MODERN DISTRIBUTION MANAGEMENT

VOL. 50, NO. 01
JANUARY 10, 2020

mdm premium

Cyberthreats Trending in 2020: 6 Steps to Manage the Risk

A month-by-month guide that distributors can follow with action items for January through April

When setting priorities for the new year, consider incorporating cybersecurity predictions for 2020 into your overall business planning.

By Stacy Ward

Distributors working to differentiate and transform digital processes and services face a growing number of threats from cybercriminals looking to capitalize on pressures to innovate in areas such as artificial intelligence, cloud computing and mobile device optimization.

What's Trending: More Hackers are Eyeing the Cloud

Countering the risk starts with knowing the latest threats. Thought leaders in the cybersecurity world are dispatching their forecasts for the new decade, covering budding trends, potential targets and possible solutions. The consensus from Trend Micro, WatchGuard and other leading security firms: The cloud is the new frontier for cybercriminals. Expect to see more ransomware tailored to seize on the platform's vulnerabilities, i.e., the troves of stored data and connectivity; the potential for unsecure third-party involvement, and users' proclivity toward configuration errors similar to the one that led to a Capital One data breach involving a misconfigured web application firewall. Thus, say security experts, 2020 will be the year of cloud anxiety, resulting in a bump in information security spending on the corporate level. One other prediction: Thanks to the Marriott International breach, reportedly triggered by its acquisition of Starwood Hotels, look for cloud services audits to play a more prominent role in the M&A process, says cloud access security broker (CASB) Bitglass.

What You Can Do

- Enable logging so that IT can keep an eye on server activity and monitor automatic alerts;
- Strengthen credentials by requiring multiple layers for access;
- Restrict access to data/storage, avoiding common missteps such as leaving controls on the "authenticated users" setting, which can expose storage buckets to public access;
- and consider the "cloud smart/cloud dumb" dichotomy coined by cybersecurity company Forcepoint. According to its Chief Security Strategist Duncan Brown, companies will become increasingly savvy in their use of the cloud because the need to innovate demands it — but will lag in cloud safety and security.

Deepfakes Will Lead to More Fraud

After scammers defrauded a U.K.-based energy firm of $243,000 using AI-generated voice software to impersonate a CEO in the spring of 2019, cybersecurity experts believe others will be emboldened to leverage the technology for financial gain and are urging business owners to step up prevention efforts, starting with making sure employees are aware of the risks and how to counter them. Many are predicting that more deepfakes — audio or video software — will surface in ransomware and vishing schemes. Short for voice phishing, vishing is a form of social engineering that targets unsuspecting victims over the phone in

Continued on p. 3

PERSPECTIVE ▪ Commentary by Elizabeth Galentine

Accountability Helps Strengthen New-Year Resolve

A couple of weeks into 2020, it's about that time of year when our New Year's resolutions can start to lose their shine and our motivation might wane. There's plenty of literature out there about why our resolutions often fail or never get off the ground in the first place. One reason is a lack of focus or concrete commitment to a specific goal.

At MDM, we're strengthening our commitment to helping you with your goals by ensuring every type of content we deliver to you — be it through our articles, blogs, webcasts, special reports, podcasts, events or our new spotlight videos — answers for you, up front, this critical question: "What's in it for me?"

Time is our most precious resource and we will not waste a moment of yours with content that does not deliver a clear benefit to you.

For example, business leaders hear regularly of the rise of cyberthreats targeting companies of all sizes on a daily basis. While it's critical to understand the hazards, scary statistics won't do anything to actually make your business safer. In the feature, "Cyberthreats Trending in 2020: 6 Steps to Help You Manage the Risk," we take you month by month through April, helping you to prioritize simple but meaningful steps you can take to make your company more secure. Don't miss this insight from risk management specialist Tom Held. As Held says, "Companies often shy away from investing in cybersecurity because they think it's going to take a lot of time and be a huge expense. Taking it one step at a time and focusing on the most pressing risks makes the process more manageable."

Additionally, part two of our annual marketing survey, conducted in partnership with Real Results Marketing, not only shows that 90% of distributors may be a bit off the mark when they say they are delivering more value than their competitors, but it also outlines specific ways you can tweak your approach to reap the most benefit from your marketing efforts. Distributors who position themselves on their ability to execute on core capabilities of the profession are only promoting their proficiency at table stakes, says Real Results Marketing's Jonathan Bein. "This tunnel vision around the importance of logistical capabilities and low price to customers may be keeping distributors from articulating the real benefits many say are important to their value propositions," he explains — and then provides four examples of truly differentiating value.

Often, the people who are most successful with their resolutions have introduced an element of accountability for themselves. Simply telling another person your goals can increase the likelihood of success by up to 65% — add regular check-ins with an accountability partner and the likelihood rises to 95%, according to a study by The American Society of Training and Development.

As for MDM, you are our ultimate accountability partner. See something you think missed the mark? Love a topic and want to see more of it? We want to hear from you. Reach our editorial team any time at editor@mdm.com.

