Vesna Brajkovic

Industrial and business supply distributor Global Industrial Company completed its first acquisition in 8 years when it added St. Louis, Missouri-based Indoff on May 22.

Despite not having acquired any new companies since 2015 when Global Industrial (then a subsidiary of Systemax) purchased Plant Equipment Group, the company's CEO Barry Litwin says Global Industrial has been continually evaluating the market ever since, waiting on the perfect strategic fit.

"We have been active in the market for a long time," Litwin told MDM. "But it's really about finding the right fit at the right price. When we launched the customer experience strategy back in 2019 and we had been talking to the market about our organic strategy, we were continually asked about M&A. Our answer and our reproach has always been that we continue to remain active in the market. When we find a target that has a really good opportunity to extend our products and add customers, and a business that has a very similar go-to-market model, then that's when it would make sense for us. I would tell you that we're constantly looking in the market for opportunities like that."

Indoff's complementary product lines in material handling and furniture and interiors fit the bill for Global Industrial. Indoff also has an appliance business called Allied Appliance, which services the hospitality and government markets, and further complements Global Industrial's Excel business.

Indoff will continue to operate as a standalone business under its current brand and current leadership team as a wholly-owned subsidiary of Global Industrial, so the integration process will be minimal, Litwin says.

> **"With Global Industrial being a leader in that space [eCommerce], we certainly see opportunities to leverage our platform over time to help them extend the offers and products they give to their customers."**
>
> Barry Litwin,
> Global Industrial CEO

"Frankly, it's a great business and we're not looking to make significant changes to it," he said. "We're just looking at areas we can further support its growth and help accelerate goals for Global Industrial."

For one, Global Industrial hopes to incorporate eCommerce into Indoff's selling model over time.

"With Global Industrial being a leader in that space [eCommerce], we certainly see opportunities to leverage our platform over time to help them extend the offers and products they give to their customers."

In 2022, Port Washington, New York-based Global Industrial's sales were $1.17 billion, a 9.7% increase from the year prior. In first quarter of 2023, sales were down about 5.1% year-over-year to 273.8 million. Consolidated operating income from continuing operations decreased 39.7% to $17.8 million, and net income per diluted share from continuing operations decreased 38.6% to $0.35.

The performance reflects cautious purchasing behavior from the company's core businesses, Litwin said in May 2 news release.

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MERGERS & ACQUISITIONS

Behind the Deal: BlackHawk Grows in Fasteners with Stock'd Supply

MDM spoke with BlackHawk Industrial CEO John Mark to learn more about the company's recent acquisition of Chattanooga-based Stock'd Supply.

By Brad Star

On April 10, metalworking and MROP supplies distributor BlackHawk Industrial bolstered its fasteners segment with the acquisition of Stock'd Supply, a fasteners distributor based in Chattanooga, Tennessee.

Tulsa, Oklahoma-based BlackHawk ranked as the No. 15 MRO Industrial Distributor and No. 30 Industrial Distributor on MDM's Top Distributors list in 2022.

While best known as a distributor of MROP supplies, BlackHawk has been active in expanding its fasteners segment in recent years. Among BlackHawk's recent acquisitions are Reliance Supply (July 2021), a fasteners distributor based in Jacksonville, Florida, and Broken Arrow, Oklahoma-based Big Red Fasteners (June 2022).

BlackHawk's addition of Stock'd benefits the fastener business for both companies, but the deal also checked off some other boxes for both distributors, according to BlackHawk CEO John Mark.

Stock'd was founded in 1979 as a regional fastener supplier and has since expanded into markets such as cutting tools, abrasives and PVF — an industrial product line that complements BlackHawk's MRO offerings.

"Obviously (Stock'd's) core is around fasteners, but they were finding themselves servicing many of their customers through broader MRO needs, and this was a great expansion opportunity for them," Mark told MDM.

The acquisition of Stock'd also gives BlackHawk a key location in the Tennessee Valley. In addition, Stock'd has branches in Illinois, Indiana, Nebraska, South Dakota, Kentucky, North Carolina and South Carolina — further expanding BlackHawk's footprint.

