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Finding AI Traction Through the Hype

I was a guest on LeadSmart Technologies' [weekly live podcast](#) recently, hosted by Kevin Brown and Tom Burton. We analyzed a [New York Times article](#) that suggested the U.S. may be at the onset of a productivity boom, based on correlaries to 1994 between current better-than-expected economic growth figures and rapid wage gains against moderating inflation. Similar scenarios, for sure, with the one 30 years ago at the onset of the Internet's widespread consumer launch similar to the current formal launch of AI-powered technology.

What we agreed on, however, is that the key differences between the Internet's wildfire spread and that of AI is the learning curve involved. AI's figures to be much shorter and shallower. It took a solid decade for much of the B2C and B2B world to get its internet bearings and determine how to put it to use. Whereas with AI, the November 2022 launch of ChatGPT-4 immediately resulted in business worldwide trialing the free tool in operational areas of sales, marketing, market research and more. A handful of technology vendors have launched distribution-specific AI-powered software tools in the past few years that help distributors boost their productivity.

Overall, I think distribution is much more likely to see immediate productivity gains via AI than it was at the onset of office computers in the 1960s/1970s and the Internet's rise in the 1990s/2000s. And while certain ethical aspects of AI are concerning, the technology's hands-on applications phase couldn't have come a moment too soon, given the heightened labor strains distributors have faced since COVID-19 arrived.

Even so, I'm concerned about the ethics side of such rapid AI adoption, as there are few, if any, guardrails for distributors to follow as they try out and invest in AI tools. A Summer 2023 [survey from The Conference Board](#) found that 56% of U.S. workers were using generative AI on the job at that point, with nearly one in 10 employing the technology on a daily basis. Yet just 26% of respondents said their organization has a policy related to the use of generative AI, with another 23% reporting such a policy is under development. MDM's own research indicates that most of the industry still has yet to get involved with any AI application, with about two-thirds of distributors still in a watch-and-learn approach.

AI adoption in distribution will still be a Wild West environment for several years to come, but I'm encouraged by the appetite for AI education and training in this industry. We're increasing our AI coverage for Premium members in 2024; if you didn't attend our wildly successful virtual AI Summit on Feb. 7, you still have time: [Register here](#) to access the on-demand video now. We've published [several AI-centric research reports](#) over the past year that are well worth your time, along with plenty of Premium content, including two articles in this February MDM Premium Monthly. And stay tuned as we expand our AI resources throughout the year. As always, contact me (mike@mdm.com) with ideas and requests for research and case studies to help you achieve a successful 2024. Thanks for your support!

– Mike Hockett, Executive Editor

DATUM

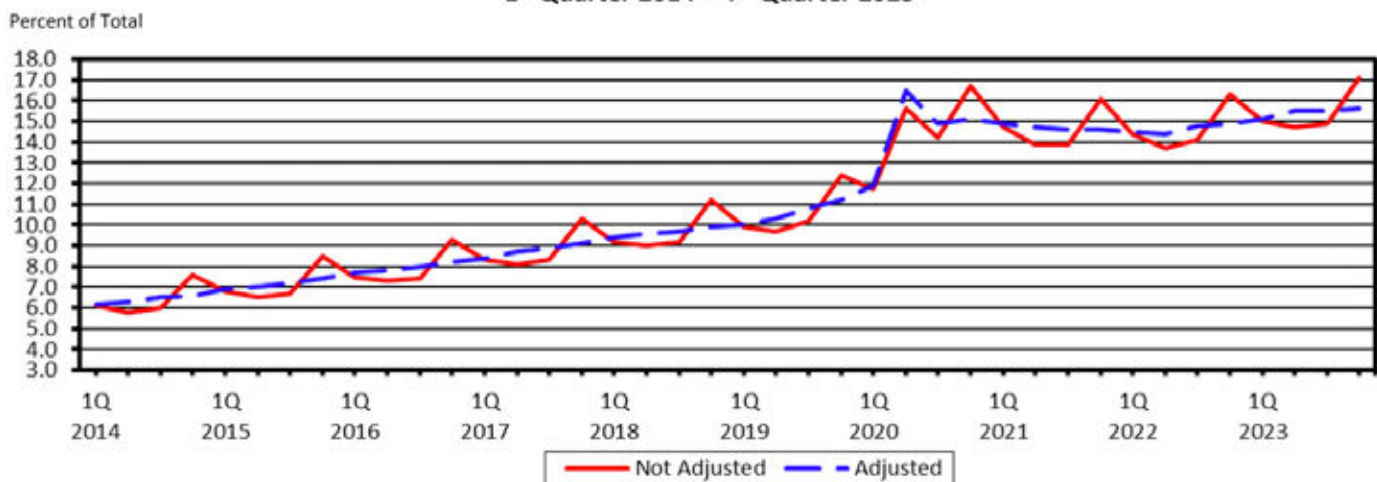
2023 U.S. Retail eCommerce Sales Jump 7.6%

Data released Feb. 20 from the U.S. Department of Commerce showed that 2023 total retail eCommerce sales were estimated at \$1.12 trillion, up 7.6% vs. 2022. That far outpaced overall retail sales that increased 2.1% vs. 2022.

During 2023, eCommerce sales accounted for 15.4% of total U.S. retail sales, up from 14.7% in 2022.

In the 2023 fourth quarter, U.S. retail eCommerce sales (seasonally-adjusted) totaled \$285 billion, up 7.5% vs. 4Q22, while overall retail sales increased 2.8%. Sequentially, 4Q23's total was up 0.8% vs. 3Q23. 4Q23 eCommerce sales accounted for 15.6% of total retail sales.

**Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2014 – 4th Quarter 2023**



Source: U.S. Department of Commerce



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.

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Industry News Digest: January 2024

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

Distribution News

MRO supplies distributor [Vallen Distribution is set to buy Wesco Integrated Supply](#) — the industrial supplies unit of electrical distribution giant Wesco International — for \$350 million. The deal includes predominantly all of Wesco's industrial MRO integrated supply business in North America and Europe, which had 2023 total sales of \$784 million.

Atlanta-based packaging, JanSan and hygiene product distributor [Veritiv](#) acquired Vivabox Solutions (Rockville, MD) to bolster its existing kitting and assembly capabilities in its packaging segment.

In its 4Q23 earnings release, Motion parent company [Genuine Parts Company](#) announced global restructuring efforts that include a voluntary retirement offer in the U.S. and “rationalization and optimization” of certain distribution centers, stores and other facilities.

MRO parts distributor [Motion](#) acquired Perfetto Manufacturing and SER Hydraulics — two providers of engineered solutions, service and equipment for hydraulic/pneumatic cylinders, complex power units and other assets. Both companies are based in Sudbury, Ontario.

Following the combination with Irby C&I, Houston, TX-based [Crawford Electric Supply](#), a Sonepar company, has created a new organizational structure comprised of four primary geographies spanning eight states, with more than 60 branch locations and more than 1,300 associates.

[DXP Enterprises](#) acquired Kappe Associates, Inc. — a Frederick, MD-based distributor and manufacturers representative of pumps, controls and process equipment focused on serving the water and wastewater industry. Kappe had 2023 total sales of \$24.5 million and adjusted EBITDA of \$3.8 million.

Industrial distributor [B&D Industrial](#) acquired Westland, MI-based gear manufacturer American Gear & Engineering. The deal includes Tech Tool Company, a complementary gear rack manufacturer.

Thief River Falls, MN-based electronic components and automation products distributor [DigiKey](#) expanded its

portfolio in 2023 by adding more than 450 new suppliers and more than 1.7 million new accessible parts across its core business.

[Titan International](#) acquired fellow specialty tire and wheel manufacturer and distributor Carlstar Group for approximately \$296 million. It diversifies Titan's portfolio of off-highway wheels, tires, assemblies and undercarriage products primarily for the agriculture market, and expands its manufacturing and distribution footprint.

Specialty building materials distributor [US LBM](#) acquired Traverse City, MI-based Old Mission Windows. Old Mission Windows distributes windows and doors to residential homebuilders and contractors throughout northern Michigan.

Dallas, TX-based [Singer Industrial](#) added Fort Worth, TX-based Hose Tech USA, a distributor of hydraulic and industrial hose fittings and adapters, to its Industrial Rubber Division. The addition will increase Singer's footprint to over 100 locations and its boost on-site hose repair presence.

Fresh produce grower, marketer and distributor [Dole plc](#) is divesting its majority stake in Los Angeles-based Progressive Produce LLC to private equity firm PTF Holdings for \$120 million.

By the end of 2024's second quarter, [US Foods](#) is set to acquire IWC Food Service, a broadline foodservice distributor that serves the greater Nashville, TN area. During 4Q23, US Foods also acquired Saladino's Foodservice, a Fresno, CA-based distributor servicing central California.

Houston-based oilfield products distributor [DNOW](#) is set to acquire Whitco Supply, a distributor of PVF and automation products headquartered in Broussard, LA. Whitco has about 230 employees across eight locations in Louisiana, Texas, New Mexico, Ohio and Pennsylvania.

