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OPERATIONS

What to Know before Expanding Across State Lines

By Mike Hockett

What homework precludes your hard-earned expansion into a new state? We spoke with a distributor well-versed in recent growth to learn what has been involved. **Click for web version with original graphics**

So you've grown your business to the point where you're ready to expand by adding its first new location outside of its home state. Or maybe you've even been presented with an opportunity for footprint growth. Congratulations! But before you get too far into your regional growth vision, there are a number of questions and decisions that must be made to ensure your cross-state operation continues to find success. There's much more involved than just finding and/or building a new facility.

MDM recently spoke with the team at **Packer Fastener**, an independent threaded fasteners and industrial supplies distributor to gain insight on this topic. The company was founded in its namesake Green Bay, WI hometown in 1998 and has witnessed tremendous growth in the three decades since.

It added a handful of additional Wisconsin branches before adding its first location across the border in 2021 just outside of Chicago. It has since added locations in Rockford, IL, the Twin Cities in Minnesota and most recently this year in Kansas City, MO with a **new branch** and **distribution center there**, alongside **relocating its Green Bay headquarters to a newer, larger facility there**, and **likewise with its Madison, WI branch**.

"Expanding our footprint is a testament to the loyalty of our customers. This expansion reflects our commitment to providing the best possible service and support," company Founder, Owner and CEO Terry Albrecht said in a Sept. 23 news release.

Many small- and mid-sized firms would love to replicate that kind of growth. However, it doesn't come easy. Every state is different when it comes to legal issues and every market presents its own obstacles. But the company keeps getting better at it with experience.

We spoke with Packer Fastener President **Jason Ledvina** — who has been with the company since 2010 and was recently promoted from Director of Business Operations — having overseen all of that muti-state expansion.

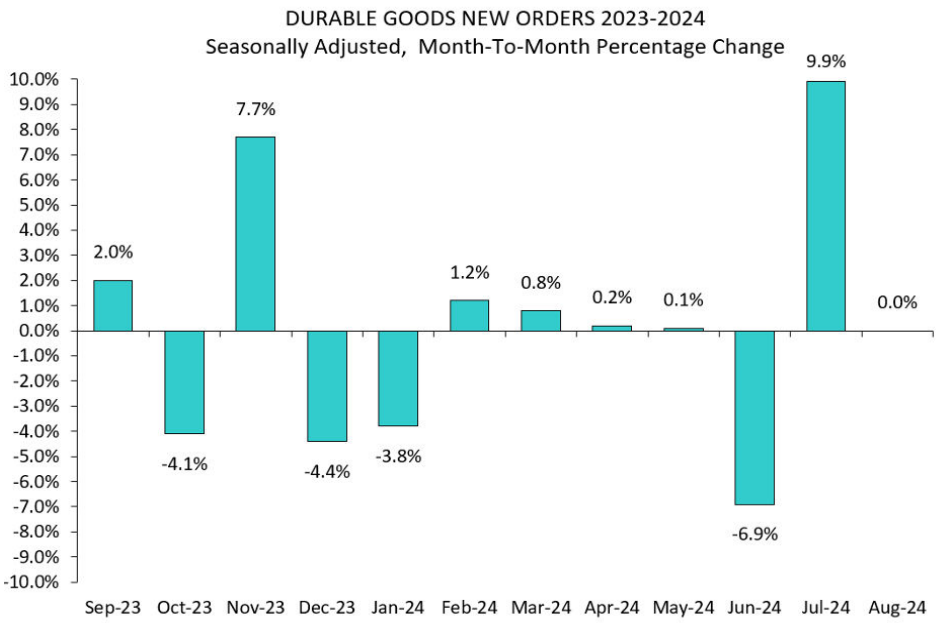
He filled us in on the homework and fine details that had to be completed before Packer Fastener was able to move forward with each new state it entered.

Continue on page 6

DATUM

A Wild Summer in Durable Goods

Tracking durable goods orders — or the dollar value of products manufactured to last at least three years — can help gauge the economic health of the industrial supply sector.



Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories, and Orders, September 26, 2024.

Unfortunately, the volatility in those numbers from the U.S. government doesn't provide much clarity.

The Census Bureau's advance report for durable goods orders — issued Sept. 26 — showed that orders were virtually unchanged month-to-month in August, up $0.1 billion to $289.7 billion.

The flat month followed a 9.9% surge in July, a 6.9% drop in June and another flat 0.1% gain in May. Orders had held between +1.2% and 0.1% from February through May, suggesting stability had arrived, before the summer's major swings.

Overall, new orders for manufactured durable goods increased six out of seven months through August.

Excluding transportation, August new orders increased 0.5%. Excluding defense, new orders decreased 0.2%. Electrical equipment, appliances and components — up two of the last three months — drove the increase with a $0.3 billion/1.9% monthly gain to $14.4 billion.

Source: **U.S. Census Bureau**

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INDUSTRY NEWS DIGEST

Distributor News

Switzerland-based **Bossard** acquired France-based **Aero Negoce International SAS** to bolster its aerospace market presence.

Fuels and lubricants distributor **Waring Oil Company** acquired **Lavigne Oil Company of Baton Rouge**.

Rotunda Capital Partners invested in Houston-based **Mama Lycha Foods**, a supplier of branded Latin American food and beverage products.

A three-alarm fire broke out at **Texas Pool Supply** — a subsidiary of Heritage Pool Supply — in Frisco, TX on Sept. 25. The was fire likely caused by a chemical reaction on a pallet of materials outside the building, according to local media.

Plastic laboratory consumables manufacturer and distributor **CELLTREAT** moved to a new distribution center in Ayer, MA.

Material handling equipment distributor **Big Lift** and its subsidiaries Big Joe Forklifts and EP North America opened its new headquarters in Deforest, WI.

Metalworking and MRO supplies distributor **MSC Industrial Supply** appointed Martina McIsaac to President and COO.

Facilities supply distributor and commerce provider **Essendant** appointed Patrick Allard as President of Essendant Fulfillment Services.

Motion, flow control, automation and MRO supplies distributor **Applied** published its 2024 ESG Report, detailing a reduction in energy consumption and total recordable incidents, as well as progress on other sustainability and business practices.

Brecksville, OH-based industrial sealing products distributor **anyseals** promoted Austin Walker to VP of Sales and Marketing and Austin Lumpkin to West Coast Regional Sales Manager.

Wisconsin-based **Packer Fastener** opened a new Kansas City distribution center to better serve its customers throughout the southern half of the U.S. Midwest.

Plumbing, HVAC, electrical, fasteners and hardware distributor **VP Supply** acquired Smyrna, TN-based **Exterior Wholesale Supply** — a distributor of building products and installation services.

Disconnect switchgear, porcelain, glass insulators and instrument transformers distributor **Power Grid Components** acquired Port Chester, NY-based plant hardware distributor **Allied Bolt**.

Houston-based steel products distributor **Triple-S Steel Holdings** acquired Burbank, CA-based **Borrmann Metals** — a West Coast distributor of steeling materials including tube and pipe, plate, merchant bar and nonferrous products.

Janitorial, safety products and plastics distributor **Aramsco** appointed Kiki Katz as Chief Commercial Officer.

Paper and packaging distributor **Millcraft** appointed Greg Lovensheimer as President. He is the first non-family member to obtain the role in the company's 104-year-history.

Fluid solutions distributor **TIPCO Technologies** partnered with Denver, CO-based **Hoses2U** — an onsite hydraulic and industrial hose replacement service.

Ohio-based fasteners distributor **AFC Industries** appointed Jim Henning as Vice President of Sales for the AFC Tooling Group.

Specialty construction supplies and safety product distributor **White Cap** acquired Indianapolis, IN-based **Jobsite Supply**, a concrete accessories and shoring solutions provider.

Canadian-based industrial distribution group **Ficodis** — owned by France-based Descours & Cabaud — acquired Whippany, NJ-based roller bearings, mechanical seals and bearings manufacturer and distributor **Berliss Bearing Company**.

Baltimore, MD-based electrical distributor **Shepherd Electric** will lease an 85,750-square-foot distribution center in Chesterfield, VA.

Acme Tools executive Daniel Kuhlman, who served as President of the tools and equipment distributor for over 50 years, died on Sept. 9. He was 82.

Philadelphia, PA-based flooring, kitchen and bath product distributor **AAA Distributor** has redesigned its website and brand identity as part of an online expansion.

Roofing and other building materials distributor **Beacon** acquired **Chicago Metal Supply & Fabrication** — a family-owned business specializing in custom architectural sheet metal fabrication.

Minnesota-based electrical distributor **DSG** opened two locations in Box Elder, SD and Spirit Lake, IA and relocated another to a larger facility in Grand Rapids, MI. The company also acquired Singapore-based **Tech Component Resources** — a distributor of fasteners, mechanical components and other industrial products.

Foodservice, packaging supplies, industrial products and janitorial supplies distributor **Imperial Dade** appointed Fareed Khan CFO.

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Fasteners distributor **Field Fastener** acquired **Cascade Nut and Bolt** — a distributor of standard and metric fasteners, including all grades and materials.

Workflow solutions conglomerate **Fortive** spun off its precision technologies segment. This will create two separate, publicly-traded companies, each with focused business models and a distinct approach to investment and capital allocation.

Retail, manufacturing and distribution conglomerate acquired **H.H. Barnum** — a distributor of controls for factory and warehouse automation.

Parts Town Unlimited — the parent company of OEM foodservice, HVAC and residential appliance parts distributor Parts Town — appointed Jamie Head as its Chief Information Officer and Lisa Backlin as Group VP of Supply Chain.

Flow control and industrial automation products distributor **Flow Control Group** (FCG) appointed David Patterson as Executive Chair and Raymond Aronoff as President and CEO.