"We have a lot of customers (in the Tennessee Valley), but not necessarily a footprint to be able to service them like we want to, so we've been looking for some time for acquisitions in that market," Mark said. "(Stock'd) also has locations around current markets of ours in North Carolina, South Carolina, Ohio as well as in the Chicago market."

Stock'd is BlackHawk's 16th acquisition since September 2018, when BlackHawk was acquired by New York-based private equity firm Snow Phipps Group. BlackHawk made seven acquisitions in 2022, which is representative of the flexibility Snow Phipps has afforded BlackHawk to accelerate its expansion, Mark said. BlackHawk made 15 acquisitions between 2010 and 2015 under its previous private equity partner, Brazos Private Equity, according to Mark.

"We had a goal and we still have a goal of completing a broader footprint, expanding into a couple other key categories that make us more relevant in the marketplace," Mark said. "We had to find partners that would allow us to do that, and that's exactly what Snow Phipps has done for us. (They) brought in kind of a broader view of strategy behind it, but also the financial wherewithal to help us go make these acquisitions."

BlackHawk expects to continue to grow through organic expansion as well as M&A in 2023.

"We're still on a path of acquiring businesses despite the current dynamics in the market," Mark said. "Stock'd was another piece for us. It certainly enhances the depth of our capabilities in the fastener segment and gets us that footprint in the Tennessee Valley. So that's a big win for us and we're super excited about it."

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MARKET ANALYSIS

How Customer Engagement is Changing in Distribution, and Where AI Applies

Mike Hockett distills key takeaways from a new MDM whitepaper and webcast on the topic of customer experience and what distributors are doing to improve it.detailed customer segmentation methodology.

By Mike Hockett

It doesn't seem that long ago that product quality was customers' determining factor in which distributor they did business with. It's undoubtedly still important, but today's markets features many distributors carrying the same exact products from the same manufacturers.

Once product quality became great everywhere, the differentiator progressed to services. Distributors that were able to offer the speedy delivery, installation, repair, engineering or troubleshooting services that their competitors couldn't had the advantage. And while this is still true today, service likewise have become largely commoditized, with distributors in the same vertical and even the same localized market all offering the same breadth of services.

This has led to the current state of what differentiates distributors from each other and disruptors in their markets such as direct-to-consumer manufacturer sales, marketplaces and retailers that are taking a bigger slice of the pie: customer experience, or CX.

The B2B sector's hyperfixation on CX has followed suit of consumer retail and catering to the 'Amazon-like' experience that a growing portion of their customer demographic has grown accustomed to. With many competing distributors to choose from — often at the touch of a smartphone — CX can quickly influence buying decisions and customer loyalty.

To learn what distributors are doing on the CX front and deliver the buying experience that customers expect today, MDM partnered with Infor on a Spring 2023 research project. At its center was a survey we conducted of more than 130+ distributor respondents about CX trends and the technologies that distributors are leveraging to meet and exceed customer expectations, as well as what's coming in the near future.

We then presented the results in a free June 22 webcast that you can view here, and an accompanying whitepaper you can download from here.

Our distributor pool spanned the gamut of industrial, commercial and building supply markets, with the largest concentration — 33.8% — in industrial/MRO supplies. Their annual revenues likewise were fairly dispersed, with 32.3% of respondents in the $10 million to $49 million range; 18.8% between $50M-$199M; 15.8% between $200M-$499M; 14.3% at less than $10M; 9.8% between $500M-$99M; and $9.0% at $1B-plus.

For the purpose of this article, I want to focus on the qualitative results of our new research, whereas I encourage you to check out the webcast and whitepaper for all the quantitative data points and benchmarks vs. our 2022 survey.

However, one data point I'll here is that 61.2% of our distributor respondents said they expect their eCommerce website to be their fastest-growing sales channel in the next 12 months. That far outpaced Outside Sales (47.0%) and Inside Sales (45.5%) among the top selections. No other channel was picked by more than 16.0% of respondents.