Home automation technologies manufacturer and distributor [Resideo Technologies](#) has placed a minority investment in XTEN-AV LLC (Union City, CA), a provider of professional audio-visual design and proposal software, to accelerate its product development.

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[Imperial Dade](#) added a pair of Canada-based JanSan distributors: Oakville, Ontario-based Superior SANY Solutions and Reptentigny, Quebec-based paper and packaging products distributor Les Produits Sanitaires Royal Net.

Roofing and other building supplies distributor [Beacon](#) will grow its service geography and design services for commercial roofers in the Carolinas with the acquisition of Greenville, SC-based Roofers Supply of Greenville.

Infrastructure supplies distributor [Core & Main](#) will acquire Denver-based waterworks product distributor Dana Kepner Co. and associated entities. Dana Kepner has 19 locations across the U.S., and distributes water, wastewater, storm drainage, geotextile products, and related specialty tools and accessories.

Roofing and other building materials distributor [Beacon](#) announced the acquisition of Metro Sealant & Waterproofing Supply — a distributor based in Springfield, VA with three additional branches in Ashland, VA; Linthicum, MD; and Virginia Beach, VA.

[Imperial Dade](#) — a distributor of foodservice packaging supplies, industrial and JanSan products — continues its serial acquisition expansion, with the latest addition in the form of Springfield, MA-based JanSan distributor Allston Supply, which serves the greater New England region.

[84 Lumber](#) will acquire San Diego-based West Coast Lumber's production yard business, integrating the acquired assets and team 84 Lumber's Bakersfield, CA location and its new Riverside, CA, location, which was previously Champion Lumber.

Following the combination with Irby C&I, [Crawford Electric Supply](#) (Houston) — a Sonepar company — has created a new organizational structure comprised of four primary geographies (North, South, East, West) spanning eight states, more than 60 branch locations and more than 1,300 associates.

Surface enhancement solutions distributor [SurfacePrep](#) was sold from CenterOak Partners to fellow private equity firm Nautic Partners for an undisclosed amount.

London-based packaging, disposable supplies, cleaning and safety products distributor [Bunzl](#) will acquire an 80% stake in U.K.-based catering equipment and consumables

distributor Nisbets, as well as Finland-based JanSan, healthcare, foodservice and safety products distributor Pamark.

Material handling equipment distributor [Big Lift](#) (Downers Grove, IL) acquired Fort Worth, TX-based material handling equipment provider ePicker to boost its lithium-powered forklift offering.

[Bartlett Bearing](#) will open an 8,000-square-foot distribution hub in Las Vegas during 2024's second quarter, which will serve as the company's West Coast distribution hub.

Manufacturer News

Building and construction manufacturer [Owens Corning](#) will acquire all outstanding shares of interior and exterior doors and door systems provider Masonite International Corp. in a deal with an implied transaction value of about \$3.9 billion.

Adhesives and sealants manufacturer [Henkel](#) will acquire Houston-based Seal for Life Industries LLC from Arsenal Capital Partners for an undisclosed amount. It gains Henkel a specialized supplier of protective coating and sealing solutions for a variety of infrastructure markets.

To add chiller production capabilities, increase the scale of its air dryer business and access to the OE manufacturer channel, flow creation/industrial solutions provider [Ingersoll Rand](#) acquired Italy-based dryer, filter, aftercooler and accessories maker Friulair for approximately \$146 million.

Portable and industrial power products maker [Trystar](#) (Faribault, MN) acquired fellow manufacturers in Wisconsin and Canada in the form of Macromatic Industrial Controls and Primax Technologies.

Association/Buying Group/Co-op/VendorNews

Eight months after its former leader resigned, the [National Association of Electrical Distributors](#) named a permanent successor in Wes Smith. Smith is a veteran electrical supplies industry executive who previously served as Senior Advisor for Rexel USA and as President and CEO of Mayer prior to Mayer becoming part of Rexel.

[AD](#) (Wayne, PA) said 2023 sales for its owner/members increased 5% vs. 2022 to a record figure of \$78.9 billion.

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Purchases by member companies from AD supplier partners were \$19.8 billion, while net distributions to owner/members were \$1.4 billion. AD added 49 new members to its community of independents in 2023.

Royal Brass & Hose joined the hose and hose accessories independent distribution cooperative [IDCO](#). Royal Brass distributes hydraulic and pneumatic hoses, fittings, assemblies, and related products.

Two electrical manufacturing representative agencies, [JD Martin and Broomfield Lamb Holman](#), joined forces to provide local channel partners and customers located in Georgia, Alabama, Tennessee and Florida's panhandle access to an expanded product portfolio and sales force.

[PTDA](#) added three new members: Pacific International Bearing (distributor), Reliable Bronze & Manufacturing (manufacturer) and Blue Meteor (associate).

[HARDI](#) appointed Todd Titus as its first full-time Director of State and Public Affairs.

A new reverse logistics platform has launched, specifically geared for distributors and manufacturers in the form of Chicago-based [Cointinuum](#).

Staffing Changes

MRO, safety and electrical supplies distributor [Vallen Distribution](#) promoted Sonia Timmons to the role of Senior Vice President, Finance, following nearly 5 years as the company's VP of Financial Planning Analysis.

Building materials supplier [84 Lumber](#) named Mark Ingersoll as Area Manager of its Western Division to oversee facilities in California, Nevada and Arizona. Ingersoll previously served as Area Manager of the company's Southeast Division, which includes sites in Florida, Georgia and eastern Tennessee.

St. Louis, MO-based distributor [Marcone Group](#) named Randall Hudspeth to lead its HVAC division, which encompasses 12 distributors with 103 branches and five distribution centers, serving 18 U.S. states and Ontario, Canada. Hudspeth previously served as CCO for HVAC distributor Johnstone Supply-The Petit Group.

Fargo, ND-based [Border States](#) promoted company veteran Jason Stein to Chief Information Officer. Stein previously

held the role of Executive Vice President of Sales and Marketing and has nearly 30 years of experience with the electrical supplies distributor.

Metalworking supplier [WALTER Surface Technologies](#) appointed company veteran Jean-Marie Mayyyoufi as the company's Safety Sales Director of its safety division, where he now leads sales for the Allegro Industries brand.

Economic News

Advance government data showed [new orders for U.S.-made durable goods](#) sunk 6.1% in January month-to-month — the largest such drop since April 2020 — driven by a steep decline in bookings for commercial aircraft.

U.S. Census Bureau data showed total [U.S. construction spending](#) in December 2023 was estimated at a seasonally adjusted annual rate of \$2.096 trillion, up 0.9% from the revised November estimate, and up 13.9% year-over-year.

December 2023 [U.S. cutting tool consumption](#) totaled \$187.9 million, down 7.3% from November and down 0.3% year-over-year. However, it brought 2023's total consumption to \$2.45 billion, up 6.9% vs. 2022.

According to data from real estate firm Colliers, [lease rates for U.S. warehouse and distribution space spiked 20.6% in 2023](#) vs. 2022, reaching an all-time high average of \$9.72 per square foot. That's despite the nationwide vacancy rate rising to 5.6% during 2023, up 195 basis points vs. 2022.

The [U.S. producer price index](#) for final demand showed a 0.3% increase in January — its fastest monthly increase in five months and topping economists' forecasts of 0.1%. Core PPI rose an even sharper 0.6%. Annually, January's final demand index ticked down 0.1%, while core PPI increased 2.6%.

U.S. Bureau of Labor Statistics data shared that [2023 had more major labor strikes](#) — 33 — by labor unions than in any other year since 2000. Service-providing industries accounted for 86.7% of idled workers during the year.

QUARTERLY MDM-BAIRD DISTRIBUTION SURVEY

Survey: How Will Supplier Pricing Impact Distributors' Gross Margin in 2024?

By Vesna Brajkovic

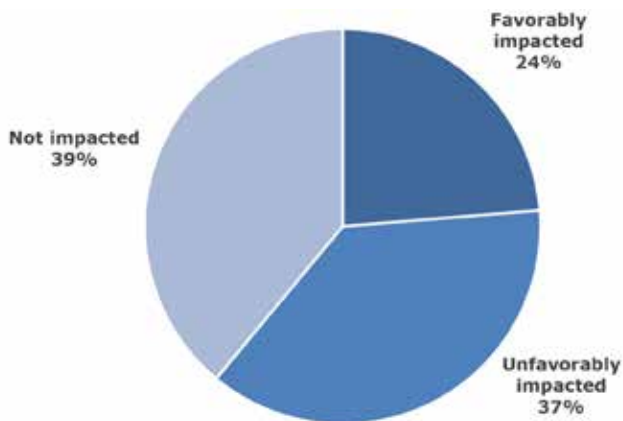
Executive summary: Distributors weren't able to pass along price increases in 2024 at nearly the rate of 2021-2022. So, after a 'leveling' year of 2023, the 4Q23 Baird-MDM Survey asked distributors how they see supplier pricing impacting gross margin.