Building materials distributor **Builders FirstSource** acquired Dallas-Fort Worth, TX-based custom cabinetry manufacturer and installer **Sunrise Wood Designs** and **appointed** Peter Jackson as President, CEO and member of its Board of Directors, effective Nov. 6. Senior VP of Financial Planning & Analysis Pete Beckmann will succeed Jackson as CFO.

Nashville, TN-based HVAC equipment, parts and supplies distributor **Team Air Distributing** acquired Kentucky-based HVAC distributor **Best Choice Supply** and was **awarded new territories** from its OEM partner American Standard.

Building materials distributor **US LBM** acquired Breckenridge, CO-based window and door distributor and installer **Gregory Door & Window** and Fort Worth, TX-based **Nix Door & Hardware** — a window, door and fireplace distributor and installer of windows, doors and fireplaces.

Forklifts, cranes and other material handling products distributor acquired Atlanta, GA-based **Dedicated Material Handling Solutions** — a material handling solution distributor.

Electrical distributor **Sonepar** is set to acquire Albuquerque, NM-based **Summit Electric Supply** in a move that will gain Sonepar 23 branch locations in the U.S. Southwest and more than 700 associates.

Fluid solutions distributor **TIPCO Technologies** acquired San Diego, CA-based industrial supplies distributor **Charter Industrial Supply**.

Packaging supplies manufacturer and distributor **Vertitiv** is set to acquire the North American unit of Orora Group — Buena Park, CA-based **Orora Packaging Solutions** — for $1.2 billion.

Electrical supply distributor **Cape Electrical Supply** — a wholly owned subsidiary of Graybar — acquired Chattanooga, TN-based electric utility distributor **Power Supply Company** and appointed Andy Ciccone VP of Customer Experience, **effective Nov. 1**.

Houston-based pumping solutions and industrial supplies distributor **DXP Enterprises** acquired Tomball, TX-based pumps, controls and process equipment manufacturer representative **Hartwell Environmental Corp**.

Santa Ana, CA-based building materials distributor **Foundation Building Materials** acquired Pennsauken, NJ-based doors and hardware building distributor **Unified**.

Brillon, WI-based fasteners distributor **Endries International** acquired Winter Park, FL-based fasteners and electro-mechanical distributor **ServTronics** and **opened a new distribution center** in Algonquin, IL.

North Wilkesboro, NC-based building materials distributor **ECMD** acquired Louisville, KY-based **Falls City Lumber** — a board, pattern stock, fiber cement and PVC products distributor.

Hardware, lumber and building materials buying cooperative **Do it Best** added lumber products to its eCommerce platform.

Plumbing, PVF, HVACR and industrial supplies distributor **Porter Pipe & Supply** broke ground on its new facility in Madison, WI on Aug. 23.

Chicago-based private equity firm **Forest Hill Partners** completed the sale of Berne, IN-based **Micromatic** — a manufacturer and distributor of rotary vane actuators, waste tippers and automation assembly systems.

Consumable and air filtration manufacturer and distributor **Rensa Filtration** acquired air filter products provider **The Filter Shop**.

AWI Holdings (Auto-Wares), a portfolio company of Kinderhook Industries, added **Moog Louisville Warehouse** — a distributor of automotive parts and supplies in the greater Louisville, KY, and southern Indiana areas.

Middle market private equity firm **Heartwood Partners** invested in Hauppauge, NY-based **Royal Products** — a manufacturer and distributor of metalworking performance accessories.

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Dayton, OH-based **Winsupply** — a distributor of products for residential and commercial plumbing, HVACR, hydronics, PVF, electrical, fasteners, waterworks and more — partnered with the NFL's Cincinnati Bengals to support Paycor Stadium's infrastructure needs, and is considering building a distribution facility following its **agreement to purchase 38 acres of land** in Ohio.

Private equity firm **Rotunda Capital Partners** invested in Miami, FL-based PFV distributor **Lehman Pipe and Supply**.

San Francisco, CA-based private equity firm **Gryphon Investors** closed its single-asset continuation vehicle for a fund that allows additional investors to sponsor **Vessco Water** — a water and wastewater treatment distributor and services platform.

Manufacturer News

Hand tools manufacturer **Wright** added Livermore, CA-based **Ebbert Pacific** as a new manufacturer representative.

Tampa, FL-based manufacturing and distribution software provider **Advantive** acquired Toronto, Canada-based **Comsense** — an ERP and project management solutions provider for the architectural door, frame and hardware industry.

Zekelman Industries plans to close its Wheatland Tube plant on Chicago's south side which will result in the layoff of over 230 employees, blaming the closure partly on a high influx of steel conduit imports from Mexico.

Electrical, mechanical and power management systems servicer and manufacturer **Integrated Power Services** acquired **ABB's Industrial Services** business — a repair and field service for electric motors and low and medium-voltage switchgear equipment.

PPE manufacturer **Radians** expanded its Memphis, TN, headquarters campus with a 110,000-square-foot manufacturing facility.

Association/Buying Group/Co-op/Service Provider News

Mobile solutions provider **Moblico** partnered with omnichannel fulfillment solution provider **OneRail** to enhance last-mile delivery management for distributors.

B2B payments platform **Melio** integrated with **Amazon Business** Reconciliation API to synchronize Amazon Business invoices in a single payment system.

AI-backed distribution growth platform **Proton.ai** achieved SOC 2 Type II certification.

Amazon will return to its pre-pandemic policy, requiring corporate employees to be in the office five days a week.

The **Industrial Supply Association** launched the Women in Industry Mentorship Program — an initiative created to address opportunities and challenges women face in the industrial market.

Food and beverage ordering platform **BlueCart** launched the vendor platform Endless Aisle Marketplace, designed to support the buying and selling process for vendors and restaurants.

LL Flooring reached an agreement with **F9 Investments** for the sales of its business that appears to have averted a complete **closure of the organization**.

Economic & Regulatory News

The Conference Board Consumer Confidence Index fell in September to 98.7, down from 105.6 in August and to the lowest level since August 2021.

NetPlus Alliance members are mostly optimistic for the second half of 2024, though some distributors are cautious due to election uncertainty, high interest rates and inflation, according to the group's latest Industry Outlook report.

The **U.S. Federal Reserve** cut interest rates by 50 basis points; the Fed rate sits between 4.75-5.0% as of Sept. 18.

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Continued from page 1

Check out our conversation below:

MDM: When Packer Fastener first decided it was going to expand outside of WI (or in subsequent expansions to Minnesota, Kansas City), what operational questions had to be asked and answered?

Jason Ledvina, Packer Fastener:

- **Market research** — Our most successful market research has been listening to our customers' needs. We've been fortunate to pack up, lock arms and take a chance on "anywhere, USA" with our partners to ensure we win together.

- **Logistics** — We have two distribution centers located in Green Bay and Kansas City. The majority of our customer-facing logistics are handled through our own fastener fleet, deployed from our two DCs. For anything we can't handle internally, we tap on our sister company Packer Freight. Packer Freight's network of 17,000 partner carriers execute anything from LTL to truckload for us. With speed being one of our competencies, having the experts at Packer Freight sitting alongside of us makes life easier.

- **Legal/tax codes** — We rely on third party providers to ensure we're complying with state, county and municipal requirements.

- **Staffing/employment procedures** — We have been incredibly fortunate to recruit, retain and align the right people in the right seats. To date, when we've had new location call, we ring the opportunity bell and our current crew has risen to the occasion.

- **Communication** — Are we aligning with our customers' expectations? Are we clear with our internal support to ensure we're aligned on what success looks like? People, people, people: Our people make this a success. Our leadership team needs to offer clear vision and an environment of success. Foot on the gas!





Packer Fastener promoted its expansion into Kansas City, MO, and Rockford, IL with these marketing images. Source: Packer Fastener.

MDM: Were those questions and decisions things that had to be answered/made before Packer bought new property outside of WI, did they come after, or did they happen along the way?

Ledvina: Yes. Upon receiving an opportunity, our team digs into the specifics of the vision. Timing of when we need to be operational. Are we getting the right space (amount and location) to operate from? Are we supporting our onsite sales and operational staff with a protocol and process to make them successful.

MDM: Where there any lessons learned from Packer's initial expansion into Illinois that helped it when it later expanded into Minnesota and Kansas City?

Ledvina: Yes, for sure. Each expansion posed new challenges that didn't have clear solutions. We listened to our teams' voices to define what new market success would look like. Is our competence of speed, accuracy, and availability what our customer values?

MDM: Any other advice or important details to keep in mind for small, independent distributors looking to make their first expansion across state lines?

Ledvina: Craft the map — be intentional and clear with your vision. Define your success and roadmap to achieve it. The road will have bumps, and don't be intimidated by the detours. Define and defend your priorities, regulate the stress, and empower your team to win. Foot on the gas!



Jason Ledvina

Learn much more about Packer Fastener's expansion and "Swagger" culture in this 2023 MDM Podcast with company Founder, Owner and CEO Terry Albrecht.

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STRATEGY

Buy or Build Tech Solutions? Stellar Embraces Both

By Brett Parkhurst

This case study details the MRO products distributor's pandemic-born initiative to complement its third-party software solutions with in-house technology, and the ROI gained from the hybrid approach. **Click for web version with original graphics**

Commercial software packages have long been a cornerstone for business efficiency, allowing companies to grow rapidly while focusing on core operations.

For example, Epicor Prophet 21, which is used by Stellar Industrial Supply as its core ERP system, has proven to be a huge asset and key differentiator in how the business operates efficiently. Even as feature-rich as that system and others are for distributors, they often can't provide 100% of everything customers potentially need.

Many software companies provide powerful extensibility tools and APIs that both non-developers and developers can use to extend the functionality of the system. There are other software packages that Stellar has used. The efficacy of such solutions often falls short of delivery promises and/or expectations, leaving users grappling with inefficiencies, excessive costs and looking to alternative software to fill the gaps.