Biggest Change in Sales & Customer Service Engagement

We began our survey by asking distributors what the most significant change has been with how customers engage with their sales and customer service teams over the past 12 months. We left it open-ended, and were thrilled to see a 93.3% turnout for write-in responses. This meant a ton of commentary to sift through, but after a thorough analysis of it, we came away with the following key insights:

- **Increased Digital Communication:** Distributors said many customers are utilizing digital channels such as email, website, online ordering, and chat features to engage with sales and customer service teams. This includes more email inquiries, online meetings, and online sales.
- **eCommerce Growth:** Distributors said customers are increasingly using eCommerce platforms to place orders, check order status, and access online catalogs. The convenience and accessibility of online shopping have driven this shift.
- **Shift to Remote Interactions:** Remote work and the impact of the COVID-19 pandemic have led to a decrease in face-to-face interactions. Instead, distributors said customers are relying on phone calls, text messages and virtual communication platforms like Microsoft Teams and Zoom.

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- **Focus on Price and Comparison Shopping:** Distributors said customers are showing a greater emphasis on price and are more likely to compare prices and options online. Customers are becoming more price-conscious, potentially due to economic factors or increased access to price information.
- **Demand for Supply Chain Information:** There is a growing need for open communication and understanding of supply chain dynamics. Distributors said customers want to stay informed about product availability and any potential disruptions in the supply chain.
- **Self-Service Adoption:** Distributors said customers are increasingly adopting self-service options, such as using customer portals, online payments and online inquiries. They prefer accessing information and placing orders independently without direct interaction with sales or customer service teams.
- **Technology and Automation Use:** Distributors said customers are leveraging technology and automation tools, including field service software, digital catalogs and online project management tools. This indicates a preference for streamlined and efficient processes.
- **Varied Engagement Methods:** While some customers still prefer traditional methods like phone calls, there is a growing diversity in engagement methods. This includes text messages, social media, internal catalogs, and even Instagram. In an interview for this project, TubeliteDenco's Director of Customer Experience told us: "What we're noticing now is some of the more old-school generation customers who were comfortable faxing their orders in now want to text them. They want it now."
- **Focus on Customer Success and Advocacy:** Some distributors have established customer success teams to act as customer advocates and provide support beyond sales. This approach aims to enhance customer loyalty, retention and satisfaction.
- **Pricing Pressure and Cost Savings:** Distributors said customers are exerting more pressure for cost savings and seeking offsets for inflation. They are looking for competitive pricing and cost-effective solutions.

These write-in results suggest a significant shift in customer behavior towards digital channels, online self-service and price-conscious decision-making. It highlights the importance for distributors to prioritize digital engagement, provide transparent supply chain information and adapt to changing customer preferences.

Where Does AI & Automation Provide CX Value?

With all the talk about AI and automation right now, it's easy to assume that all of wholesale distribution is jumping into it.

Not so fast.

We asked our respondents about the extent to which they leverage AI or automation in their business. Given that these technologies only really jumped on to the scene in the past decade, it wasn't surprising to see half of our pool (50.4%) say they don't leverage AI or automation yet, but that means half are at least using it somewhere. The most popular ways our pool of distributors said they are using those tools are in CRM (31.6%), Inventory Management (24.1%) and Sales Order Automation (21.8%). We'll be especially interested to see how the percentages of this question compare in 2024.