Distributors were happy to ride the inflation wave in 2021, 2022 and well into 2023 — pacing on supplier price increases to customers who were more than willing to pay the upcharges to get product amid supply chain constraints.

But those benefits waned in the second half of 2023 as supply chains kept improving and inflation flattened, resulting in the largely flat to modest sales declines recorded in publicly-traded companies' October-December financials, which were reported in January and February:

[Data: Distributors' 2024 Sales Growth Outlook by End Market \(Feb. 7\)](#)

Nearly across the board of distribution, companies won't have the inflation tailwind at their back in 2024. Still, our Baird-MDM 4Q23 Industrial Distribution Survey sought to learn just what kind of impact its some 500 respondents — about two-thirds who represented distributors — think supplier pricing will have on their gross margin this year.



[Source:](#) Baird-MDM 4Q23 Survey

Overall, views were nearly split even, with a slightly more pessimistic view on balance than optimistic though a plurality expected neutral price/cost. Below, we provide some of the optional commentary respondents provided in the survey in response to this question.

From Those Expecting Favorable Price/Cost:

- “Leveraging balance sheet to increase inventory. With so much uncertainty in the supply chain... want to prepare for whatever comes our way.”
- “Price decreases coming, but don’t see the need to put all of it [out]. Market is competitive, but other distributors are not price selling and trying to hold margin as well.”
- “Seeing costs, especially ocean freight, decrease while selling prices staying stable.”
- “Building in extra price over estimated cost.”
- “Experienced lot of material deflation during 2023 and expect it to continue.”
- “Deflation in commodities has somewhat stabilized and average costs aren’t as upside down as last year.”

From Those Expecting Neutral Price/Cost:

- “Keeping pace on increases, with lower cost increases.”
- “Decreases in commodity pricing offset by some increases. Margin will track consistently.”
- “Increases are likely passed on without much additional margin leveraging.”
- “Difficult to see major price changes from suppliers given the soft marketplace. That fact gives us less cover to increase our margins.”
- “Normal price increases when referencing back to pre-pandemic time frames. Generally, this is neutral to slightly beneficial depending on how much we forward buy. Interest rates are making forward buys less attractive.”
- “We are generally able to pass through the majority of price increases. We’ll be stuck with some contracted pricing but expect to offset that with additional price increase.”

From Those Expecting Unfavorable Price/Cost:

- “As pressures to reduce pricing persist, we will have to lower while still owning product purchased at higher cost.”
- “Many locked in contracts will not allow pricing increases in such a competitive market.”
- “Container costs into the East Coast having to bypass the Red Sea and sail around the Cape of Good Hope.”
- “Pressure from suppliers to raise prices, but customers are looking for price downs.”
- “Strong indications from end users that price increase could jeopardize future business.”
- “Customers are inflation challenged, difficult to pass along all the increases received.”

[Click here](#) for web version and graphics included with this article.

PERSPECTIVE

An Ethical Examination of Business AI

By Mike Hockett

Executive summary: While application possibilities understandably drive AI discussions, the ethics component has been overlooked. This piece dives into the guardrails to keep in mind as you navigate an AI journey, extracting insights from an MDM AI Summit session conversation with Endries International CEO Michael Knight.

This past October, an [MDM Podcast featured my conversation with Michael Knight](#), CEO of fast-growing fastener products distributor Endries International (Brillion, WI). That episode covered a wide range of topics, one of which was AI ethics. Knight had plenty of interesting thoughts on AI's fascinating while also concerning potential in various societal and business applications.

I found that podcast conversation with Knight so interesting that I was compelled to have him speak at MDM's virtual AI Summit, a free 6-hour educational program we held on Feb. 7. The event was a smashing success, with over 500 registered attendees who took in a full day of practical AI insights from distribution executives using the technology and consultants who are advising the industry on AI.

Most of our AI Summit program tackled tactical applications of AI, such as a ChatGPT tutorial and steps distributors can take to get their data AI-ready. But another topic area we were very intentional to include was AI ethics, and Knight was the perfect speaker to invite for it. While the technology's fascinating potential in advancing business productivity understandably dominates content on the topic, much rarer is a discussion on the parameters business leaders should consider as their organization begins putting AI to use.

In this Premium piece, I've extracted key passages from my Q&A AI Summit session with Knight, as I thought it was a valuable discussion for distributors to have in mind as they navigate their AI journey.

If you weren't there for it live, I would highly encourage you [watch that session and any of our other AI Summit programming on-demand here](#). It's free upon registration.



Michael Knight
President & CEO
Endries International Inc.

Mike Hockett, MDM Executive Editor: To begin, what was the impetus for your interest in AI?

Michael Knight, CEO of Endries International: I could spend the rest of our time together talking about all the cool things we are in the middle of but for brevity I can sum it all up with one word: innovation. We have needle-moving projects going in automation, organizational development, digital engagement, business processes and IT. AI is a key element in most of it. My background in the electronics industry first made me hyper AI aware years ago, and my long exposure to the leading edge of that technology has been extremely useful to me here at Endries.

Hockett: AI certainly isn't new, but the interest and adoption of it have drastically accelerated upon the November 2022 launch of ChatGPT-4 as a free tool. In the business world, what are the inherent dangers involved with the rapid pace of AI adoption?

Knight: Rather than "dangers," I'd like to reframe this and focus on "risks," which are plentiful. First and foremost, there is the risk to any business that is unaware, unprepared and/or in denial about the massive wave of disruption and transformation that artificial intelligence represents. Time is the ultimate hard constraint for everything. It is at the heart of the AI revolution and why it is the dominant forward-looking topic of discussion, concern and hope for institutions of all sorts, from corporate to education to government.

In AI I see a lot of promise for all institutions, including the modern corporation, in that I can see how ethically deployed AI could reach backward and be a gap filler and modernizer for these institutions such that they can continue to play a vital role in how we live and work together.

On the other side of the "risk" coin, for those businesses that have jumped into the AI scrum, there are risks associated with forging ahead without fully understanding potential unintended consequences. A recent example of this type of risk is the ESG movement where early adopters added people and expense only to find that so far it hasn't generally had the business or social payoff that was expected. I am reminded of something the late, great Charlie Munger said: "Knowing what you don't know is more use-

Continued on next page

ful than being brilliant.” A seemingly simple concept that if mastered can be incredibly useful in setting a path forward with AI.

But one risk in particular that is top of mind for me is artificial intelligence’s ability to supercharge the content creation. This double-edged sword threatens to fuel election misinformation to unprecedented heights, confusing voters with AI-generated campaigns. In fact, it’s already happening.

Hockett: In AI discussions, we hear about ‘garbage in, garbage out’ in terms of the technology only being as good as the data you’re feeding it. We hear much less about the data, coding and algorithms that go into how AI produces its results. The biases of the coders and authors of all the source material that goes into the models continue to exhibit themselves in the AI products that are mainstreaming. How big a problem is this, and what do you think can be done about it?

Knight: Most of us were first exposed to AI through social media and web search algorithms and it is there that we have become aware of the unintended dangers that lurk within the new digital world that we occupy. The dangers are real running the gambit from mental health issues to extreme divisiveness and the erosion of civility, yet even today the regulatory environment that should safeguard us all struggles to define and contain the risks.

Artificial intelligence substantially amplifies those risks while at the same time offering an acceleration of societal evolution and access to a bounty of health and wellbeing benefits for people, businesses and the planet. There is a real yin-and-yang aspect to it.

The challenge, simply put, is that the data source behind all AI is the massive amount of recorded content that has been generated since the invention of the printing press. The originators of all that content have an unknowable number of biases, viewpoints and personal agendas that they brought to their work. Fact-checking and purifying all of that is a daunting task.

The consequences of biased AI are enormous as AI integrates deeply into our lives, makes recommendations, underpins our decision making and pushes the buttons of our emotions.

Hockett: Any discussion of industrial automation has always had the element of job replacement as a danger involved, and this is certainly true with AI. What are your thoughts on AI’s role as a potential job replacer, or augmenter in the industrial world?

Knight: The recent IMF projection that AI will supplant 40% of the jobs today is an attention-getter. Morgan Stanley estimates generative AI technologies will likely affect a quarter of all occupations that exist today, and this will rise to 44% within three years. But this is a perpetual feature of technology and one that is embraced by businesses who themselves are perpetually looking for ways to increase productivity. “Productivity” is a polite way of saying doing more with fewer people.

Fortunately, technology so far has been a net creator of jobs, and a net lifter of standards of living in the developed world. In the long-run, this should hold true for AI as well, but in the short-run, the pace at which it advances is likely going to be disruptive at a scale that we haven’t seen before, which is going to be very painful until society adjusts. Ultimately, one of the promises of AI, and a lot of other new tech, is that we get to a place where we work because we want to, not because we have to.