Modern Distribution Management

Founded in 1967 by J. Van Ness Philip

CEO & Publisher
Thomas P. Gale
tom@mdm.com

Editor in Chief
Elizabeth Galentine
elizabeth@mdm.com

Senior Editor
Stacy Ward
stacy@mdm.com

Managing Editor
Arya Roerig
arya@mdm.com

Contact Information

Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
6309 Monarch Park Place, Suite 203, Niwot, CO 80503
Tel: 303-443-5060 Website: https://www.mdm.com

Subscription Rates

To subscribe to Modern Distribution Management, please call 303-443-5060, email tish@mdm.com or go to https://www.mdm.com/subscribe

Published twice monthly; $395/yr., $415 U.S. funds other countries. Six-month, one-year and two-year terms are available. For group subscription rates and site licenses, please contact Tish Marti at 303-443-5060 or visit www.mdm.com/corporate.

 ISSN 0544-6538

Cyberthreats
Continued from p. 1
hopes of persuading them to transfer funds or divulge sensitive information.

What You Can Do

- Teach employees how to recognize phishing and vishing scams and stress that the act usually involves a request for account information or passwords;
- establish procedures detailing how to respond to deepfakes;
- institute countermeasures such as a companywide ban on providing passwords and account information over the phone;
- and require a multifactor authentication for systems access. In its report, A Simplified Approach to Staying Secure in 2020, WatchGuard predicts that multifactor authentication (MFA) will become the standard for midsize companies due to a spike in malicious acts and data breaches.

A Plan for Managing Risk

Ransomware generates more than $25 million in revenue for hackers each year, according to *Business Insider*, and Forrester estimates that costs associated with deepfake scams could exceed $250 million in 2020. Conceding that managing the risk can be overwhelming, particularly for companies without an existing cybersecurity strategy, risk management specialist Tom Held often advises taking a big-picture approach to prevention, starting with inventorying devices connected to the network and recording the location of all company data before turning the focus to establishing a plan for how to address the most pressing threats in manageable chunks.

"When you're evaluating risk, you're evaluating exposure and part of that is determining how much you have to worry," says Held, who heads security consulting firm Oakland Group. "During my years as a CTO, part of my role was setting new goals for the year. Ideally, there should be a process in place in your company dedicated to a specific effort in cyber risk management for every month, so every year my team would dig deeper in that area, for that month. For example, we might tackle end-point management (e.g., smartphones, tablets, laptops, etc.) and tighten down controls or safeguards on those devices. The next month, we might address our cloud data assets, refresh that data asset and consider new controls or, if necessary, new policies on cloud data storage (e.g., limiting or not allowing personal Dropbox accounts)."

Groups such as the Payment Card Industry Security Standards Council and the Center for Internet Security (CIS) both offer a list of standards/controls that can serve as a good starting point for distributors interested in developing a cybersecurity plan for the new year. To help pinpoint pockets of vulnerability, Herd recommends annually reviewing CIS' list of Top 20 Critical Controls — whether or not you already have a plan in place or are in the process of developing a new one.

Below is an example of a basic four-month template illustrating how he helps clients begin the process of both sizing up and managing the risk. Based on strengths, weaknesses and the implementation of continuous improvements, the plan should change from year to year.

January: Inventory Your Assets

Maintaining a list of all the devices on your network — and who they belong to — is one of the most basic steps in curtailing cyberattacks, but it also has become one of the most challenging, as the use of mobile devices has grown in popularity and carried the bring your own device (BYOD) movement with it. Seventy-one percent of employees spend more than two hours a week accessing company information on their mobile devices, according to research firm Fierce Mobile IT. This is why mobile app security firm Blue Cedar is predicting that more organizations will invest in controls (like application-specific security, as opposed to only device-level) to support BYOD policies and keep personal and work data unhitched and secure.

There's also the issue of human nature to contend with, says Held. "Typically, when I ask a client if there have been any recent changes regarding their data or devices, they say nothing has changed. But they're not thinking about the Dropbox account that was recently opened or the manager who got a new mobile device and occasionally uses it to access sensitive work-related data from different locations."

What You Can Do

Have IT — or the team of employees you assemble to address cybersecurity — create a questionnaire with a mix of prompts that will help determine the breadth of devices connected to your network. A few examples: "Did you open a Dropbox account?" "Are you storing company files in the cloud and, if so, where?" and "How many thumb drives do you have?"

If supervisors provide oversight and stress the importance of the information in protecting both the company's and employees' data and devices, it should take one to two weeks to distribute and collect the forms, says Held. "It also helps to pass along the demand to a higher authority," he adds. "When you're in a bank and you say something is required by the FDIC, all the employees understand that because they are there when the audit happens."

After forms are collected, the remaining two weeks of the month should be spent organizing and prioritizing the information.

February: Catalog Safeguards on Inventoried Items

Control gaps often surface once devices are inventoried and the process turns toward how each are equipped to deter threats. Take the sales rep that uses a smartphone to access customer data or transmit sensitive information while traveling.

"The device has antivirus on it, but if it has work material on it, you want to protect it against someone gaining access to that data, so what you really need is a password on the phone and possibly encrypted data," says Held. "The difference between what you have and what you need is a control gap."

What You Can Do

After cataloging safeguards on inventoried devices, determine if additional protection is needed such as mobile device management software for personal smartphones. IT can use it to prevent unapproved software installs, receive alerts if agreed upon policies are not followed, and minimize the risk of breaches if phones are lost.

March: Implement Safeguards on Devices

Safety-proofing devices with additional safeguards is a big task and may stretch into a second month, says Held. For companies that already have a change management process in place to ensure that new tech and components are always audited throughout the year (a cybersecurity best practice), another potential area of focus for a month-long review is the cloud. With a majority of predictions pointing toward an increase in cloud-inspired ransomware, and "little missteps leading to big breaches," taking precautions such as researching your cloud service provider and periodically evaluating services can improve your chances of protecting your data.