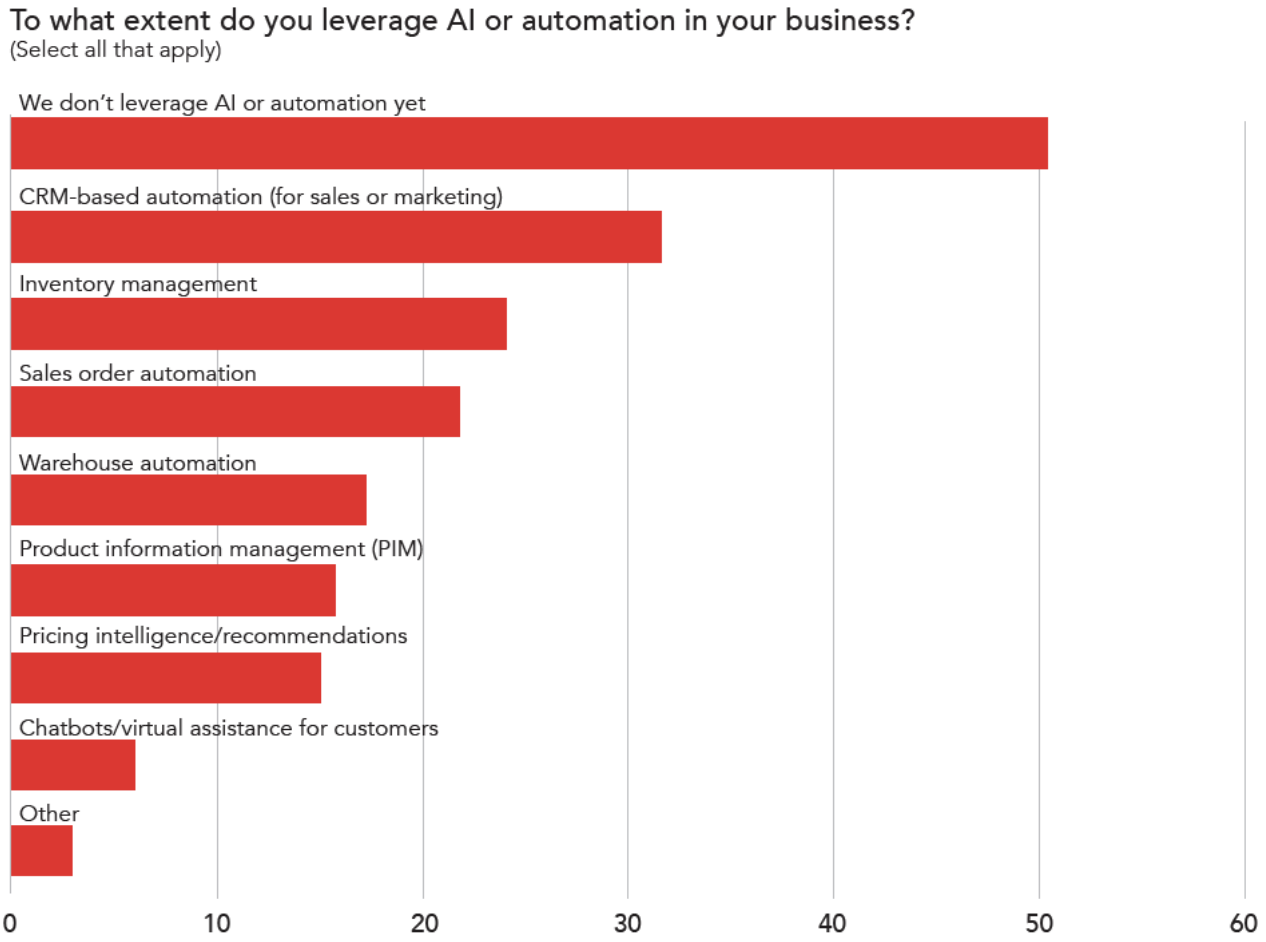
We bookeneded our survey with another qualitative question asking distributors where they see AI or automation providing the most value for the customer experience. It had 67.2% turnout for write-in answers — a strong figure considering this question's placement at end of the survey.

Here are the key takeaways based on an analysis of that commentary:

- **Product Recommendations:** Several distributors mentioned that AI can provide intelligent and personalized product recommendations based on customer behavior, buying patterns and browsing history. This can enhance the customer's shopping experience and potentially increase sales.
- **Chatbots and Guided Help:** Chatbots and AI-powered chatboxes were mentioned as valuable tools for customer service, providing quick and automated responses to customer inquiries and guiding them through the buying process.
- **Order Processing and Fulfillment:** Automation in order confirmation, tracking and delivery notifications can improve the overall customer experience by providing accurate and timely updates on order status and ensuring smooth order processing.
- **Forecasting and Inventory Management:** AI can help forecast demand, optimize inventory levels and provide recommendations for stock replenishment. This can lead to improved inventory efficiency, ensuring that products are available when customers need them.
- **Customer Service and Support:** AI can streamline customer service processes by automating repetitive tasks and handling common customer inquiries. This can free up staff to focus on more complex issues and provide personalized support.
- **Pricing and Sales Insights:** AI can provide recommendations and insights on pricing strategies, helping businesses optimize pricing for better customer

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value and increased sales. AI can also analyze sales data to identify trends and patterns that can inform sales strategies.