In the meantime, we are going to have to deal with the disruption. For starters, companies and education providers need to provide training on how to use generative AI. PwC forecasts that within the next three years, this will translate into a \$16 billion market for re-skilling workers displaced by AI. With that forecast in mind, PwC announced a \$1 billion investment in training its workers on AI with courses on topics such as the ethics of AI, responsible use of AI and how to create AI prompts to generate the best results.

Like it or not, buy into it or not, I think all companies are going to have to figure this stuff out fast. LinkedIn reports 44% of companies globally and 57% in the U.S. say their organizations don’t have policy guidelines or training on how to use AI tools at work. And a recent survey by Ernst & Young reports that 75% of employees are concerned AI will make some jobs obsolete and two-thirds say they fear AI will replace their own job. That’s a lot of confusion, fear and uncertainty that will lead to bad outcomes if unaddressed, and good outcomes and sources of competitive advantage if addressed.

Hockett: While AI has existed in business applications for decades, we really have yet to see any guardrails implemented on a federal level, much less within distribution. This means it’s largely up to distributors themselves to police how they are using AI in terms of internal and customer information they feed certain applications, cybersecurity issues or elsewhere. What guardrails might distributors want to stay on top of as they navigate their AI usage?

Continued on next page

Knight: All companies should have an “AI rules of the road” covering things like what company data should not be fed to external AI’s, especially if it is customer and/or employee-specific data. There are lots of regulations regarding the confidentiality of much of this data that should prevail, but people will need to be reminded of this. And there is an adequacy element that should be considered. By that I mean just because an AI today can do something doesn’t mean that it has reached a state of competence that it should do that thing, and even once it does that doesn’t mean that it should immediately become the default for how that task is accomplished.

I think companies are going to need to be very deliberate about this, but they will need to move fast as the people who work for them are working with AI in their personal lives and then bringing those ideas to work with them. At Endries, I have several examples of where high-initiative individuals started using AI in their jobs outside of company workflows and procedures. An obvious concern is someone uploading company confidential information into an AI engine and that data then becomes part of the dataset to which everyone has access. Data privacy and security is a central concern across loads of AI use cases.

Hockett: At the start of this discussion, you mentioned that you and the team at Endries are doing some interesting things with AI. Can you touch on any examples of how your company is putting it to use?

Knight: Here we are well into the 21st century, and customer forecasts are still largely bad. So we see an opportunity there. We’ve got an AI project going on with our ERP provider to have AI clean up customer forecasts. I think there’s huge potential there.

Another project we’re doing is to use AI to speed up our quoting. Speed is everything today, and we get a lot of non-standard parts to quote. In the traditional method, you shotgun them out to various suppliers that are experts in those parts, and it takes time. So we’re using AI to evaluate the product specifications and compare them to other parts that we’re actively involved with and make some assumptions. That gives us what I think is going to be a very accurate quote, and instantly.

The third thing is we’re in the process of implementing a contract lifecycle management platform that has some really cool AI in it. It can gather all of our contracts — or the contracts of a company that we might be acquiring — and compare them to gold standards that we have, do gap analysis and a whole lot more. I think all three of those examples are really good use cases for the technology.

Hockett: How are you navigating the ethical issues we’ve touched on to ensure that Endries is carefully using AI?

Knight: It is very early days and it started with getting it on the agenda for our senior leadership team. Even now, we are working on defining both the risks and the opportunities so that we can prioritize what we focus and work on. This involves plugging in with many others via industry groups, other companies in our software ecosystem and attending conferences like this one on AI. Frankly, the lion’s share of the learning curve is still ahead of us, and the clock is ticking.

Hockett: MDM’s mid-2023 research indicated that about two-thirds of distributors had yet to get involved with AI in any form or fashion. Taking a crystal ball view, do you have any predictions on how that usage rate will increase over the next couple of years, or its overall potential in this industry?

Knight: I think most companies with size and scale today are already where we are... call it the discovery and experimental phase. With size and scale comes enhanced resources and access that create advantages, especially over smaller competitors. It used to be that smaller competitors were more nimble and faster to act than the behemoths they were up against, which was the source of their advantage, giving rise to the adage “it isn’t the big beating the small, but the fast beating the slow.”

Inherent in AI mastery is speed, which I think for now accrues advantage to the big. But that advantage should diminish as AI becomes as well understood and mainstreamed as any other business process or technology. Once upon a time, fax machines were only found in bigger, better-resourced enterprises which gave them a speed advantage. A few years later, the understanding of the technology increased as the price decreased and fax machines became ubiquitous. Then desktop computers became the norm bringing with them the internet, email, scanned documents, etc. and fax machines went the way of the buffalo. I think the same pattern will play out for current and future generations of AI and the many new ways that it will enable communication, engagement and productivity.

[Click here](#) for web version and graphics included with this article.

MERGERS & ACQUISITIONS

Behind the Deal: Ferguson's Bolt-On Acquisition Strategy

By Vesna Brajkovic

Executive summary: The plumbing, HVACR and industrial supplies distribution giant has made more than 50 deals over the past five years and has no intention of slowing down. This piece summarizes our interview with Ferguson CFO Bill Brundage on the company's acquisition strategy, which included two separate trios of deals this past summer and in January.

Within the first two months of 2024, Ferguson — one of the top industrial wholesale distributors in the country by total revenue — looks to already be on track to eclipse last year's impressive number of acquisitions

In the last five years, the serial acquirer has completed over 50 deals, with eight in 2023 alone. Between its announcements on August 2023 and January 2024, Ferguson has made six bolt-on acquisitions primarily in the plumbing and HVAC market and isn't showing signs of letting up.

"In the last several years, you've seen us turn our [acquisition] focus to some really attractive long-term structural opportunities in the marketplace," Ferguson Chief Financial Officer Bill Brundage told MDM.

While Ferguson considers itself an organic growth company, aiming to drive growth first through investment in its roughly 35,000 associates and building out new capabilities for its customer group through its more than 1,750 locations, there's no doubt that its aggressive bolt-on acquisition strategy has added another dimension of expansion.

The distribution giant — which ranks numerous times on MDM's Top Distributors Lists each year — has become

well known for its acquisitions, which enable it to further consolidate the fragmented market it serves and give it the ability to offset modest declines in organic revenue within challenging market conditions. The company is predominantly known as a distributor of plumbing and HVAC products, but its portfolio also has a considerable presence in industrial MRO, construction supplies and more.

"We believe our markets are going to grow long-term, north of GDP. We're going to outperform that market organically and then we're going to complement that — we've said generally with about 1 to 3% of additional revenue from acquisitions year in, year out, and that's really played through our history," Brundage said. In any given year, Ferguson's roughly \$30 billion will include between \$300 to \$900 million worth of revenue from acquisitions. In fiscal year 2023, the company invested just over \$600 million in its eight acquisitions, which accounted for \$780 million in revenue.

The core plumbing and HVAC industry Ferguson services comprises more than 10,000 small- and medium-sized independent distributors operating in the range of \$10 to \$300 million in revenue. Where there's a gap in the geographic distribution footprint across the nine customer groups it services, or there's the lure of new capabilities or diversification, there's a chance Ferguson may be eyeing a purchase to bolster its portfolio and offering.

Luckily, the similar fragmented nature of the markets creates the opportunity for a "robust pipeline of potential deals" and a high probability of bringing those deals to

Continued on next page



fruition, Brundage said. It's a market-by-market strategy rather than a particular geographic focus.

"We've got a strategic targets list ... and a healthy pipeline that we're working both locally and nationally," Brundage said. "And it is a core part of our growth strategy and will continue to be so for years to come."

Ferguson Eyes Dual-Trade Contractors

Based on its total revenue of \$28.6 billion in 2022, MDM's 2023 Top Distributors List charted Ferguson at No. 1 for plumbing, No. 2 for HVACR, No. 2 for industrial PVF, and No. 3 overall for industrial supplies.

The distributor has dominated the plumbing market and has been trailing close behind in HVAC, holding strong in the Top 3, according to MDM's annual analysis of the market.

Its strong dual-focus in these complimentary industries mirrors a trend in the marketplace: the dual-trade contractor.

"More and more, we're seeing our customers combining and offering both plumbing capabilities as well as HVAC capabilities," Brundage said. "If you look at that market in total residential trade plumbing and HVAC, it's about a \$100 billion market opportunity. We have a leading plumbing business in the industry. We also have a leading HVAC business in the industry. So we ... have a great opportunity to bring together our capabilities and service the marketplace."

When we boil down some of Ferguson's most recent acquisitions, it exemplifies this strategy in a snapshot:

[August 2023](#)

- **Bruce Supply Corp.:** A plumbing distributor that serves commercial, mechanical, residential, HVAC and fire and fabrication contractors in the New York City metro region.
- **The Kennedy Companies:** A waterworks distributor of piping and related water, storm, sewer and erosion control products on the East Coast.
- **S. G. Torrice:** A distributor of HVAC equipment, parts and supplies in New England.

[January 2024](#)

- **Yorkwest Plumbing Supply:** A distributor of plumbing, HVAC, municipal, hydronics, institutional, and industrial products in the greater Toronto area.
- **Grove Supply:** A plumbing and HVAC distributor serving the residential trade, builder and remodel markets on the East Coast.