What You Can Do

Start with these questions:

- Is your provider outsourcing your data to another location?
- What types of barriers does it have in place to secure your data?
- Are there limits to its data encryption services?
- Is your data encrypted before it's uploaded to the cloud as well as after it is stored in the cloud?

Cloud service providers can have breaches, too, so it's important to do your due diligence, says Held.

"Think about what needs to change to make managing the risk easier"

April: Review Policies and Procedures

It's not uncommon for companies to feel overwhelmed after going through the process of inventorying their devices and data, particularly after coming to terms with the number of vulnerabilities nestled in their networks. That's when policy comes into play. Think about what needs to change to make managing the risk easier, says Held. After learning a few employees have work-related files in a Dropbox account, should you open a corporate Dropbox account or consider another option — Sync, pCloud, MEGA, for example — and create a new policy requiring employees to store all work-related files there?

What You Can Do

Develop a cybersecurity team to incorporate employees' ideas before creating new policies. Document everything — and pace yourself, says Held, who suggests tackling cybersecurity in stages. "Companies often shy away from investing in cybersecurity because they think it's going to take a lot of time and be a huge expense," he says. "Taking it one step at a time and focusing on the most pressing risks makes the process more manageable."

■ State of Distributor Marketing, Pt 2

How to Articulate Your Real Value Through Marketing

Falling back on selection, delivery and price does not help distributors to stand out from the competition

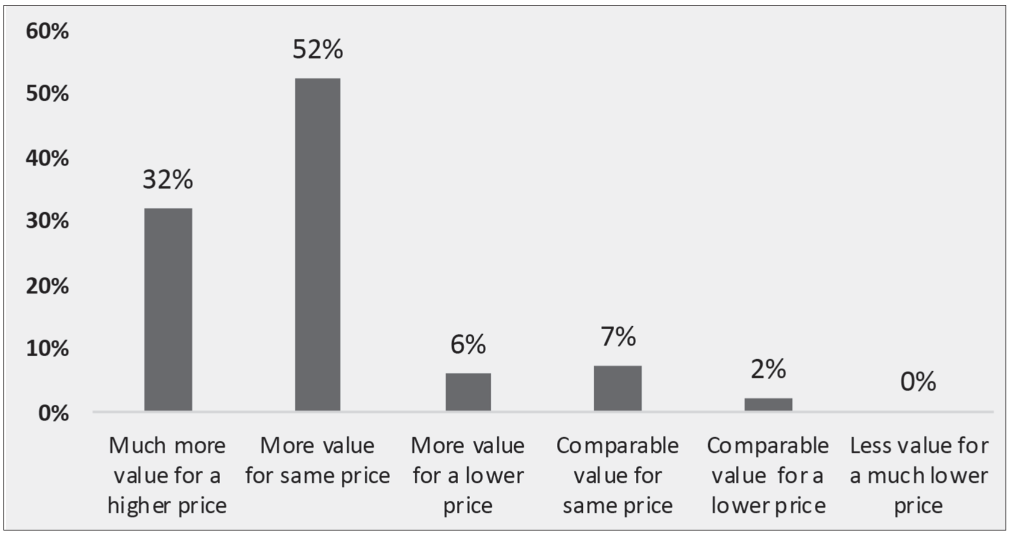
Tunnel vision around the importance of logistical capabilities and low price to customers may be keeping distributors from promoting the real benefits many say are important to their value propositions, including helping the end customer to reduce cost and decrease equipment failure.

By Jonathan Bein

Every time we've asked distributors in the past five years whether or not they provide more value than the competition, we have seen the same results. About 90% of respondents in our annual State of Distributor Marketing survey with MDM think they are delivering more value than their competitors — either much more value for a higher price, more value for the same price or more value for a lower price.

Of course, 90% of distributors can't be delivering more value than their competitors. It's the Lake Wobegon Syndrome, where all or nearly all of a group claim to be above average. The characterization of this fictional location, where "all the women are strong, all the men are good looking and all the children are above average," has been used to describe a pervasive tendency to overestimate one's achievements and capabilities in relation to others. This is not unique to distribution; it's been observed in many industries and across many professions.