- **Self-Service and Personalization:** AI can supplement customer portals to enable self-service options for customers, allowing them to find information, place orders and access account details independently. Personalization based on customer preferences and segmentation can enhance the customer experience by tailoring recommendations and offerings to individual needs.
- **Efficiency and Automation:** Automation across various processes, such as data management, reporting and workflows, can increase operational efficiency and speed up customer interactions, leading to improved service quality and faster response times.
- **Uncertainty and Exploration:** Some respondents expressed uncertainty or a lack of clarity on how AI and automation could specifically benefit their business. They mentioned the need for further exploration and understanding of AI's potential applications.

This doesn't exhaust all the potential uses for AI and automation in distribution, but shows that there exists a myriad of opportunities to put those tools to work.

Again, you can find much more insights, data points and trends analysis in both MDM's new whitepaper on this topic and its accompanying webcast — now available on-demand.

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

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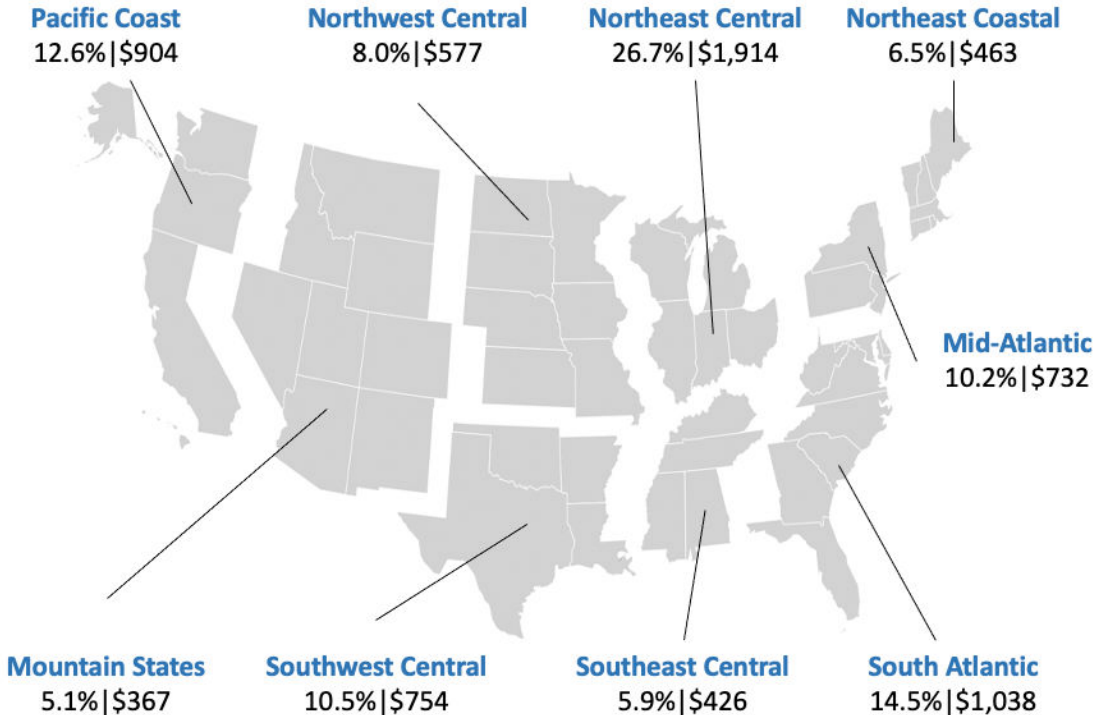
U.S. MARKET PROFILE