Ferguson Builds Out New England HVAC Presence

Ferguson's recent acquisition of the New England-based HVAC equipment and supplies distributor S.G. Torrice is a perfect example of the company's dual-contractor focus.

S.G. Torrice has 15 locations across Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, a market in which Ferguson has historically had a strong plumbing presence but an under-penetrated HVAC market share.

"We identified a great potential acquisition that had a number of locations, a strong leading position in the marketplace, and was partnered with a great OEM [vendor] of ours," Brundage said. S.G. Torrice distributes residential and commercial HVAC equipment, parts and accessories from Trane, American Standard and Mitsubishi, among other OEMs.

He added: "The strategy really looks at it market-by-market and determines: is it best to grow organically ... or is there a better opportunity to [grow through acquisition?]"

S.G. Torrice President Stephen Torrice said that once he decided to sell the decision to partner with Ferguson was an "easy choice." In a news release from the company's financial advisor in the deal Mirus Capital Advisors, he cited Ferguson's people-first culture, dedication to the customer experience, and depth of product and offerings for that choice.

"This sale strengthens our regional presence, improves our supply chain, and allows us to better serve our customers," Torrice said.

From Deal to Integration

Deal valuation talks with potential acquisitions can range from a few months to two years, depending on a multitude of different dynamics. But once the deal goes through, integrating the new business into the Ferguson fold is the top priority.

The first order of business? ERP integration.

In some circumstances, Ferguson will put a company on its technology platform on Day 1 of the deal. But, more generally, within 6 to 12 months the new company will be migrated over to unlock the value and capability of the acquisitions.

Being a nearly \$30 billion revenue distributor, Ferguson offers smaller distributors that become acquired an established global supply chain and sourcing network with roughly 36,000 suppliers manufacturing products, technology investments and brick and mortar branches.

Ferguson's local leadership team spread throughout the country develop relationships with competing distributors and deep ties in their local markets.

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By the time the company identifies a potential acquisition, in most cases, leadership teams have already had years and years of relationships, whether competitive or through industry events, Brundage said.

Through the years, Ferguson has even padded its leadership team with talent through those acquisitions.

“When we do an acquisition, we’re certainly buying assets like locations and inventory, trucks, etc. ... But what we’re really gaining in that deal is fantastic associates with great talent and great capabilities, as well as wonderful cus-

tomers relationships,” he said. “The real reason we do deals is for the associates: their knowledge and the relationships they bring. The focus for us from an integration perspective is on bringing those associates into the Ferguson family, on opening up new career opportunities for them, and then bringing the capabilities that we offer as a \$30 billion organization to those associates and to their customers.”

[Click here](#) for the web version and graphics included with this article.

CYBERSECURITY

So You’ve Been Cyber-Attacked. Now What?

By Nick Pericle

Executive summary: With cyber attacks being a matter of when rather than if it happens to you, this final report of a three-part series maps out the initial response steps to take when your organization suffers an attack, and longer-term recovery advice.

Part 3 of 3 – So far in this MDM Premium series on cybersecurity and cyber events, we’ve introduced some key concepts to understand around cyber threats and outlined an introduction to strategies distributors can employ to protect against them. Understanding and safeguarding against these threats is critical. In the digital-first era, experiencing a cyberattack is not a matter of “if” but “when.”

The Reality of Today’s Cyber Threats

Sophisticated tools in the hands of adversaries are increasing the frequency and success rate of cyberattacks. For distribution companies, where the basics of getting product to customers are vital, the ability to respond swiftly and effectively is the difference between operational continuity and significant financial losses. mon, especially for companies with significant roles in the economy, like those in the distribution industry.

Value of Preparedness

We’ve discussed the importance of an up-to-date cyber event incident response plan. Beyond the plan itself, the process of preparing — thinking through scenarios, defining roles and practicing responses — is crucial. This preparation builds “muscle memory” for responding to incidents, echoing Mike Tyson’s sentiment that “everyone has a plan until they get punched in the face.” Our experience in working alongside dozens of distributors during moments when they



are working through severe business disruptions has taught us this.

While this article will explain steps to take immediately following a cyber event, our hope is organizations talk through these events before such an event happens, define team members involved and even do scenario planning for events such as this.

Initial Steps in the Face of a Cyber Event

When a cyberattack hits, it feels like being caught in a storm — everything happens at once, and it’s all you can do to keep up. The first moments after an attack are critical. It’s about quickly pulling the team together, figuring out what’s happened and taking immediate action to limit the damage.

Here’s how to jump into action: roll out your incident response plan, gather experts from every department, assess how deep the problem goes, and lock down your systems to stop the attack from spreading further. This quick start is all about protecting what’s important and keeping the situation from getting worse.

Continued on next page

1. **Activate the Plan and Mobilize the Team:** Upon detection of a cyber incident, activate the incident response plan. This plan, as detailed in our previous discussions, should have clear protocols for immediate action, including the establishment of a command center for coordinating the response effort. Ensure there is an appropriate chain of command set up, and that all team members are aware that this is not a drill.
2. **Third-Party Communication:** Establish immediate communication with cybersecurity firms and other third-party partners for assistance.
3. **Identification and Scope Assessment:** Rapidly identify the extent of the breach. The IT team, or cybersecurity partners should immediately look to understand the attack vector, affected systems, and data compromised. This step is crucial for determining the severity of the attack and planning the containment strategy.
4. **Containment Strategies:** Containment involves limiting the spread of the attack and isolating affected systems to prevent further damage. There are increasingly complex ways to do this, such as shutting off the network, or defaulting to backup systems.
5. **Cyber Insurance Activation:** Contact the cyber insurance provider to report the incident and understand coverage options.
6. **Customer Communication Plan:** Draft an initial statement for customers, ensuring transparency and maintaining trust without compromising security. We find that more frequent communication can go a long way in situations like this.

Recovery from a Cyber Event

After the storm of a cyber attack passes, the focus shifts to recovery and rebuilding. This phase is all about cleaning up — kicking out the malware, patching up the holes it crawled through and getting systems back online from secure backups.

But it's more than just a technical fix — it's a time to reassess and reinforce the defenses. Distributors will want to bring in experts to help understand how the breach happened and how to avoid one next time. It is also about keeping the essentials of the business moving, even if it is at a slower pace, ensuring that the most critical operations can keep going while getting back on your feet.

1. **Eradication of Threats:** Isolate affected systems and eradicate the threat by removing malware and patching vulnerabilities, often with the aid of a third-party cybersecurity partner.

2. **System Restoration and Data Recovery:** Prioritize restoring critical systems from backups, ensuring their integrity and testing before restoration.
3. **Business Continuity Planning:** Implement business continuity plans to maintain critical operations, even in a reduced capacity.
4. **Legal and Regulatory Compliance:** Ensure all actions comply with relevant laws and involve legal counsel as needed. Distributors will want to ensure legal counsel is closely involved throughout this process.

Post-Incident Activities

Once the dust settles, it can be easy to go back to the day-to-day. Post-incident reviews — where the team members who were involved in the firefighting discuss what they learned — are crucial for resilience building (to prevent future incidents) but also for restoring reputation and trust, financial management and legal and regulatory compliance.

1. **Lessons Learned:** Conduct a post-incident review to identify successes, failures and areas for improvement.
2. **Documentation and Reporting:** Document the incident's details and response actions for future reference, legal compliance and to inform stakeholders.
3. **Updating Policies and Procedures:** Revise the incident response plan and other relevant policies based on the lessons learned.
4. **Remediation:** Identify and patch any software vulnerabilities that were exploited in the breach. Enhance security protocols, including access controls, firewalls and intrusion detection systems. Provide training to employees on cybersecurity best practices to prevent future breaches.
5. **Talk to Legal:** Offer identity theft protection in case personal information was exposed, other liabilities, etc.

Maintain Core Business Operations

When a cyberattack disrupts distribution operations, keeping the core of the business running becomes the top priority. For distributors, this means getting products to customers and having a solid plan to maintain essential functions without missing a beat.

It can seem like a luxury to have redundant systems and backup processes as a safety net — but having options for this means that the business can keep operating even when primary systems are down. This can be as simple as having alternative ways to communicate with customers and process orders in order to keep the lines open and business flowing.

Continued on next page

- **Redundant Systems and Backup Processes:** Ensure the business can continue with redundant systems and backup processes. Think through what appropriate backup methods the organization can rely on.
- **Alternative Communication Channels:** Establish alternative communication methods for order processing and customer communication. If email is down, or key order notifications are not working, distributors may need to get creative and do things that would not naturally scale, but are imperative for good communication.
- **Prioritizing Key Customers and Services:** Maintain services for key customers to ensure minimal disruption.
- **Employee Role Flexibility:** Cross-train employees to perform critical functions, ensuring the team can adapt to and cover essential roles during a crisis. Have in mind these employees who can do things like help ship items, or help analyze data sent through spreadsheets in order to keep business flowing.
- **Supply Chain Coordination:** Communicate with suppliers and partners to establish temporary measures or alternatives that ensure a steady flow of necessary materials and services.
- **Customer Service Adaptation:** Enhance customer service capabilities to handle increased inquiries and concerns following a cyber event, ensuring customers feel supported and valued.