Figure 1: How much value distributors perceive they provide over competitors



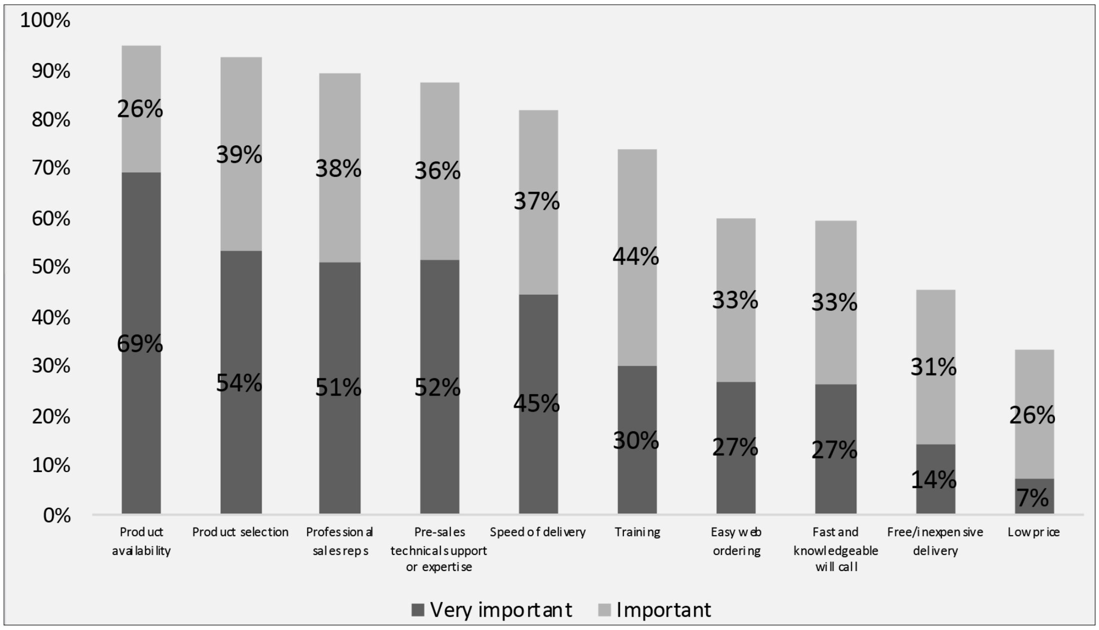
What Differentiates Distributors

In our 2019 survey with MDM, respondents shared how they view the importance of features and benefits in their value proposition.

We have found year after year that nearly all the distributors in the survey continue to rate traditional logistical capabilities, such as product selection, availability and speed of delivery, as more important to their value propositions — despite a decidedly nontraditional shift in the market. This held true in 2019. In general, respondents graded themselves well on the features that are most important, including product selection and availability, professional sales reps, pre-sales expertise and speed of delivery. Ninety-five percent said product availability was important or very important to their value proposition, and slightly less than that named product selection. Professional sales reps (89%) and pre-sales technical expertise were close behind. Respondents said speed of delivery was important (37%) or very important (45%) to their value propositions.

These logistics capabilities lay at the core

Figure 2: Core capabilities: importance in value proposition



of what distributors do. Still, most distributors cannot position as leading on these attributes because their largest competitors — a Grainger or an Amazon — won those battles long ago. In fact, doing these things well (if not market-leading) has become table stakes. Even easy web ordering (named by 60% of respondents as either important or very important this year) has become a must-have.

The Lake Wobegon effect reared its head again when asked what the distributors do better versus what the competition does better. About 40% of distributor respondents said that their competitors competed better on price than they did; of all attributes, price was the top reason cited. About a quarter of respondents named sales, marketing or e-commerce, and 23% named logistical reasons.

But most distributors said they performed their core capabilities, as well as value-added activities, better than the competition. In other words, they are focused on the customer, and they believe the competition only cares about price.

Distributors tend to fall back to price as the reason competitors win in a head-to-head comparison because they don't have data on what the customer values. Distributors' perceptions of how well they perform on price can be unreliable; in our voice-of-customer survey work for individual distributors, involving more than 12,000 end-users, we have found that distributors are usually more price-competitive than they think.

Hidden Value

This tunnel vision around the importance of logistical capabilities and low price to customers may be keeping distributors from articulating the real benefits many say are important to their value propositions, including:

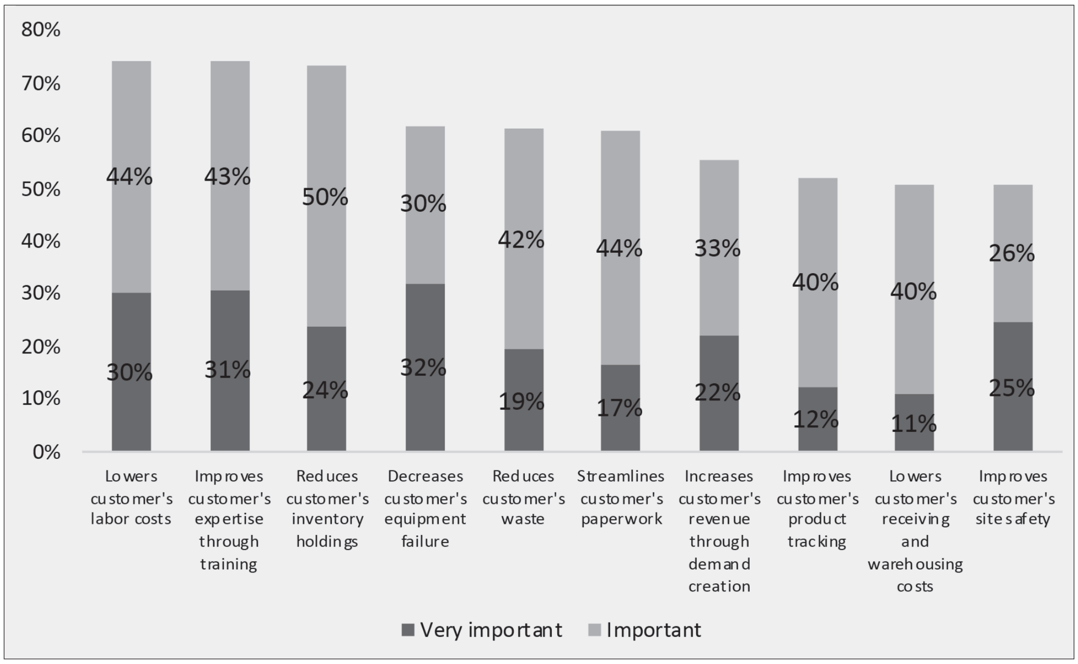
- helping the end customer reduce cost through lowering labor cost;
- increasing the customer's expertise through training;
- reducing the customers inventory holdings;
- and decreasing customer equipment failure.