Abrasives Demand Totals $7.2 Billion

Market demand for abrasives totaled $7.2 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)

mdmanalytics



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NACIS	Description	Total Demand	Accounts
336412	Aircraft Engine and Engine Parts Manufacturing	$383,785,003	1,301
333120	Construction Machinery Manufacturing	$188,095,818	3,998
336390	Other Motor Vehicle Parts Manufacturing	$183,512,149	5,795
332710	Machine Shops	$175,977,811	21,074
337110	Wood Kitchen Cabinet and Countertop Manufacturing	$154,916,432	11,492
333111	Farm Machinery and Equipment Manufacturing	$152,011,464	3,179
811121	Automotive Body, Paint, and Interior Repair & Maintenance	$146,437,553	50,672
333517	Machine Tool Manufacturing	$144,735,084	2,977
336413	Other Aircraft Parts and Auxiliary Equipment Manufacturing	$136,775,594	3,436

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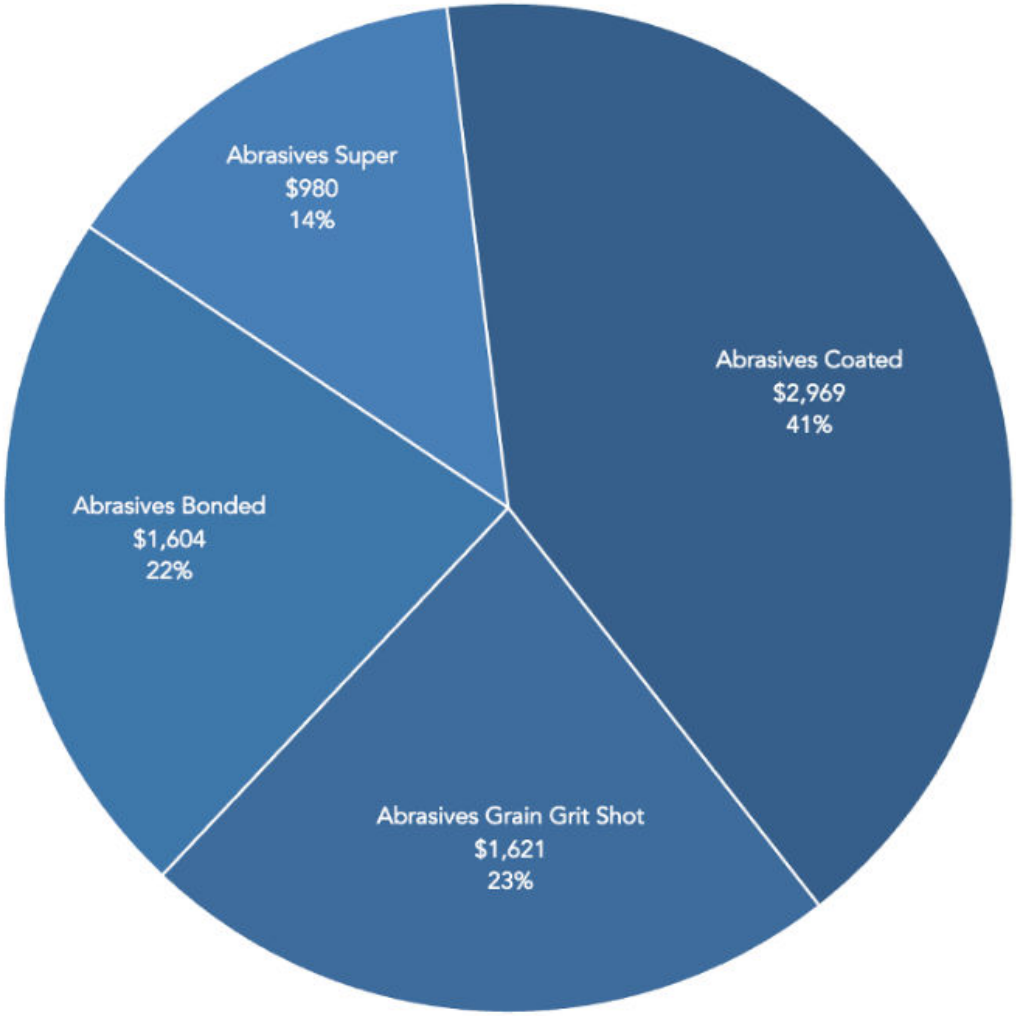
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U.S. MARKET PROFILE

U.S. Abrasives Total $7.2 billion (Demand in Millions)



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