A Thought About Stolen Data

Data is increasingly important to distribution organizations, and keeping it safe is incredibly important. When a cyber event happens, it may seem that the best course of action is to shut everything down and move cautiously as you think through how you handle the fallout of your data.

Our advice: when a cyber event occurs, don't obsess over the impact of the stolen transactional, item and basic customer data. Focus on getting operations back up and running.

Years ago, one of our partners was working for a large distributor and he came across competitive information for a prospective customer (every item, its usage and price.) When he presented what he thought was a "treasure trove" to the CEO, the CEO told him to "throw it away."

He later came to realize this fact: The victim of stolen data is not the loser, but the entity who acts on that data. Why? Because if an entity accepts and uses stolen data, these actions will not be kept a secret. And when these actions become known, the entity who willfully used stolen

information will not fare well within their market. People still do business with people. And trust is the foundation of business relationships.

So, rather than obsessing over transaction and pricing stolen data, obsess instead over the ability to transact with your trading partners (suppliers and most importantly, with your customers).

Remember What This is All For: Customers and Shareholders

As we draw this series to a close, it's vital to circle back to the very essence of why we're discussing cyber security in the context of distribution: getting products to customers and maintaining their trust.

In the whirlwind of technology, threats and counter-measures, the fundamental mission of any distributor hasn't changed — to deliver reliably and build lasting relationships based on trust. Cybersecurity isn't just about protecting data and systems; it's about safeguarding the flow of goods that connect us, preserving the trust that customers place in us to fulfill their needs securely and efficiently.

Remember, every measure you take, every plan you enact and every response you initiate serves this ultimate purpose: to keep operations resilient, deliveries on schedule and commitments to customers unbroken. In the face of cyber threats, this resilience and reliability aren't just the shield — they're the competitive edge, reinforcing the trust that is the cornerstone of every transaction and relationship.

The threat of cyberattacks in the distribution industry is a stark reality that demands immediate and sustained attention. By understanding the evolving threat landscape, implementing robust security measures, preparing for inevitable breaches and responding effectively when they occur, businesses can mitigate risks and maintain operational resilience.

Remember, in the face of a cyberattack, the strength of preparations, the team and the partnerships you have forged will be the greatest allies in swiftly restoring normal operations.

[Click here](#) for the web version of this article.

[Click here](#) for the web version of Part 2.

[Click here](#) for the web version of Part 1.

TECHNOLOGY

Ride the AI and Data Wave: Your Business Success Secret Sauce

By Nelson Valderrama

Executive summary: While distribution has been slow to embrace the game-changing technology that tech giants have pioneered and exploited, the industry can still take advantage of the AI infrastructure that exists. This article outlines the opportunities.

No one can put a finger on the date things changed. We once thought of computers as super calculators. We enjoyed the distraction of video games and welcomed access to the global internet. Still, the average person didn't notice the arrival of artificial intelligence (AI) until Open AI caught the world's attention with ChatGPT in 2022-2023.

Now, we have Bard, Claude, Jasper and other chatbots ready to generate language, images and music. This trend is the tip of the iceberg, but it has launched a global discussion focused on AI's potential to replace human potential. But I'll leave science fiction to others.

I want to see more wholesale distributors move forward on their tech journey. They will see growth in sales, leverage and profits when they commit to AI's data capabilities.

Early Adopters Will Lead

I wish we had more credible research on CEO attitudes toward adopting AI capabilities, but we can look at surveys across economic sectors.

- [KPMG 2023 U.S. Outlook Survey](#) found that 72% of responding CEOs considered AI "a top investment priority despite uncertain economic conditions." Business leaders see a challenge in "remaining agile to take advantage of new opportunities and respond to unforeseen challenges."
- An [IBM Institute of Business Value \(2023\)](#) study of CEO concerns reported that "75% believe competitive advantage will depend on who has the most advanced generative AI." 50% are now integrating generative AI into products and services, and 43% use it to inform strategic decisions.
- [The McKinsey Global Institute](#) (MGI-2018) addressed AI's impact on the economy through 2030. The report emphasized, "The AI revolution is not in its infancy, but the majority of the economic impact of AI is yet to come."

The MGI report predicts a significant performance gap, with early adopters far outperforming those slow to adopt.

The report predicts a 6% increase in cash flow for early adopters and a 20% decline in cash flow for slow and non-adopters.

"By the time a late adopter has done all the necessary preparation, earlier adopters will have taken considerable market share — they'll be able to operate at substantially lower costs with better performance." — HBR

[The Economist](#), [MIT Sloan](#), [Harvard Business Review \(HBR\)](#) and the [Bipartisan Policy Institute](#) all report on the advantages of early AI adoption.

Even small business owners (82%) say that AI has not only helped their business operate more efficiently but also has helped them compete with larger firms (77%). The majority (69%) say it has limited cost increases and grow in challenging conditions (69%).

Wholesale distributors must now decide where they want to be on that spectrum and how soon they can get there. But, it struck me that slow adopters and mid-sized wholesalers benefit from a better understanding of AI capabilities.

Build Big Data

Let me skip the history of computers. It's enough to know that computers eventually hit the wall of "Big Data." They needed more space for storage and more speed for processing. Standard computers can't handle the volume and velocity required to optimize various interests in Big Data.

Your distributorship amasses data with every transaction. Every purchase and sale generates data. Every stockout, override, and delivery multiply data. Every hire, clock-in and payroll add data, too. If you label inputs and enter data accurately, in-house computers can pick and pull the information you need for most business tasks.

But it takes AI to explore and exhaust every corner of that Big Data for game-changing, actionable information. Writing for Thompson Reuters, Tad Simons explains how real-time predictive analytics of this kind "(rather than analytics based on historical data) can help companies

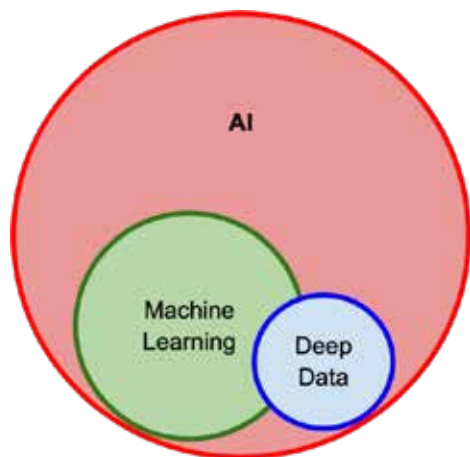
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anticipate potential supply-chain bottlenecks much further in advance, formulate up-to-the-minute contingency options, and respond more nimbly to fluctuations in supply and demand.”

Inside AI 101

AI uses specifically designed computer programs and algorithms to perform functions that mimic human intelligence. Engineers have developed applications to automate machines, solve problems, manage processes and other assignments typically requiring human intelligence.

If you could visualize the concept, it might look like the following graphic:



It's like a nest of active technologies.

- AI refers to developing agents like machines, phones, and voice bots to perform human tasks. The systems might be rules-based, closely following coded instructions, or use machine learning algorithms.
- ML deploys algorithms to enable machines to learn from data. Codes tell a computer how to get from point A to point B. Beyond B, algorithms diverge into multiplying and self-perpetuating options and directions.

Unambiguous directions will guide computers through a sequence of instructions to achieve a desired outcome or complete a task. Machine learning algorithms will use subsequent data and feedback to revise or correct its initial outcome.

- Deep Data exists throughout a dataset. It describes the high-quality, relevant, and actionable information that permeates high-volume databases. The information may hide beyond easy reach. So, it takes AI to locate and interpret patterns in the data, transforming them into doable plans.

What Does AI Mean For Distribution?

Wholesale distributors sit on a wealth of data. There's a

whole history of buy/sell transactions. There's another history of transactions lost to traditional pricing and inventory strategies. Just think of all the information jotted on paper and thrown away, all the calculations subjected to tribal knowledge and gut feelings.

Artificial intelligence can integrate seamlessly with existing ERP and CRM systems, launch with minimal downtime, and explore every nook and cranny of your sales and inventory transactions. AI does not recall or calculate. It seeks patterns, trends and correlations among the transactions to prepare predictive analytics.

Real-time and access-easy information prompt sales with the right price and product at the right time. In its "wisdom," AI has also integrated economic, competitor, and custom trends.