Through recent acquisitions — eight since mid-2021 — Stellar has undergone a rapid expansion, now boasting an enviable coast-to-coast network of regional distribution hubs. Through its network, **Stellar distributes more than 90,000 MRO products and tools from more than 1,500 brands** for safety, metalworking, marine supply, aerospace and other general manufacturing and processing organizations, and also offers customized indirect material management.

The company achieved approximately $150 million in 2023 revenues — 20% more than 2022, largely driven by acquisitions. That annual revenue figure was essentially double what the company had in 2019.



Stellar Industrial Supply's Tacoma, WA headquarters location. (Stellar photo)

As it has grown, Stellar frequently faces the challenge of third-party solutions falling short in meeting the diverse needs of their customers and their business operations. This discrepancy not only contributes to the accumulation of technical debt but results in a slower-than-desired response to resolving issues with agility and efficiency. As the company's customers' demands evolve, staying ahead of the curve becomes imperative. This entails customizing solutions not only to meet present needs but also to anticipate future market shifts.

Built for Success

Recognizing these challenges, Stellar embarked on a bold initiative during the pandemic. It invested in developing its own in-house technology solutions to revolutionize operations, better serve customers and function as a catalyst for accelerated company growth.

With a keen focus on 'build vs. buy,' Stellar's new in-house development team strategically crafted a roadmap of custom-tailored services and applications that augment their core systems such as Epicor Prophet 21, Microsoft 365 and Microsoft Azure. This, Stellar said, empowers the company to achieve greater customer satisfaction with fewer resources. An additional benefit that Stellar has realized is that custom development places the company firmly in the driver's seat, providing a distinct competitive advantage.

Collaborating closely with their internal teams and industry experts, Stellar meticulously crafted the "Stellar Automation Hub" as the cornerstone platform for deploying a suite of applications and services. This hub utilizes advanced technology frameworks such as Microsoft Azure Services and the Microsoft AI platform to allow rapid development and integration of solutions.

In-House ROI

Stellar rapidly deployed solutions that facilitate quick decision-making and automated processes, freeing up its team members to focus on more value-added work. In a brief period, Stellar has created solutions that improve overall employee and customer satisfaction. These solutions include sales order

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expediting, purchase order expediting, pricing contract management, vendor invoice automation, 3M API integration and more.

A compelling demonstration of ROI is the implementation of vendor invoice automation, as Stellar achieved a 64% increase in processing efficiency without any human interaction. This streamlined approach has not only improved payment processing to suppliers, but also significantly reduced time spent troubleshooting.

Two years into its custom development journey, Stellar's IT department has evolved into a revenue-generating department, crafting applications and automations that foster cost savings and operational excellence. This strategic decision to develop in-house solutions has not only upheld but amplified Stellar's competitive advantage, while reinforcing relationships with vital stakeholders.

Looking ahead, Stellar is well-positioned to embrace further innovative technologies, continuing to enhance efficiencies and provide unmatched service to customers.

About the author: Brett Parkhurst is the Director of Software Engineering at Stellar Industrial Supply.

FINANCE

Tactics to Align Order Value with Logistics Costs (How to Get Your Profits Back)

By Randy MacLean

Amid rampant profit erosion industry-wide, this article explores specific actions distributors are now using to restore their past profit rates. **Click for web version with original graphics**

When average order logistics costs exceed order value (gross profit), it will drain away profits already made on other (profitable) orders. In most companies, this is happening thousands of times each day, and it's the principal cause of the profit erosion that's prevalent in most distributors. In this article, I'll share the specific actions distributors are now using to restore their past profit rates.

The real drivers of lost profits are rapidly escalating manpower costs (up 68% since 2006), and the end of historically-low interest rates. These market changes are structural and permanent, so distributors need permanent changes to address them. Distributors are rethinking their pricing and service models, because too many orders no longer have enough value to cover their costs.

You can't sell your way out of the problem, and simple across-the-board solutions won't work, either.

Changes need to be tailored to very specific customer and product groups. Profit recovery can only happen when the tactics here are applied to very specific subsets of customers and products, else they can harm sales and profits in other groups. This why detailed analytics are necessary.

Simply said, you can't apply most of these tactics without knowing which accounts to apply them to. You need detailed customer and product profitability data. In this article, I'll be showing the reports from WayPoint Analytics that our clients are using to guide their strategies.

So, here are the specific tactics companies are using right now to get back to historic profit levels:

1. Analyze Customer Profitability.

- **Get detailed customer profit analysis:** Reports assess costs and profits for customers, products, sales territories, business segments and more. Multi-dimensional value and cost analysis can deliver advanced segmentation, identifying customer groups for specific actions.

- Customer segments are further grouped by the cause of the dysfunction. (Low order value vs. high logistical costs; or high order frequency driving low order value, or a mismatched service model, or inappropriate pricing, etc.) Profit value for the various groups can then be managed using one or more of the following tactics.

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High-Volume Accounts													
		Revenue	GP			Exp		NBC		Type		Invoices	
	Customer	$	$	%	/inv	$	%	$	%			Total	Losing
1	Statoil Marketing & Trading US	804,690	262,106	32.6%	762	94,682	11.8%	167,424	20.8%	HEA	HLA	344	15.1%
2	Presbyterian Ltc-1 Inc	483,987	157,633	32.6%	1,087	27,294	5.6%	130,338	26.9%	HEA	HLA	145	13.8%
3	Parker Seal Group	552,926	132,256	23.9%	678	29,007	5.2%	103,248	18.7%	HEA	HLA	195	28.7%
4	Ohio Machinery Co	483,872	127,641	26.4%	751	26,076	5.4%	101,565	21.0%	HEA	HLA	170	21.8%
5	I Party Retail Store	1,083,245	129,972	12.0%	458	45,741	4.2%	84,231	7.8%	HEA	---	284	5.3%
6	12th Street Associates LP	890,734	118,653	13.3%	486	37,964	4.3%	80,689	9.1%	HEA	---	244	24.6%
7	Carland Industries Inc	218,477	87,899	40.2%	955	9,957	4.6%	77,942	35.7%	HEA	HLA	92	3.3%
8	Caliber Learning Network, Inc	156,266	66,386	42.5%	1,165	6,878	4.4%	59,507	38.1%	HEA	HLA	57	5.3%
9	Raytheon Company	174,284	62,148	35.7%	1,516	4,864	2.8%	57,284	32.9%	HEA	HLA	41	7.3%
10	Private Indstry Cncl of Phila	264,225	77,817	29.5%	590	25,152	9.5%	52,665	19.9%	HEA	HLA	132	65.9%

The green and blue cells classify customers by segment (red block) so specific actions can be taken with the customers those actions best apply to.

2. Reevaluate Pricing Structure.

• **Targeted Price Increase:** Consider a price increase for groups of chronically money-losing customers. This can help a larger portion of their orders cover their logistics costs, and will reduce the losses from the group. Profit-value segmentation is, by far, the most effective method for customer grouping, and identifying the "Reg-" (small money-losing customer) group for pricing action is one of the most effective mechanism for recovering profits.

• Small orders from money-losing small accounts typically consume about 35% of the profit made elsewhere, diverting millions away from the bottom line as the costs of these orders far exceed order value. In one recent case, the client was losing $4.4M per year in this group, and applied a 10% price increase for this segment, generating $1.4M in new profit. The orders were so small that the $4 or $7 increase in price was practically unnoticed.

3. Implement Minimum Order Requirements.

Customer Segments													
Type	Customers		Revenue		Gross Profit		GM %	Expenses		Exp %	NBC		Conv %
HEA	77	9.6%	14,198,290	68.7%	3,063,561	64.1%	21.6%	1,036,680	42.7%	7.3%	2,026,881	86.2%	14.3%
HPA	46	5.8%	2,674,738	12.9%	872,262	18.3%	32.6%	503,080	20.7%	18.8%	369,182	15.7%	13.8%
PDA	14	1.8%	1,319,863	6.4%	243,707	5.1%	18.5%	324,299	13.4%	24.6%	(80,592)	(3.4%)	(6.1%)
Reg+	341	42.7%	1,667,124	8.1%	503,322	10.5%	30.2%	271,851	11.2%	16.3%	231,471	9.8%	13.9%
Reg-	320	40.1%	801,790	3.9%	93,383	2.0%	11.6%	289,756	11.9%	36.1%	(196,373)	(8.4%)	(24.5%)
Total	798	100.0%	20,661,804	100.0%	4,776,234	100.0%	100.0%	2,425,665	100.0%	100.0%	2,350,569	100.0%	11.4%
HLA	51	6.4%	5,607,771	27.1%	1,768,103	37.0%	31.5%	479,936	19.8%	11.7%	1,288,167	54.8%	23.0%

The "Reg-" customer segment (red box) is about 40% of customers, consumes $196K of profits made on money-making sales from other customers.

nitRev	unitGP	unitExp	unitNBC	GM	NBCrate	pickQty	pickTimes
$2.34	$0.21	$2.32	($2.11)	9.0%	(90.0%)	1	6
$2.32	$0.15	$0.77	($0.62)	6.5%	(26.5%)	2	2
$2.82	$0.66	$0.87	($0.21)	23.4%	(7.5%)	4	113
$2.66	$0.58	$0.48	$0.10	21.7%	3.6%	8	4
$2.63	$0.49	$0.25	$0.23	18.5%	8.8%	12	5
$2.63	$0.45	$0.15	$0.30	17.0%	11.3%	36	2
$2.48	$0.28	$0.06	$0.22	11.3%	9.1%	60	1
$2.76	$0.55	$0.39	$0.15	19.8%	5.5%	62	1
$2.68	$0.66	$0.34	$0.32	24.8%	12.0%	63	1
$2.85	$0.64	$0.10	$0.54	22.5%	19.1%	144	1

The MOQ Analysis shows all-in profit rate (NBCrate) for the same SKU at every ordered quantity (PickQty), and how many times it was ordered at that quantity (pick times).