Improving a customer's safety onsite has continued to grow in importance as a service to end-users, with more than half saying it was very important or important to the value that they provide.

Despite this, most distributors' marketing claims remain focused product availability, product selection or delivery. They are merely echoing everyone else and keeping what they do best a secret. Mid-market distributors that continue to focus on product selection, availability and delivery speed will be spinning their wheels over the next decade. These features will not differentiate their businesses in an era of global players and digital disrupters with extensive multichannel reach and marketing capabilities.

There must be enough value beyond logistics in what a distributor is doing that the customer doesn't go to a competitor or even direct

Figure 3: Benefits: importance in value proposition



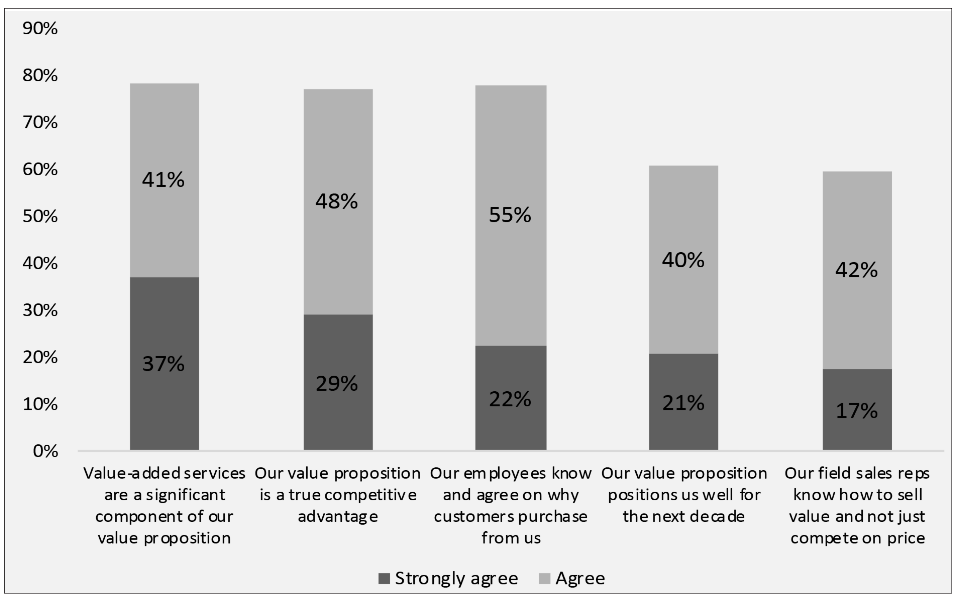
to the manufacturer. The good news: Distributors in the survey do recognize that their survival depends on value-added services. Thirty-seven percent of respondents strongly agreed that value-added services were a "significant component" of their value proposition.

We also found, based on what distributors labeled important, that they were not trying to be everything to everyone. For example, those that said logistical value-added services, such as reducing a customer's inventory or lowering receiving and warehousing costs, were most important to their value propositions did not also say that training customers was "very important" to their value proposition.

Those that focused on non-logistical value-add, such as training and pre-sales technical support, did not also think low price, speed or delivery or free/inexpensive delivery were "very important." They focused on one area at the expense of the other, recognizing they could not compete both on low price and provide a high level of specialized services.

This is good.

Figure 4: Distributor perceptions of their own value



But there is a disconnect between the value they are claiming to provide and the articulation of that value to the market. They also seem to have a lack of clarity around what is adding the most value to customers. It's much like the story of the merchant, John Wanamaker, who was asked whether his advertising budget was delivering value; he responds, "Half the money I spend on advertising is wasted; the trouble is I don't know which half."

In other words, distributors need data. They may have opportunities to improve or expand the value-added services that are delivering real value and pare down or stop offering services that customers don't really want. But without the data, they may provide the right service to the wrong person, or spend valuable resources providing a free service to customers who may only care about price or access to a brand. That's only going to put pressure on margins and leave opportunities on the table.

The Benefits of a Clear Value Proposition

An effective value proposition clearly differentiates a distributor, and drives every aspect of how they operate, from internal communications to the product offering and the customers you target. If your value proposition is not clear:

- Price is your sales team's go-to selling strategy.
- Customers can't describe your company consistently. If some customers say price and product variety, and others say service, your message isn't strong enough.
- You treat everyone in your customer's organization the same. Different stakeholders — from the CEO to purchasing — value different things. Messaging should reflect that.

To get beyond the subjectivity of the Lake Wobegon Syndrome, and uncover and communicate real value, distributors need to conduct market research to better understand the voice of the customer. A value proposition tells customers who the company is and why they should do business with them. It is built on what a company does that differentiates it from its competitors.

It's not just about what they do well, but on what's important to the customers and the market, and what competitors claim about their offering. It helps distributors target the right customers, sell the right products and services, assign the right resources and systematically sharpen their offering.

Many distributors understand they have room to improve. Just 21% of respondents said they strongly agreed their "value proposition positions them well for the next decade." Only 22% strongly agreed that their employees know and agree on what's important to customers. And 17% strongly agreed that their people know how to sell value, pointing to commoditization.