But that's not all. AI offers additional benefits of interest to distribution CEOs, CFOs and Inventory and Sales Managers, including:

- **Optimized decision-making:** Quality data drives the best decisions. AI has the speed and reach to wash and rinse the transactional history to see what comes out in the sun. Predictive analytics emerge to improve decisions on inventory management, strategic pricing and marketing tactics.
- **Improved efficiency and productivity:** AI can automate processes and manual operations, inventory and sales tasks. In doing so, it relieves employees to more fulfilling and productive work.
- **Projected growth:** AI provides the forecasts company decision-makers and stakeholders need to predict the scope and timing for facility and labor growth
- **Enhanced customer service:** Sales and customer service reps will improve service, solve problems faster, and strengthen customer relationships with a shot in the arm from AI.

AI Versus BI

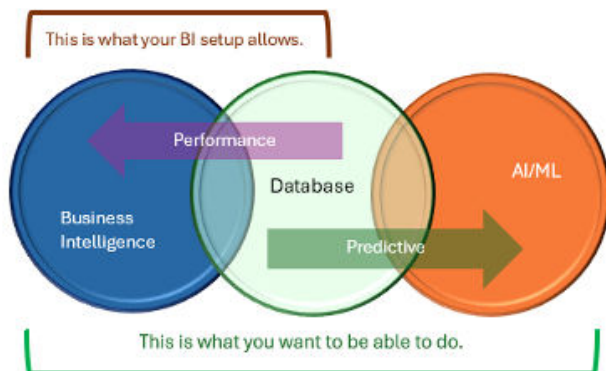
Your wholesale distributorship may brag about having a super Business Intelligence (BI) system. That's okay. Just don't confuse it with AI.

BI will examine your past performance and provide the information needed to determine what went well and what needs improvement. It will, for instance, report on the business's KPIs. It gathers information that decision-makers can share or create dashboards for their teams.

The thing is, BI focuses on the past, whereas AI metabolizes the historical data to deliver predictive and actionable analytics. Its ML algorithms can integrate the past's patterns with information on evolving trends in the economy, customer behavior, and competition.

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What you get with AI is BI on steroids, as illustrated here:



What can you expect? AI/ML works independently, combining your data with a fine tooth comb. It gathers information so your salespeople can:

- Plan their week emphasizing customers and prospects identified by product preference, reorder likelihood or seasonal interest.
- Prepare pitches to close orders, cross-sell and upsell with the help of customer- and product-specific information.

mation.

- Access real-time inventory status.
 - Reduce or eliminate “old school” administrative tasks.
- Salespeople can share their information with peers and managers to trigger collaboration. And sales managers can share the info across business functions with a need-to-know.

How Soon Should Distributors Adopt AI Capabilities?

Chances and conditions are good for increasing sales in 2024 — if you have the unique power of AI/ML behind you.

Forward-thinking wholesalers constantly seek new technologies to improve their operations. As their cost of business increases, their first instinct is to increase operational efficiencies. They look for better communication, equipment and marketing.

We have a legacy of computers that count, sort, prioritize and archive data. Now, we can run advanced analytics to dive deep into databases and find valuable and useful insights, patterns, and trends. AI will reinvent distributor sales. You’ll want to be a leader.

[Click here](#) for the web version of this article.

QUARTERLY MDM-BAIRD DISTRIBUTION SURVEY

Data: Distributors’ 2024 Sales Growth Outlook by End Market

By Mike Hockett

Executive summary: Using charts from our 4Q23 Baird-MDM Survey conducted in the first half of January, we illustrate what this year’s sales growth expectations are for distributors across five key customer end markets.

One of the best elements of MDM’s quarterly MarketPulse Report for Premium members ([get 4Q23’s here](#)) is the revenue forecasts for the current quarter and full year, collected from the Baird-MDM Industrial Distribution Survey’s some 500 respondents — about two-thirds of whom hail from distributors.

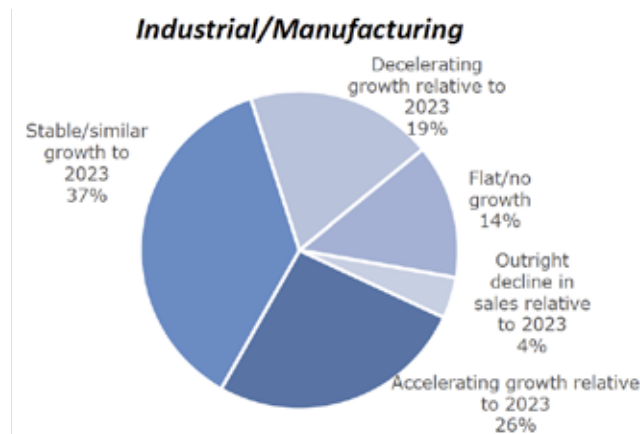
That MarketPulse Report shows those revenue forecasts across 20 different industrial, commercial and building supply verticals. But here in this Premium article, I wanted to touch on our 4Q23 survey’s quantitative results that took a different look at how broader end markets are expected to fare this year.

Our survey asked the question of, “For any of the end markets your company participates in, what is your outlook for 2024 sales relative to 2023?”

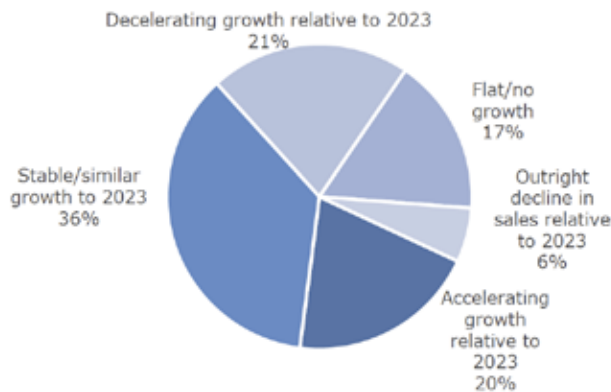
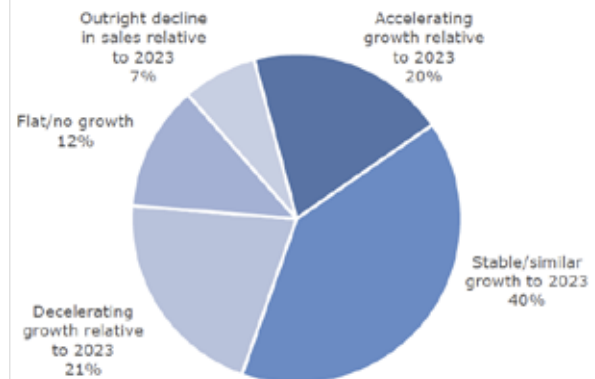
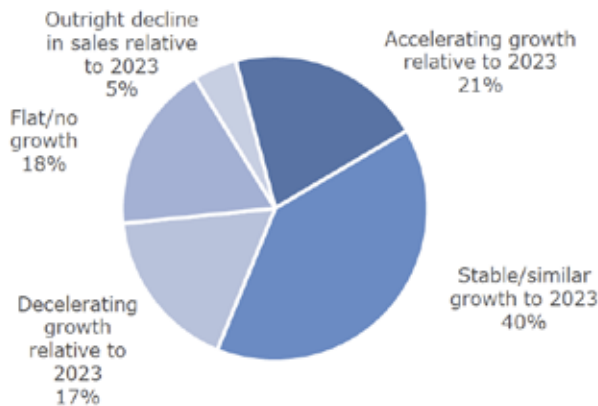
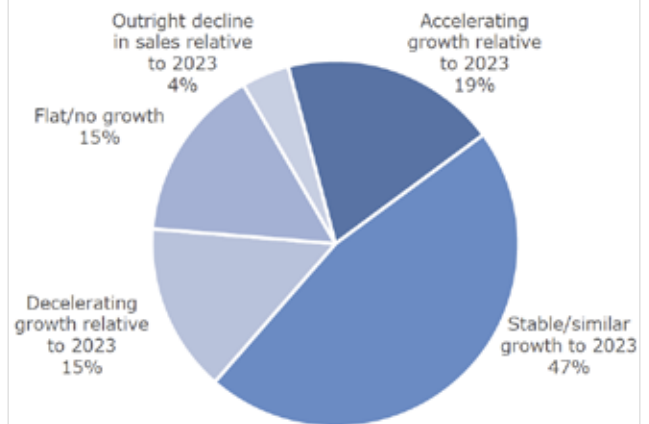
We categorized the results into five core end markets:

- Industrial/Manufacturing
- Residential Construction
- Residential Repair & Remodel/Maintenance
- Non-Residential Construction
- Non-Residential Repair & Remodel /Maintenance

See the resulting pie charts for each below:



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Residential Construction**Non-Residential Construction****Residential R&R/Maintenance****Non-Residential R&R/Maintenance****Findings**

“Stable” was the name of the game in these results, representing the largest forecast option out of five available in all five end markets and a nominal range of 36-47%; ‘Accelerating’ was the second-most common choice, with a range of 19-26%; ‘Decelerating’ followed with a range of 15-21%; ‘Flat’ ranged from 12-18%; and ‘Outright decline’ thankfully ranged from just 4-6% of respondents across all end markets.

The results reflected a cautiously optimistic tone MDM continues to hear across the distribution sector, with the

majority of distributors expecting modest, predominantly single-digit 2024 sales growth vs. 2023, with most of that growth expected in the second half of this year.