• **Minimum Order Quantities:** Set minimum order quantities (MoQs), or minimum order values, to ensure that more orders contribute positively to the bottom line. This helps dilute the impact of fixed logistics costs per order. An analysis of actually-achieved profits for each SKU at each quantity level can be an eye-opener.

• MOQ analysis is a regular activity in our large clients in low-margin sectors. Reviewing the low-value items in each product category for and identifying the lowest quantity that can be profitable for each item can be one of the most effective ways to protect profits. In one recent example, the client was able to prevent over $900K in loses on small orders by setting new minimum quantities on their lowest-value items.

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• This can also be implemented by sourcing low-value items in bundled quantities (6-packs or 10-packs) so that gross profit is more likely to cover costs.

• **Stop Breaking Bulk Packs:** The savings in buying bulk packs is almost never as much as the extra manpower costs needed to count and process random quantities of low-value items. Be sure you've got accurate and detailed analytics so you know where and when the practice is not a detractor from profits.

4. Adjust Delivery Terms.

• **Actively Manage Delivery Revenue:** When "Free Delivery" is part of your business model, make sure there are parameters that prevent the practice from destroying your bottom line. What may have been a good idea at wage rates around $7 is unsustainable at $25+. Free delivery on the customer's delivery day, or for orders over $250 can be an avenue to continuing the practice.

• **Restructure Delivery Schedules:** Reduce delivery frequency, effectively combining orders and increasing average order value. For example, encourage order consolidation by offering your regular free or low-cost delivery only on specific days of the week. If your customers mainly operate on weekdays, you could offer free delivery only on Tuesdays and Thursdays. If they operate on weekends as well, you could offer it on Mondays, Wednesdays and Fridays. This approach not only lowers logistics costs by reducing the number of deliveries but also encourages customers to place larger, consolidated orders, thereby increasing the average order value.

• **Establish Weekly Delivery Schedules:** Another alternative is to establish weekly delivery schedules for your routes and offer customers free delivery on their designated delivery day, while charging for delivery on other days. This can streamline logistics operations and encourage customers to align their orders with the scheduled delivery days, consolidating orders and reducing costs.

						Logistics / Deliver			
					GP vs Logistics Costs / Del				
	Customer	GM%	GP	Ships	GP/del*	Log/Del	Whse/Del	Tran/Del	L
546	Towers Perrin Forster & Crosby	32.3%	187	1	186.95	149.61	96.26	53.35	
547	Hallmark Aviation Limited	54.3%	4,227	2	2,113.26	52.61	0.00	52.61	
548	Litelab Corporation	39.4%	58	1	57.73	76.58	24.71	51.87	
549	Derbyshire Machine & Tool Co	39.6%	60	1	60.19	101.28	49.42	51.87	
550	Getinge/Castle, Inc	32.2%	1,073	2	531.67	139.41	0.00	139.41	
551	Hicks & Otis Prints Inc	28.7%	320	2	149.69	54.86	2.25	52.61	
552	Liberty Mutual Insurance Co	21.2%	71,557	101	786.43	243.64	26.00	217.64	1
553	Alcon Industries Inc	45.3%	51	1	51.26	56.36	4.50	51.87	
554	Art Interiors Inc	39.0%	302	2	146.04	85.44	32.09	53.35	
555	Automotive Management Group	46.8%	138	2	68.97	125.37	72.76	52.61	
556	N Y S Thruway Authority	48.9%	204	2	97.11	72.80	20.19	52.61	
557	Globe Motorists Supply Co Inc	37.3%	53	1	52.51	213.79	160.44	53.35	
558	California Products Corporation	18.4%	429	5	79.69	166.35	113.59	52.76	
559	Crane And Shovel Sales Corp	32.9%	71	1	70.77	85.44	32.09	53.35	
560	Norman D Lifton Co Inc	33.5%	58	1	57.64	117.53	64.17	53.35	
561	Ge Investment Management Inc	38.7%	145	1	145.26	117.53	64.17	53.35	

The red-tinted cells show where Logistics (warehouse handling & delivery) costs exceed average order value. Identifying these accounts and changing the delivery model can generate big gains.

OpCash Ratios					
	HQ	Fairview	Centerville	Riverside	All Branches
Selling Exp	10.48	10.69	9.51	1.80	7.76
Order Entry Exp	1.81	2.01	1.89	0.92	1.60
Whse Exp	27.89	14.11	12.82	4.71	15.76
Delivery Exp	10.80	12.45	13.05	7.41	10.52
CC Fees	2.08	6.88	1.00	0.34	2.16
Branch P/R	9.79	13.94	11.92	8.21	10.45
Corporate	10.21	11.38	10.42	5.18	8.96
G & A + Other	1.52	1.59	1.11	0.58	1.18

The red-tinted cells show where Logistics (warehouse handling & delivery) costs exceed average order value. Identifying these accounts and changing the delivery model can generate big gains.

• Once again, detailed cost analysis can quantify the potential gains, and identify the accounts to target

5. Increase Operational Efficiency.

• **Stop Wasting Manpower Dollars in Product Movement:** Reducing the number of locations where inventory exists can have a significant impact on long-term profitability. Each inventory location causes duplication of inventory and duplication of personnel. The most profitable companies today have a focus on transitioning to DC-to-customer deliveries everywhere it's possible. In one recent analysis, a client was added over 3% to their net profit rate by moving over 1/3 of their deliveries to the DC-to-customer model.

• **Warehouse Organization:** Organize the warehouse to reduce walk time and increase efficiency. Use conveyors and robots to eliminate the manpower costs associated with moving products within the warehouse.

• **Product Isolation and Grouping:** Revise product isolation within the warehouse so products most likely to be ordered together are stored together. This reduces picking time and handling costs.

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• **Packing Stations:** Implement packing stations throughout the warehouse so products of different kinds or for different types of customers are co-located near their respective packing stations. This also reduces handling time and improves overall efficiency.

6. Service Model Adjustments.

• **Think Through Service Models for Customer Groups:** Identify and plan out separate service models for different customer needs. For instance, counter sales can be organized with a self-serve component for customers that come in, allowing them to pick their own items from a limited selection of frequently purchased items. This model reduces the need for staff assistance and speeds up the purchasing process for customers, improving both efficiency and customer satisfaction.

• Shift customers with high logistics costs to different service models that are more cost-effective. For example, transitioning some customers to self-service or lower-cost delivery options can help. Assess the feasibility of alternative service models such as click-and-collect or third-party delivery services to reduce direct logistics expenses.

• **On-Site Delivery:** Certain customers may need on-site delivery of products at job sites. This model ensures timely delivery of necessary materials directly to the location where they are needed, reducing downtime and improving customer satisfaction.

• **Stocking Inventory at Customer Sites:** Another model might involve stocking inventory at a customer site and periodically counting what's been consumed and billing the customer for those products. This ensures that customers have immediate access to necessary items without frequent reordering and can streamline the billing process. In one instance, our client moved stocking inventory, processing equipment and personnel to the customer location. Not only was the customer delighted to have dedicated and immediate preparation of product, but our client wis now much more integrated in the customer's success.

In each case, the objective is to consolidate more product value into individual deliveries, increasing the order value to logistics cost ratio for more of your sales.

7. Promote Self-Pickup or Regional Hubs.

• Encourage customers to pick up orders themselves or set up regional distribution hubs that customers can access, reducing delivery distances and costs. By promoting self-pickup options, companies can significantly cut down on last-mile delivery expenses. Regional hubs can serve as strategic points for consolidating deliveries and providing convenient pickup locations for customers.

• The objective is to provide a way to deliver products to customers with normally-low order values in such a way that their participation in order entry, picking, and transportation reduces costs so a viable order value need not as high.

The Final Word

The value of these strategies is typically a profit increase of at least 5% of sales, so there's millions available for companies that pursue them. The most surprising thing is that ***this is not new money***. The gains all come from retaining more of the profits already earned on good sales, and simply not squandering those profits on money-losing activities.

Regaining profitability will come from a combination of the various ideas and strategies listed above. In all cases, these more effective strategies depend on application to very specific customers, products and operating circumstances. You will need detailed cost and profit analysis to identify the target your own groups, and to quantify the potential benefit so you know what to prioritize.

By combining increased operating efficiency, reduced costs, more targeted pricing, and changes to order delivery frequency, companies are recovering much of the profit destroyed by higher manpower costs and interest rates. Executing these strategies not only aligns order value with logistics costs, but can also delivers a bottom line that's better than it's ever been.

Get started on this today, and your year-end will be much better than your current trajectory.

About the author: Randy MacLean is the founder of WayPoint Analytics, the inventor of LIPA, & best-selling author of a series of profit practices books.

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HUMAN RESOURCES IN WHOLESALE DISTRIBUTION

DEI Pushback: Where it Leaves Distribution Execs and HR Leaders

By Mike Hockett

We consulted a legal expert well-versed in DEI legal policy and advisement on how leadership teams can navigate what could become a tricky situation. **Click for web version with original graphics**

You may have seen headlines throughout 2024 about businesses backing off or outright cutting their diversity, equity and inclusion (DEI) programs amid pushback from other companies in various industries.

Some of the more prominent examples include:

- Tractor Supply, which suddenly and **publicly reversed its longstanding commitment to DEI initiatives** by eliminating all dedicated roles for it
- Lowe's, which **scaled back its DEI policies** amid legal attacks and pressure from activist investors
- John Deere, which **pledged to no longer join 'social or cultural awareness parades'**
- Meta, Alphabet, The Home Depot, Wayfair, X, Tesla and other prominent companies have also enacted cuts to their DEI programs and related staffing

DEI programs often include initiatives that promote transparency for salary ranges and staff diversity statistics; hiring manager training; sponsorship opportunities; mentorship; and efforts to ensure diversity on company leadership and board members.