The need to message on and align resources around the benefits that truly differentiate is going to grow in importance as we move through this decade because bigger players like Amazon — with its tremendous logistic capability — are already better positioned. Most distributors will never catch up if they continue to try to compete on logistics capabilities.

But if mid-market distributors embrace the value many are already providing — value that goes beyond distributors' core capabilities — they can compete. In fact, a clear and compelling value proposition could spell the difference between merely surviving and coming out ahead this decade.

Real Results Marketing brings distributor marketing expertise from our time as successful executives, advisors and implementers with MRO and OEM distributors of all sizes in a variety of market segments. The author may be reached at jonathan@realresultsmarketing.com or more information at realresultsmarketing.com.

About This Survey

Modern Distribution Management and Real Results Marketing conducted this research through an online survey taken by 329 participants across a variety of distribution and manufacturing sectors. There was higher participation from industrial, safety, electrical, electronics, building materials, oil and gas, HVACR/plumbing and hardware sectors. Other participating sectors include janitorial, pulp and paper, chemicals and plastics, grocery/foodservice and pharmaceutical. Nearly 50% of respondents were companies with less than $50 million in revenue, more than 40% of respondents have $50 million to $500 million in revenue, and the remainder have more than $500 million in revenue.

mdm

Industrial & Construction Markets Update

VOL. 50, NO. 01 ▪ JANUARY 10, 2020

December PMI at 47.2%, GDP Growing at 1.3%

Economic activity in the manufacturing sector contracted in December, and the overall economy grew for the 128th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business.

"The December PMI registered 47.2%, a decrease of 0.9% from the November reading of 48.1%," according to Timothy R. Fiore, CPSM, C.P.M., chair of the Institute for Supply Management Manufacturing Business Survey Committee. "This is the PMI's lowest reading since June 2009, when it registered 46.3%. The New Orders Index registered 46.8%, a decrease of 0.4% from the November reading of 47.2%. The Production Index registered 43.2%, down 5.9% compared to the November reading of 49.1%.

"Comments from the panel were consistent with November, with sentiment improving compared to the third quarter. December was the fifth consecutive month of PMI contraction, at a faster rate compared to the prior month. Demand contracted, with the New Orders Index contracting faster, the Customers' Inventories Index remaining at 'too low' status and the Backlog of Orders Index contracting for the eighth straight month (and at similar rates to November).

"Global trade remains the most significant cross-industry issue, but there are signs that several industry sectors will improve as a result of the phase-one trade agreement between the U.S. and China. Among the six big industry sectors, Food, Beverage & Tobacco Products remains the strongest, while Transportation Equipment is the weakest. Overall, sentiment this month is marginally positive regarding near-term growth," says Fiore.

Distributor

AD, Wayne, Pennsylvania, the largest contractor and industrial products wholesale buying group in North America, and **SafetyNetwork** have announced that the organizations are pursuing a possible merger in the spring of 2020. This partnership would bring together two organizations to create AD's only safety-dedicated division focused on the growth of independent distributors that specialize in the safety market.

Kaman Corporation, Bloomfield, Connecticut, has completed the previously announced acquisition of **Bal Seal Engineering, Inc.**, a leader in the design, development and manufacturing of highly engineered products including precision springs, seals and contacts.

Imperial Dade, Jersey City, New Jersey, a national distributor of disposable food service and janitorial supplies, has acquired **Wagner Supply Company**, a distributor of janitorial and industrial products with branches in Odessa, Lubbock, and Wichita Falls, Texas.

Foundation Building Materials Inc, Tustin, California, has acquired **Associated Drywall Suppliers, Inc.**, an independent distributor of drywall, metal framing and suspended ceiling systems serving the greater Louisville, Kentucky market.

WESCO International Inc., Pittsburgh, a leading provider of electrical, industrial and communications MRO and OEM products, construction material and advanced supply chain management and logistics services, has announced preliminary sales for the quarter-to-date period. Through Dec. 2019, the company's revenue increased by 5% versus the same period in the prior year. The company also confirmed that it expects its full year sales to be above the midpoint of its outlook range of 1% to 3%.

Winsupply Inc. has promoted Eddie Gibbs to senior vice president of vendor relations and Amy Souders to vice president of vendor relations.

Industrial distributor **MSC Industrial Direct Co. Inc**., Melville, New York, has announced that Rustom Jilla, executive vice president and CFO, has decided to step down from his position with MSC effective Jan. 17, 2020 to become chief financial officer of a public global manufacturing company. Greg Clark, the company's vice president of finance and corporate controller, will assume the position of Interim CFO, effective following Jilla's departure, and will report to Erik Gershwind, president and CFO. MSC will conduct a comprehensive external search to identify a permanent CFO.

Sales for **HARDI distributor members** increased by 1.1% during November, according to its monthly TRENDS report. The average annualized sales growth for the 12 months through October 2019 is 5.2%.

Economic

The goods and services deficit was $43.1 billion in November, down $3.9 billion from $46.9 billion in October, revised, according to the U.S. Census Bureau and the U.S. Bureau of Economic Analysis. November exports were $208.6 billion, $1.4 billion more than October exports. November imports were $251.7 billion, $2.5 billion less than October imports.