Looking for more 2024 outlook insights? Our [Jan. 18 Annual Distribution Industry Outlook webcast](#) was packed with them and fresh market data that helps level-set expectations for the rest of the year. You can view the free event now on-demand.

[Click here](#) for the web version and graphics included with this article.

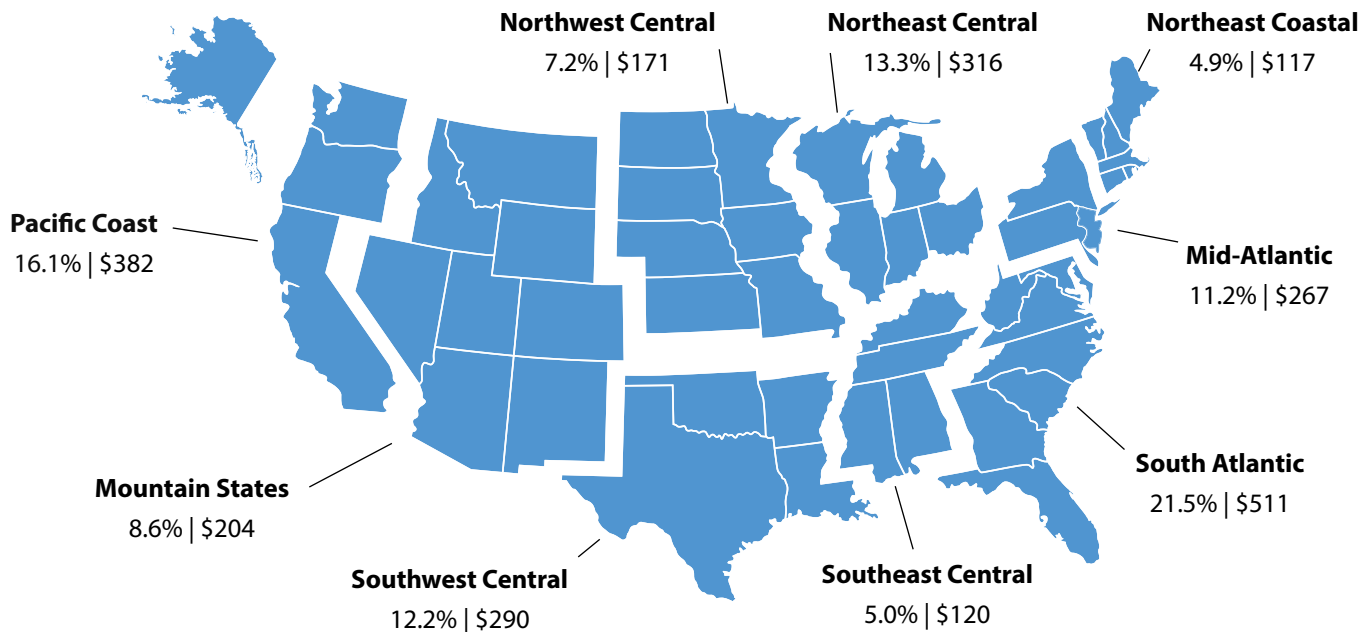
U.S. MARKET PROFILE



Adhesives MRO Market Size is \$2.4 Billion in the U.S.

The estimated demand for Adhesives MRO in the U.S. in 2023 is \$2.4 billion, according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin. The following segmentations show demand by the nine geographic regions, and the top 10 end-user customer segments driving demand for these products, as well as the number of accounts in each of the NAICS-code defined segments.

U.S. End-User Market Demand for Adhesive MRO products by region, \$ Millions (2023 est.)



U.S. End-User Market Demand for Adhesive MRO products: Top 10 End Markets

Top 10 end markets in \$ volume, by NAICS code and number of accounts, consuming adhesive MRO products (2023 est.)

NAICS	Customer Segment	Estimated Demand	# of Accounts
238220	Plumbing, Heating, and Air-Conditioning Contractors	\$452,557,202	196,608
238320	Painting and Wall Covering Contractors	\$315,975,924	89,296
236220	Commercial and Institutional Building Construction	\$286,654,542	57,353
238310	Drywall and Insulation Contractors	\$150,647,800	29,493
238130	Framing Contractors	\$146,277,783	44,824
236115	New Single-Family Housing Construction	\$123,455,768	357,980
238210	Electrical Contractors and Wiring Installation Contractors	\$85,785,473	116,377
236116	New Multifamily Housing Construction	\$66,253,818	31,156
236210	Industrial Building Construction	\$48,592,703	7,642
236118	Residential Remodelers	\$47,950,001	113,685

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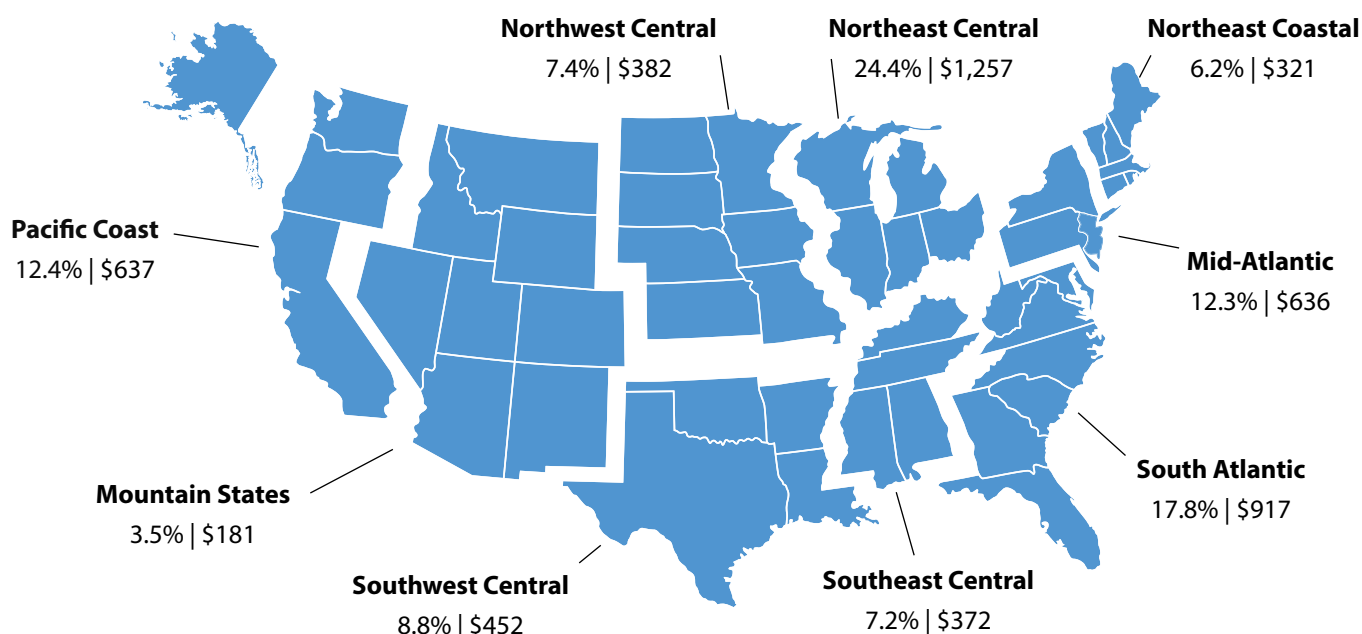
U.S. MARKET PROFILE



Adhesives OEM Market Size is \$5.2 Billion in the U.S.

The estimated demand for Adhesives OEM in the U.S. in 2023 is \$5.2 billion, according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin. The following segmentations show demand by the nine geographic regions, and the top 10 end-user customer segments driving demand for these products, as well as the number of accounts in each of the NAICS-code defined segments.

U.S. End-User Market Demand for Adhesive OEM products by region, \$ Millions (2023 est.)



U.S. End-User Market Demand for Adhesive OEM products: Top 10 End Markets

Top 10 end markets in \$ volume, by NAICS code and number of accounts, consuming adhesive OEM products (2023 est.)

NAICS	Customer Segment	Estimated Demand	# of Accounts
322211	Corrugated and Solid Fiber Box Manufacturing	\$888,641,777	1,858
322220	Paper Bag and Coated and Treated Paper Manufacturing	\$638,746,722	1,530
337110	Wood Kitchen Cabinet and Countertop Manufacturing	\$360,046,515	15,704
322291	Sanitary Paper Product Manufacturing	\$243,904,960	451
321211	Hardwood Veneer and Plywood Manufacturing	\$179,585,247	301
336110	Automobile and Light Duty Motor Vehicle Manufacturing	\$178,021,522	1,516
322219	Other Paperboard Container Manufacturing	\$176,657,819	676
327910	Abrasive Product Manufacturing	\$129,364,982	640
323111	Commercial Printing (except Screen and Books)	\$125,139,059	43,809
336390	Other Motor Vehicle Parts Manufacturing	\$121,134,532	6,024

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