MDM has yet to see a company predominantly known as a distributor likewise enact DEI cuts, but it stands to reason that it's an issue on the minds of corporate leaders at such organizations. We have seen numerous distributors promote their DEI efforts over past 3-4 years, often touting them as a means to appeal to millennial and Gen Z job candidates or to retain staff.

What is a company executive or human resources leader to do?



Source: https://stock.adobe.com/images/diversity-equity-inclusion-and-belonging-concept-deib-dei/841515747

To gain insight into what's behind the recent DEI pushback and where it leaves company executives and HR teams largely tasked with managing such policies, MDM spoke with **Luther Wright Jr.**, Office Managing Shareholder and Assistant Director of Client Training at Ogletree Deakins, which is one of the largest U.S. labor and employment law firms representing management in all types of employment-related legal matters.

Wright Jr. is a member of Ogletree's Diversity & Inclusion Practice Group and routinely provides timely client advice and guidance on diversity-related matters.

See our conversation below.

MDM: We've seen numerous recent examples of corporate pushback against DEI initiatives, (Lowe's is perhaps the latest prominent example). What key factors are fueling this movement?

Luther Wright, Jr.: As with any significant change or initiative, organizations sometimes need to recalibrate and find the right cadence. The fallout from the death of George Floyd caused many organizations to act quickly, while the dynamics of COVID made it difficult to build a true consensus. Four years removed from the inflection point, we are all discovering that not everyone was on the same page about what steps to take in this space. Some organizations are now receiving information from employees, stakeholders, customers/clients and other affected parties about what is working or not working for them, what they support and do not support and what the want or not want. They also have three or four years of data and feedback to guide them in the process.

MDM: DEI initiatives have proven to help organizations of all types with their recruiting and retention – especially among the millennial and Gen Z labor pool, and particularly in 2021-2022 coming out of COVID when job-hopping was at its peak. What risks to recruitment and retention efforts are involved if a company that previously had DEI initiatives in place decides to reverse or minimize those initiatives?

Luther Wright, Jr.: Organizations have been dealing with the loss of talent related to DEI for years ever since DEI became a "thing." There have always been and will always be those employees or potential employees who believe organizations are

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doing too much or not enough in this area. Those organizations whose changes have played out more publicly will likely have more significant recruiting and retention impacts and related impacts to reputation in the marketplace. How well or how poorly these situations play out will likely trigger further tweaks or recalibrations.

MDM: Where does this recent DEI pushback leave HR staff? Any tips for them to navigate the current environment?


Luther Wright, Jr.

Luther Wright, Jr.: The DEI changes leave HR staff in a tough situation. They will still be expected to deliver and maintain a diverse, harassment-free workforce with a major tool eliminated or curtailed. Our advice is to focus on concepts that usually resonate with all employee populations like respect, belonging and effective collaboration. We recommend focusing on improving employees' skills in conflict resolution, having difficult conversations and better workplace communication, especially across cultural lines. Improvement and education in these areas are powerful recruiting and retention tools.

MDM: Where does this recent DEI pushback leave employees? For current employees who value DEI efforts, if their employer reverses those efforts, how much of a red flag is it?

Luther Wright, Jr.: We believe the pushback creates an opportunity for employees to have real conversations about the unique dynamics of their workplaces. In other words, to talk about inappropriate treatment, workplace initiatives or process improvement specifically instead of generally. The "red flag" would be an organization's unwillingness to address these types of substantive issues or attempts to make DEI initiatives the scapegoat for poor management or an excuse not to treat all employees well.

MDM: Do you see this recent DEI pushback gaining steam in the near-term? Leveling off?

Luther Wright, Jr.: We believe that there is a pendulum effect here. We saw the same phenomenon with the #MeToo movement. The pendulum swings sharply in one direction and then sharply back to the other, then eventually levels off. Neither constituency group is fully satisfied, but the process creates an environment that was better than before.

ECONOMIC TRENDS

MDM Forecast: 2024 Ticks Up, Followed by Much Better 2025

By Mike Hockett

Month-to-month, the revenue outlook for 2024 improved modestly, while 2025's had a healthy increase. See those figures plus an updated GDP forecast here. **Click for web version with original graphics**

Despite numerous economic indicators pointing to continued industrial demand softness, the latest MDM Forecast logged a modest uptick in September for its 2024 revenue outlook, while 2025's saw healthy improvement.

Our outlook for U.S. wholesale distribution revenue now calls for 2024 revenue to increase 2.2% annually compared with 2023, up 0.1 percentage points from August. That's still down substantially from the 3.6% forecast we had in January, but that aforementioned softness has prolonged much further than anyone expected at the start of the year.

Further out, our projection for 2025 revenue increased 0.8 percentage points to 5.7% annual growth.

Since these forecast figures are for the entire distribution industry, they should always be taken with a grain of salt since the figures are always heavily influenced by the largest industries — Oil & Gas and Pharmaceuticals. See your industry-specific forecast in the charts and data below for a much more granular forecast.

Our forecast for U.S. wholesale distributors would still outperform the latest real GDP growth scenarios from Moody's Analytics, which forecasts baseline U.S. economic growth of 2.0% in both in 3Q and 4Q of 2024 and continued level growth of 1.8% to 2.3% throughout 2025.

The MDM's Forecast model uses the U.S. Census Bureau's revenue data but strips out the broader inclusions of agents and brokers, manufacturer's sales branches and offices, importers and exporters — focusing exclusively on wholesale distributors.

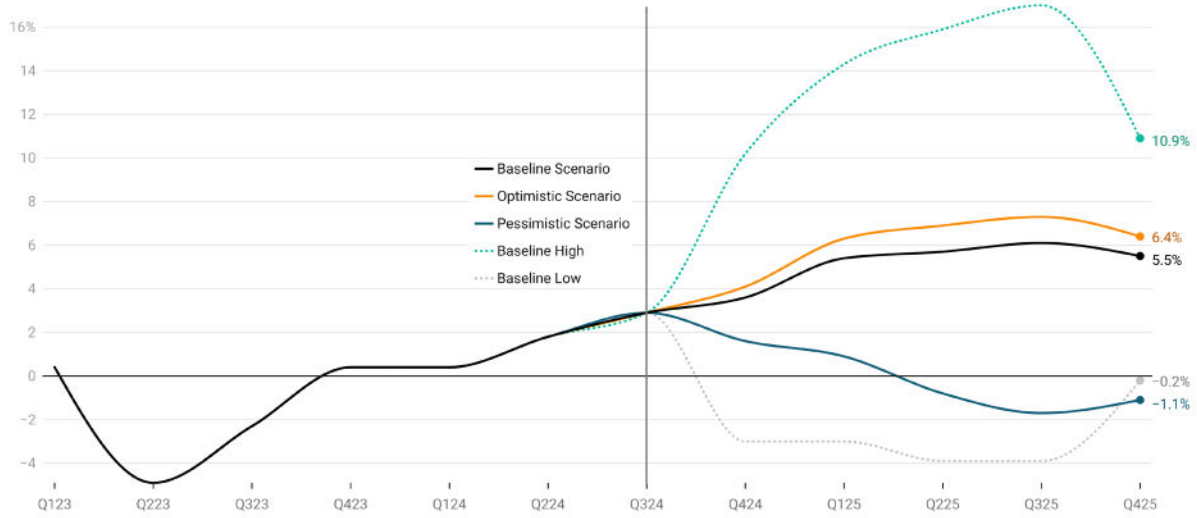
Data for the MDM Forecast is compiled by the Business Research Division at the Leeds School of Business of the University of Colorado Boulder.

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MDM Forecast - U.S. Wholesale Distribution Annual Revenues September 2024 Update

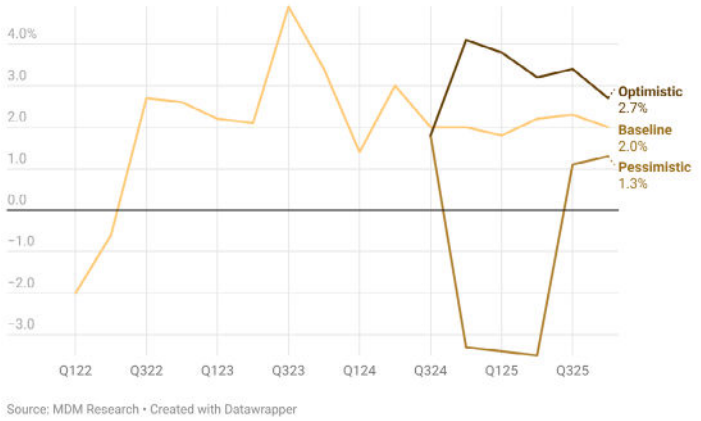
Distribution Sector (largest to smallest)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast
Oil & Gas Products	-29.8%	61.8%	38.8%	-11.3%	-0.5%	5.4%
Pharmaceutical	6.0%	7.9%	10.3%	12.8%	8.1%	8.2%
Grocery & Foodservice	-1.5%	13.1%	13.3%	1.5%	2.6%	3.8%
Electrical & Electronics	1.1%	18.7%	12.8%	0.1%	8.8%	9.4%
Industrial Supplies	-3.2%	12.1%	17.3%	5.7%	-0.5%	2.6%
Motor Vehicles & Parts	-8.7%	11.0%	13.4%	8.1%	6.2%	9.1%
Miscellaneous Durable Goods	7.9%	31.3%	3.6%	-9.4%	0.7%	2.9%
Other Consumer Products	2.0%	16.0%	14.1%	-5.2%	-1.9%	3.0%
Computer Equipment & Software	1.1%	9.7%	4.8%	-8.3%	3.8%	6.8%
Commercial Equipment & Supplies	-2.9%	13.3%	5.7%	1.5%	5.7%	3.9%
Agricultural Products	2.9%	29.1%	22.3%	-10.1%	-14.7%	0.4%
Metal Service Centers	-19.5%	53.3%	18.4%	-10.5%	-7.5%	5.1%
Building Material & Construction	5.2%	29.6%	13.6%	-13.3%	-2.8%	5.0%
Hardware, Plumbing & Heating Equipment/Supplies	2.6%	18.6%	12.9%	-0.1%	6.4%	5.6%
Beer, Wine and Liquor	7.5%	9.4%	2.3%	-1.7%	0.8%	8.1%
Apparel & Piece Goods	-22.2%	25.0%	6.7%	-9.0%	1.6%	4.6%
Chemicals & Plastics	-8.5%	26.0%	16.4%	-7.3%	-1.9%	2.4%
Furniture & Home Furnishing	-1.4%	15.7%	2.9%	-5.0%	-1.3%	2.3%
Office Product Wholesalers & Paper	-6.8%	9.4%	12.6%	-7.0%	-2.1%	3.0%
Total Wholesale Distribution	**-4.5%**	**20.5%**	**15.1%**	**-1.7%**	**2.2%**	**5.7%**