Markets Update Supplement
p. 2

WESCO Still in Hunt for Anixter

An insider look at the potential industry impacts

Disclosure: The author, MDM VP Sales, Analytics & e-Business John Gunderson, was part of the management team at HD Supply from 2011 to 2013 when they were owned by a group of private equity backers, including Clayton, Dubilier & Rice, prior to becoming a publicly-traded company. He remained at HD Supply and was on the leadership transition team for the sale of HD Supply Power Solutions to Anixter from 2014- 2017.

By John Gunderson

It seems like a long time ago – end of October – that Anixter International Inc. (NYSE: AXE) announced it was going private in a $3.8-billion deal to an affiliate of private-equity firm Clayton, Dubilier & Rice (CD&R) in an all-cash buyout at $81 per Anixter share. That's a 13% premium over Anixter share price on Oct. 29, 2019. A lot has happened since. Less than two months later, Anixter shareholders became an even happier lot with a strategic buyer throwing its hat in December – a couple of times.

WESCO International, Inc., (NYSE: WCC) upped the ante with a $90-per-share offer announced on Dec. 24 (nice timing!), and it's one of the biggest deals to hit the electrical industry in a while. For CD&R, it's back to the future again as a previous owner of one of Anixter's business segments.

It's not often that the stars align to have financial and strategic buyers mano a mano in deals this size. The financial metrics often favor one side or the other. So there's an added competitive dimension to this deal that's a bit outside the normal lanes. The fact that WESCO is sweetening the pot indicates the strategic value the company puts on adding Anixter to its portfolio, because CD&R's cash war chest is top shelf.

What's interesting to me as a 25-year electrical distribution industry vet is how Anixter can provide very complementary – yet different – strengths to these two suitors. Here's my take on what the impact will be on the electrical distribution industry.

Anixter Deal Play-by-Play

Following the Dec. 24 announcement of WESCO's $90-per-share offer, two days later it raised its bid to $93.50 per share in cash and stock. A week later, on Jan. 3, it raised again to $97 per share – $63 per share in cash and then a combination of share formulas (details of their offer are here). There are no public counter offers by CD&R as of press time.

There's likely a lot more to come on this deal. CD&R baked in a $45-million break-up fee if a sweeter offer appeared (it did). Also, certain stockholders of Anixter, including entities associated with Sam Zell, chairman of the Anixter Board, which own approximately 9% of the outstanding shares of Anixter common stock, have entered into a voting agreement with CD&R, pursuant to which they have agreed, among other things, to vote their shares of Anixter common stock in favor of the merger.

The Backstory

Let's look back at the company histories first to parse the impacts of a deal. CD&R is back in the bidding for a part of Anixter they were a former PE investor in, specifically the HD Supply Power Solutions business that is now part of Anixter's Electrical & Electronic Solutions (EES) and Utility businesses.

The Home Depot in 2005-2006 went into an aggressive acquisition mode, entering the B2B distribution space buying companies like Hughes Supply, Edson, SESCO in Canada, Facilities Maintenance, White Cap and National Waterworks. At its peak, the revenue run rate was north of $12 billion and assembled in a relatively short time. Retailer The Home Depot's bold entry into the distribution market during the leadership of Bob Nardelli was the biggest news to hit distribution in years.

I remember going to distributor association meetings and hearing people openly talk about if/when their company was going to be acquired by The Home Depot. We all joked with each other on needing to get properly sized for an orange apron. Then almost as quickly as it started, new leadership at The Home Depot decided to strategically exit distribution markets. They began divesting their acquisitions in 2007 to a group of PE investors including CD&R.

This spin-off company was named HD Supply, and over the next few years the private equity group sold, combined and streamlined the company prior to taking HD Supply public in 2013. At that time HD Supply was organized under four major divisions – Facilities Mainte-