U.S. Wholesale Distribution Revenue Growth Scenarios - September 2024 Update



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Real GDP Growth Scenarios - Quarterly (Seasonally Adjusted Annual Rate)



Source: MDM Research • Created with Datawrapper

September's 2024 Month-to-Month Differences

Of the 19 wholesale trade major verticals that the MDM Forecast tracks (like the U.S. Census Bureau), 12 moved more optimistically month-to-month in September. The industry's largest sector — Oil & Gas — regressed another 2.3 points month-to-month in August after a 1.9-point slide in July, with that vertical now forecasted to have 0.8% growth compared with 2023. The industry's biggest mover in August was Miscellaneous Durable Goods, which fell 2.4 points, while Apparel & Piece Goods slid 2.2%.

The only sector to move more optimistically in August was Electrical & Electronics, which bumped up 0.5%, while Furniture & Home Furnishings was flat.

September's 2025 Month-to-Month Differences

Looking further out, 12 of the 19 sectors likewise trended downward in September. The industry's largest sector — Oil & Gas — moved down 1.4 points from August, but was balanced out by healthy improvements in three of the next four largest sectors. The other biggest movers for 2024 revenue forecasts were Funiture & Home Furnishing (+2.4), Computer Equipment & Supplies (+1.6) and Agricultural (-1.5).

For 2025, it's biggest movers were Hardware, Plumbing & Heating (+2.1), Industrial Supplies (+1.7) and Electrical & Electronics (+1.7).

See the full one-month percentage point changes for all industry verticals in MDM's September Forecast for wholesale trade revenues below:

Wholesale Distribution Vertical (largest to smallest)	2024 Revenue Forecast: Sept. vs. Aug.	2025 Revenue Forecast: Sept. vs. Aug.
Oil & Gas Products	-1.4%	+1.0%
Pharmaceuticals	+0.7%	+0.8%
Grocery & Foodservice	0.0%	+0.9%
Electrical & Electronics	+1.1%	+1.4%
Industrial Supplies	+0.6%	+1.7%
Motor Vehicles & Parts	-0.8%	+0.9%
Miscellaneous Durable Goods	+0.2%	0.0%
Other Consumer Products	+0.5%	+0.3%
Computer Equipment & Software	+1.6%	+0.8%
Commercial Equipment & Supplies	0.0%	+0.5%
Agricultural Products	-1.5%	-1.2%
Metal Service Centers	+0.1%	+1.0%
Building Materials & Construction	+0.3%	+1.4%
Hardware, Plumbing & Heating Equipment/ Supplies	+1.1%	+2.1%
Beer, Wine & Liquor	-0.8%	-0.2%
Apparel & Piece Goods	-0.4%	+0.2%
Chemicals & Plastics	-1.4%	-1.0%
Furniture & Home Furnishing	+2.4%	+1.7%
Office Products & Paper	-0.5%	+0.1%
Total Wholesale Distribution	**+0.1%**	**-0.8%**

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HUMAN RESOURCES IN WHOLESALE DISTRIBUTION

4 Steps to Build a Culture of Innovation

By Vesna Brajkovic

Consider perfecting these four pillars to create a company culture that supports and encourages innovation in distribution. **Click for web version with original graphics**

Innovative organizations are fast, flat, nimble and creative.

During a main stage session at **SHIFT 2024 | The Future of Distribution** on Sept. 12 in Denver, human resource transformation consultant Tracie Sponenberg broke down four steps distributors can take to build a culture of innovation that nurtures top talent and increases revenue/profitability growth.

1. Establish Leadership-Driven Innovation

As with most sweeping culture changes, innovation starts at the top.

"Your leadership needs to promote innovative thinking," Sponenberg said.

If you lead by example, setting clear goals and expectations for what's going to happen, and also personally embracing innovation, the culture of the organization will follow suit.

Part of setting that expectation also includes letting the leaders below you take charge on initiatives. Doing so avoids the need for micromanagement, one of the main "culture killers" which leads to decreased employee morale, innovation, creativity and productivity, creates turnover and increases stress and burnout, according to Sponenberg.

"If you are that person [a micromanager], or if you have that person in your organization, it will drive people out of your organization faster than almost anything else," she said.

2. Create a Communication Strategy

Communication is critical to fostering both internal and external collaboration and partnerships.

Lack of communication about initiatives is another top culture killers, Sponenberg said.

"We used to have something at my former company called the truck driver test," she explains. "We knew that an initiative was successful if … our truck drivers — who were out first thing in the morning and back at the end of the day — knew what going on."



Tracie Sponenberg speaks during a Sept. 12 session at MDM's 2024 SHIFT Conference in Denver. (MDM Photo)

The drivers were the most connected to the company's customers, but also the least connected to the organization. ***"If they knew what was going on, then we were doing our jobs,"*** Sponenberg said.

Effective communication includes gaining perspective and knowledge, best done through partnerships, whether internally, or from software vendors, universities, consultants, or research sources like MDM or the National Association of Wholesaler-Distributors, she said.

3. Embrace Digital Transformation

The human resources department doesn't own culture alone and is not responsible for cultural transformations, but it shouldn't be looked at as a "back-office administrative function" either.

HR representatives can serve as the coaches, consultants and guides in helping people, and the business, grow by helping guide employees through use of the digital tools and technologies that support innovation.

4. Invest in Skill Development

"You can't just expect innovation to happen," Sponenberg said. ***"You can't just expect anything to happen. You need to invest in it. You need to make sure that your people are bought into it. How do you do that? You train them, you educate them, you invest in that. You use those resources, you help upskill your team, and then you'll drive transformation, empower your people and encourage risk-taking."***

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Sponenberg said executives need to learn to let people fail in order to create an environment where people feel empowered to contribute ideas.

"Celebrate innovation efforts, regardless of the outcome, and encourage a culture of continuous learning and improvement," she said.

Your Next Step?

In short,
1. Evaluate your leadership.
2. Support your people.

Culture is a mirror of the leadership, Sponenberg explains. ***"You are part of the company. You are part of the culture,"*** she said, advising leaders to take a honest look at their role within the company as they look to implement lasting innovation.

"Whenever there was a problem on the team when I was in corporate, or if there's a problem within one of the companies that I advise, I look at the leader first. Is there an issue? Is a person getting enough training? Are they getting enough support? Etc."

Secondly, Sponenberg explains that the coaching model has mostly replaced the traditional leadership model.

"Your goal as a manager, a leader or a coach, is really to help support your people and to help them reach their goals," she said.


Tracie Sponenberg

Want more on this topic? Check out this relevant article from SHIFT 2023 sharing how three executives implement elements of a 'good company culture' in order to grow their business, attract new employees and keep existing employees invested.

And mark your calendars for next **May 13-15 for SHIFT 2025**, which will be held just outside of Denver in Centennial, CO!

STRATEGY

A Deep Dive into Ferguson's Digital Strategy

By John Gunderson

The last of this three-part Premium series examines how the plumbing, HVAC and industrial distributor has leveraged Ferguson.com, Build.com and Ferguson Rewards. **Click for web version with original graphics**

In Part 1 and Part 2 of this series, we explored Ferguson's diversified growth strategy in the channels the distributor serves, as well as its private label/sourcing strategies. The company's growth as one of the most successful "channel drifters" has made it a channel leader in the verticals of plumbing, HVAC, residential remodel, waterworks, fire safety, industrial and more.

Here in Part 3, we will dive into how this all comes together in Ferguson's digital strategy.



Ferguson's Digital Strategy – Ferguson.com, Build.com, and Ferguson Rewards

It can be difficult to find public data on distributor's digital initiatives and strategy because of the sensitivity of the effort and the reticence to sharing anything with competitors.

Ferguson is one of the few national distributors that has a second major web domain, **www.build.com**, in addition to its main domain, **www.ferguson.com**. There are a handful of other distributors with similar approaches, such as Grainger's zoro.com, but it is unusual to have multiple major web platforms with different go-to-market approaches.

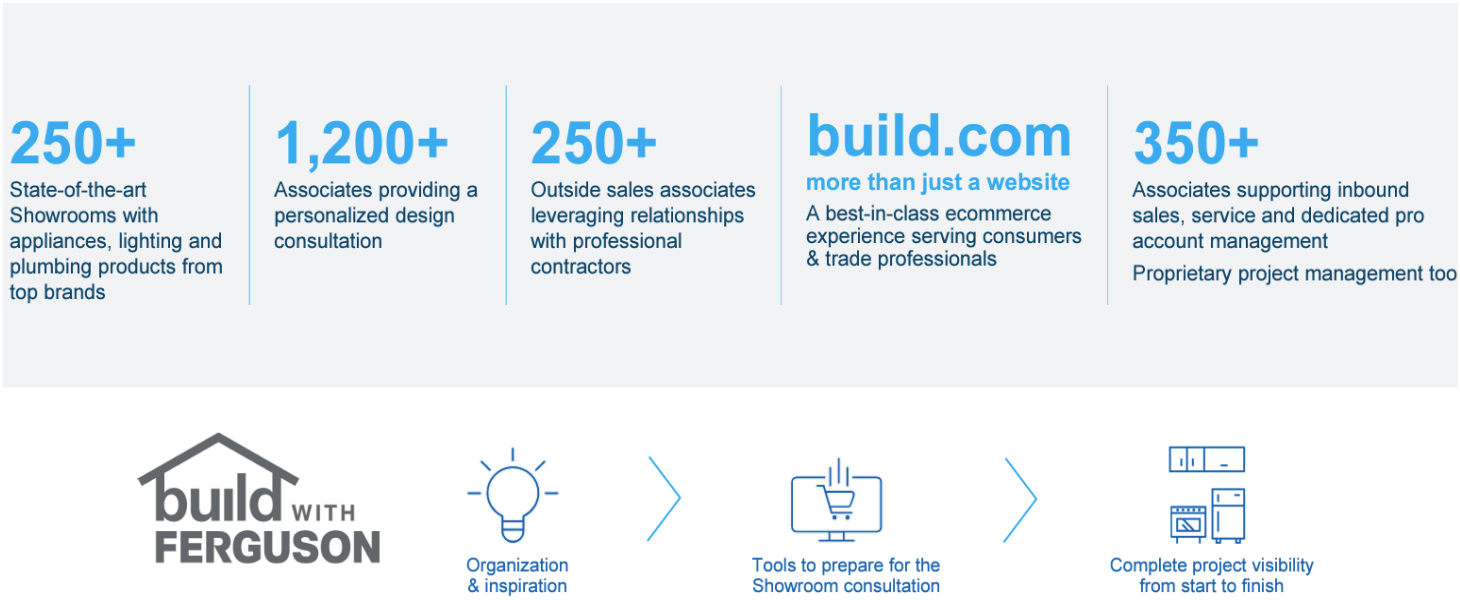
Ferguson's build.com mission is to be a best-in-class digital platform combined with brick and mortar to deliver a connected experience.

People have written about omnichannel for years in the industrial supply channel, and Ferguson's build.com is specifically designed to be an omnichannel solution that is additive to the parent business.

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Omnichannel

Best-in-class digital platform combined with bricks & mortar to deliver a connected experience



Source: Ferguson's 2022 Investor Day presentation.

The above graphic outlines the build.com digital "self-service" that is designed to allow end customers (contractors, homeowners, property managers, etc.) the ability to choose the products they may want to install and do that research before they interact with the Ferguson "full-service" team for the order.

The amount of time and resources that Ferguson saves with build.com is difficult to estimate (the company doesn't share metrics on those savings), but some seem obvious. The build.com customers are doing so much pre-research and product selection that, when they do come in or call to discuss a potential order, that process is already at an advanced stage, helping streamline the buying experience from initial touchpoint to point-of-sale.

I also believe build.com creates customer stickiness when combined with Ferguson's private label/exclusive brands. Think about how often have use an online tool to design or research a major product purchase from various consumer retailers before eventually going somewhere else to buy your goods or services.

In Ferguson's case, customers are doing this pre-work often using the Ferguson exclusive brands with exclusive part numbers. So, if they decide to go elsewhere, there is work to do to cross-reference those part numbers and make a purchase (and you may not be able to exactly cross that part number). In theory, this encourages customers to remain within the Ferguson ecosystem.

Build.com is an easy button to do self-service design. I think it's very likely that the exclusive brands, in tandem with build.com, create a competitive advantage and higher customer conversion rates.

Build.com serves a key function for Ferguson. It gives the customer more of what they want, which is digital self-service for the front-end research. This self-service will likely continue to grow for Ferguson even though what it is selling is a higher dollar purchase amount.

This growth of self-service is happening not just in construction. For comparison, I thought it would be fun to look for some statistics for a big personal purchase that you may often make. A **2022 Cox Automotive Car Buyer Journey survey** found that 68% of car shoppers plan to complete most of the car-buying process online. I assume that figure will climb every year.

That is a great example of how end customers desire an ever-growing list of digital self-service solutions even for large purchases.

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Ferguson.com

The second leg of Ferguson's digital approach is its flagship ferguson.com, which primarily serves its core contractor and commercial customer base with a full eCommerce experience for the distributor's standard branch-based business. As you can see in the above graphic, Ferguson is adding digital capabilities in three key areas.

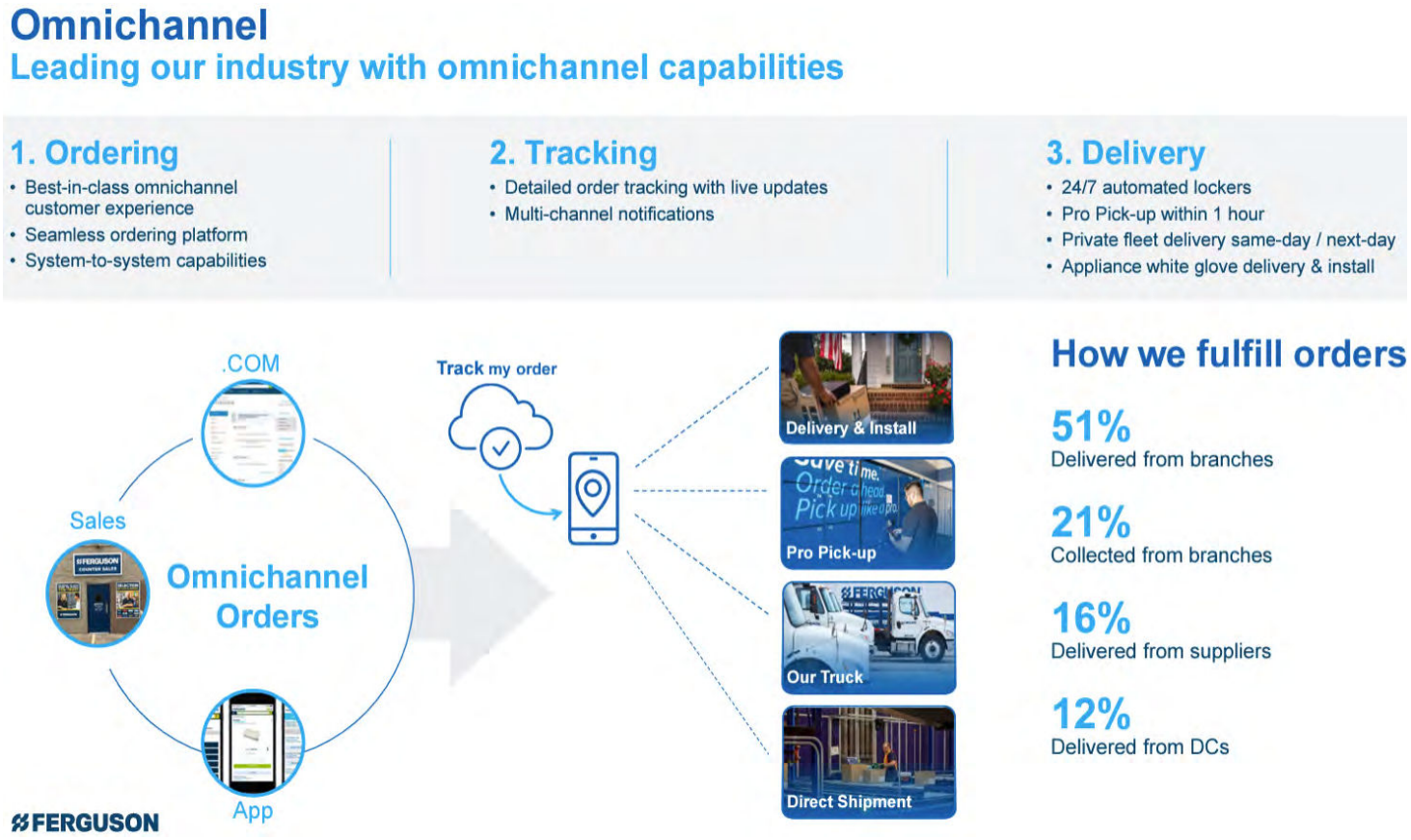
1. **Ordering:** An always-evolving solution to create a complete cart-to-ship order. Direct system-to-system ordering (EDI and APIs) from the end customer systems (e.g. Ariba, Coupa, McCormick, etc.) that creates a direct order to the appropriate Ferguson ERP.

2. **Tracking:** Detailed order tracking from the time the pick ticket prints in the warehouse to final delivery with multiple channel notifications (presumably digital, email and text) is an expressed customer need and can be a significant competitive advantage. Many distributor competitors to Ferguson most likely do not have the same level of digital tracking solutions. The other big benefit is how it frees up Ferguson associates perform higher value tasks instead of having to constantly update customers on their order status, since customers can easily see it for themselves.

3. **Delivery:** What Ferguson highlights is less about digital per se. It does fit into its overall self-service strategy with automated lockers and quick pickup services. The overall digital effort improves last-mile delivery.

Ferguson also augments this two-tiered digital approach with a rewards program for customers, with includes a digital component. This long-standing program is kept close to the vest with limited information being shared publicly, but I believe there is enough detail available to draw general thoughts and opinions.

Those in Ferguson's markets may recall that eight-to-nine years ago the distributor invested significantly in radio and television advertising with football legend Terry Bradshaw as its spokesman for the company's ProPlus+ rewards program. This was a significant and nationwide launch, using traditional mass marketing media — not common for the channel.



Source: Ferguson Investor Day presentation 2022.

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Source: Ferguson.com, September 2024.

In 2016, Incentive Solutions and Ferguson refreshed Ferguson's long-term professional trade contractor loyalty program into its current form. According to the 2017 Source Incentive Marketing Awards, the program's three goals were:

1. **"Increase long-term trade loyalty program."** Create loyalty with end customer rewards for its loyalty. It's a simple and effective approach. Buy more = get more.

2. **"Encourage contractors to purchase online."** Drive online purchases to drive more customer self-service, which is the undeniable trend with Ferguson end customers.

3. **"Establish better B2B customer relationships."** Create more customer stickiness. When a customer is choosing between two distributors offering competitive pricing and overall value, a reward program can be the tiebreaker over a distributor that only has a smiling face to offer.

Ferguson ProPlus+ is a digital-driven rewards program that undoubtedly achieves those goals. If not, it likely would have been discontinued by now.

The Final Word

So, what can you learn from Ferguson's digital approach? Are two web platforms feasible to your business? Probably not, based on the average distributors' size, scale, and capabilities. After all, most of the industry is comprised of small- and mid-sized, independent firms.

If that is the case, what is feasible potentially is the pre-sale research and design that build.com offers; the order confirmation and tracking of ferguson.com; and an understanding that potential programs that drive customer loyalty are worth considering.

Ferguson is investing in all areas to create a foundation for growth. Are you doing the same for your channel business?

About the author: John Gunderson is a senior distributor leader with more than 25+ years of experience leading category management, sales, marketing, pricing, analytics and eBusiness with various major distributors. He writes for industry publications and works in the channel with key partners.

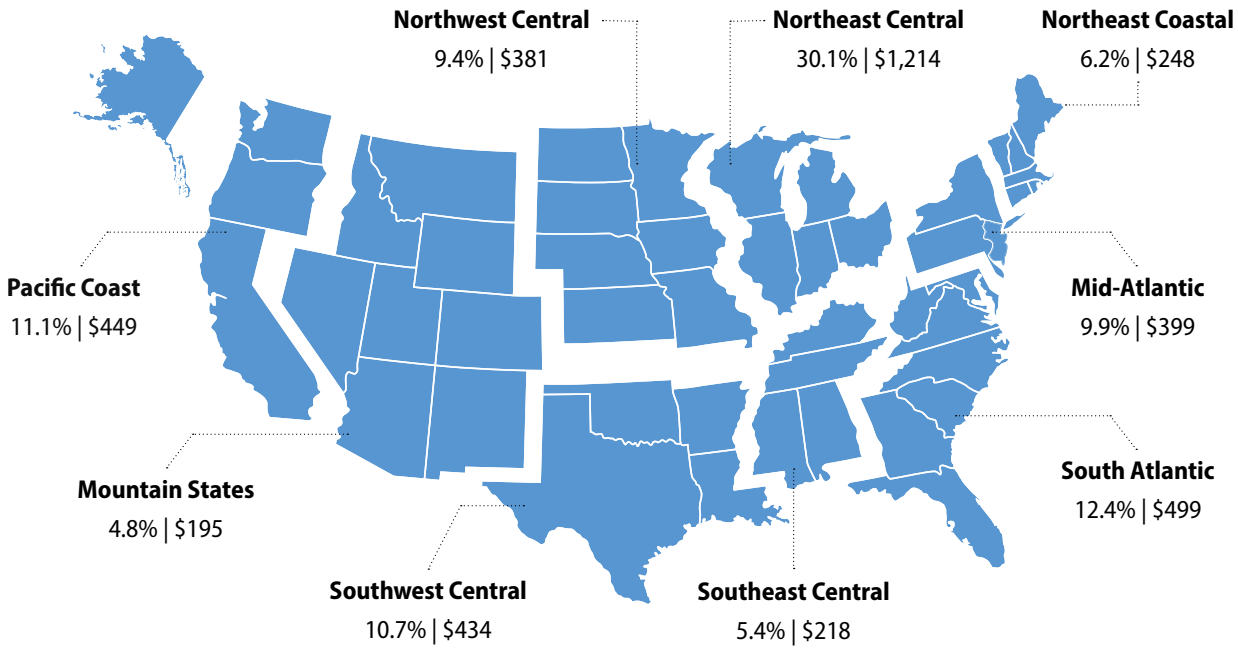
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U.S. MARKET PROFILE

Cutting Tools - Carbide

The estimated demand for carbide cutting tools in the U.S. in 2024 is $4 billion, according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin.

U.S. END-USER MARKET DEMAND FOR CARBIDE CUTTING TOOLS BY REGION, $ MILLIONS (2024 EST.)



mdmanalytics

U.S. END-USER MARKET DEMAND FOR CARBIDE CUTTING TOOLS: TOP 10 END MARKETS

NAICS	Customer Segment	Estimated Demand	Number of Accounts
336412	Aircraft Engine and Engine Parts Manufacturing	$475,352,938	1,345
332710	Machine Shops	$281,603,613	21,873
333120	Construction Machinery Manufacturing	$274,083,726	3,892
333111	Farm Machinery and Equipment Manufacturing	$257,286,694	3,161
336390	Other Motor Vehicle Parts Manufacturing	$144,988,092	6,021
333517	Machine Tool Manufacturing	$141,560,717	2,879
335312	Motor and Generator Manufacturing	$116,833,812	1,516
333618	Other Engine Equipment Manufacturing	$114,235,095	815
333914	Measuring, Dispensing, and Other Pumping Equipment Manufacturing	$106,227,112	1,373
333515	Cutting Tool and Machine Tool Accessory Manufacturing	$102,780,301	1,753

This market profile and segmentation was compiled by MDM Analytics, Niwot, CO. Learn more about MDM Analytics at **www.mdm.com/analytics**.
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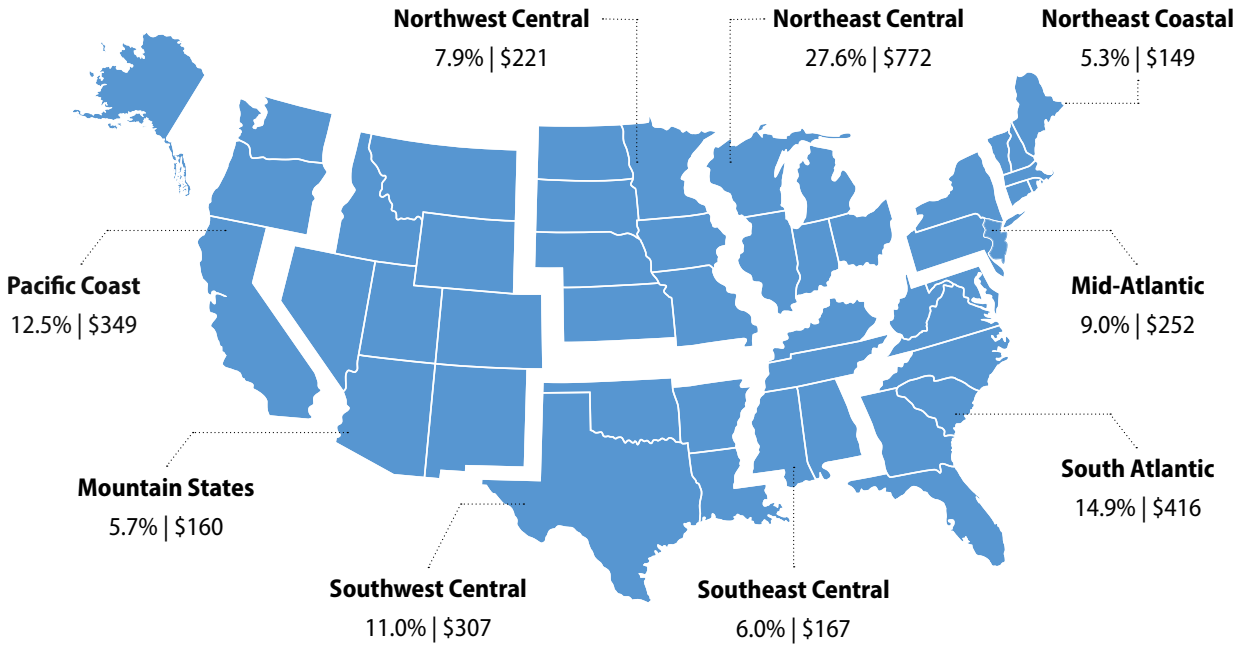
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U.S. MARKET PROFILE

Cutting Tools - High-Speed

The estimated demand for high-speed cutting tools in the U.S. in 2024 is $2.8 billion, according to MDM Analytics data. Estimates are end-user demand, in U.S. dollars, including distributor margin.

U.S. END-USER MARKET DEMAND FOR HIGH-SPEED CUTTING TOOLS BY REGION, $ MILLIONS (2024 EST.)



mdmanalytics

U.S. END-USER MARKET DEMAND FOR HIGH-SPEED CUTTING TOOLS: TOP 10 END MARKETS

NAICS	Customer Segment	Estimated Demand	Number of Accounts
336390	Other Motor Vehicle Parts Manufacturing	$262,768,626	6,021
336412	Aircraft Engine and Engine Parts Manufacturing	$194,854,681	1,345
238220	Plumbing, Heating, and Air-Conditioning Contractors	$155,981,934	195,970
238210	Electrical Contractors and Other Wiring Installation Contractors	$132,653,280	115,524
332710	Machine Shops	$113,846,457	21,873
336110	Automobile and Light Duty Motor Vehicle Manufacturing	$102,375,736	1,509
333120	Construction Machinery Manufacturing	$97,004,281	3,892
333111	Farm Machinery and Equipment Manufacturing	$85,033,067	3,161
336411	Aircraft Manufacturing	$69,386,084	2,401
336413	Other Aircraft Parts and Auxiliary Equipment Manufacturing	$58,606,638	3,465

This market profile and segmentation was compiled by MDM Analytics, Niwot, CO. Learn more about MDM Analytics at **www.mdm.com/analytics**.
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