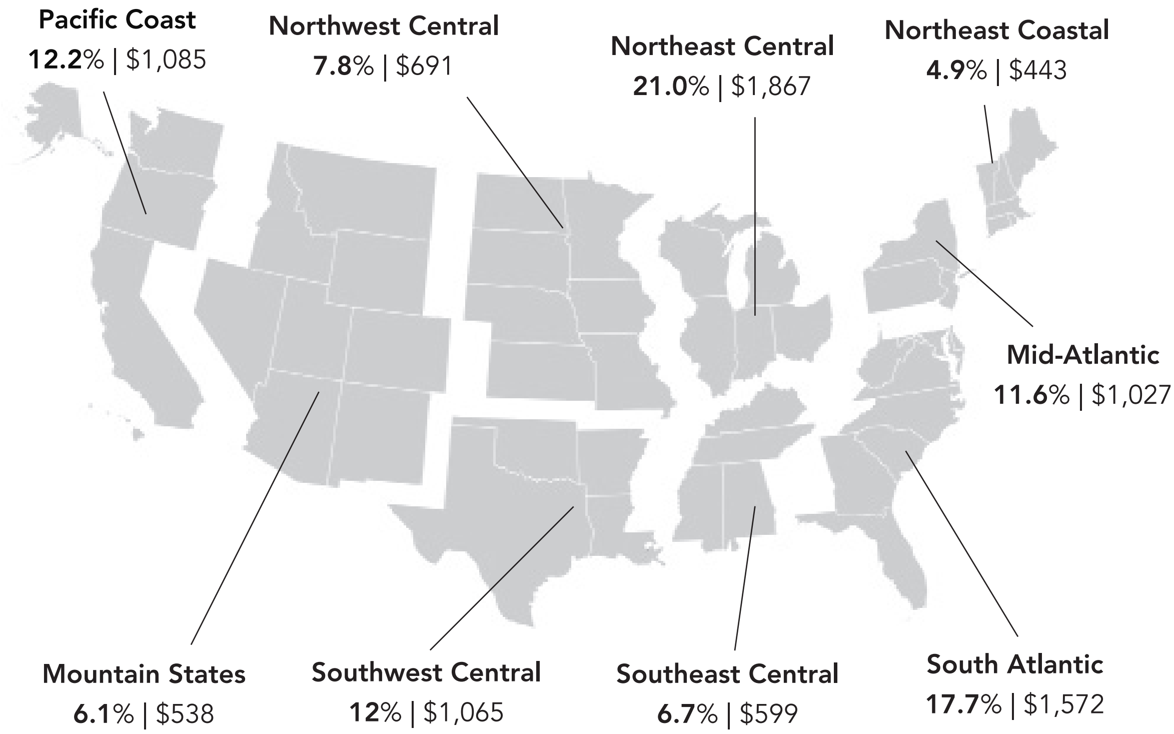
Continued on p. 4 of this section

U.S. Industrial Lubricants Market Demand

Market demand for Industrial Lubricants in the U.S. was $8.9 billion in 2018, according to data from MDM Analytics. All estimates are 2018 end-user demand, in U.S. dollars, including distributor margin.

U.S. Total: $8.9 billion

U.S. End-User Market Demand for Industrial Lubricants by Region, $ millions (2018 est.)



U.S. End-User Market Demand for Industrial Lubricants: Top 10 End Markets

Top 10 end markets in $ volume, by NAICS code, consuming Industrial Lubricants (2018 est.)

End User		Estimated Consumption
237310	Highway, Street and Bridge Construction	$341,390,149
322121	Paper (except Newsprint) Mills	$304,940,489
238110	Poured Concrete Foundation and Structure Contractors	$238,298,693
221118	Other Electric Power Generation	$227,919,202
482111	Line-Haul Railroads	$222,962,577
336390	Other Motor Vehicle Parts Manufacturing	$170,890,340
322130	Paperboard Mills	$166,913,529
237110	Water and Sewer Line and Related Structures Construction	$139,562,411
236220	Commercial and Institutional Building Construction	$123,461,869
336412	Aircraft Engine and Engine Parts Manufacturing	$120,077,248

This market size estimate was compiled by MDM Analytics, Niwot, CO.
Learn more about MDM Analytics at www.mdm.com/analytics.

WESCO/Anixter
Continued from p. 2 of this section

nance, White Cap-Construction & Industrial, Waterworks, and Power Solutions.

In October 2015, HD Supply sold the Power Solutions business to Anixter. This combination utility- and construction-based electrical business is now a major part of Anixter's Electrical & Electronic Solutions (EES) and Utility Power Solutions (UPS) divisions.

If you follow that bouncing ball, you can see that CD&R is potentially repurchasing a part of Anixter they already owned for five to six years. To make it even more interesting, CD&R acquired the HD Supply Waterworks division in 2017 (now Core & Main); they have a track record of re-acquiring part of HD supply already. And there's a final historical twist at play here – CD&R was a key investor in helping Westinghouse become WESCO when they went public in the 1990s.

Now, let's talk about WESCO's position. The deal would more than double WESCO's revenues; their 2018 annual sales were approximately $8.2 billion while Anixter 2018 revenues were $8.4 billion.The WESCO team knows all three divisions of Anixter Network & Security Solutions (NSS), Electrical & Electronic Solutions (EES) and Utility Power Solutions (UPS) divisions from a competitor's perspective. WESCO has been making investments in datacomm/security (what Anixter calls NSS) with a series of acquisitions and line expansions across their North American footprint for over a decade (WESCO's major acquisitions included Communication Supply Corp. in 2006).

They know what Anixter calls their EES business intimately across North America based on their national electrical distribution footprint. WESCO and Anixter are both two of the largest distributors in the Utility channel. This specialized electrical distribution channel is something both companies know as well as any distributor in North America.

WESCO and Anixter have been competing day-in and day-out for decades, and have many employees who once worked for one and now work for the other. They intimately know the Anixter and electrical business.

WESCO stated that the acquisition would create more than $200 million in operational savings and mutual synergies, including "a reduction in corporate and regional overhead, including duplicative public company costs, branch and distribution center optimization, and efficiencies in procurement, field operations and supply chain. In addition, the combined company would be well-positioned to enhance growth by providing cross-selling opportunities of complementary product offerings to its expanded customer base."

The Bottom Line

It will be interesting to see which suitor gets chosen, as both know very well what they are buying and have the operational experience to make the marriage successful. In terms of what it means to the industry, if CD&R acquires Anixter my prediction is the impact may be more business as usual in terms of category management. The analogy I would use is that it would be a small rock getting thrown into the pond that creates some ripples. But keep in mind that Anixter reported 2018 sales of $8.4 billion, so those are pretty big ripples in anyone's book of business. My point is that the impact will be more additive than disruptive to competitors and suppliers alike.

If WESCO is the acquirer, the impact on manufacturers and competing distributors will be interesting to watch. One of the first impacts of a combined Anixter-WESCO would be to look at the Strategic Business Agreements that both have in place with specific manufacturers across major product categories. There would likely be some significant supplier realignment shifts in purchases to the best strategic agreement. That deal scenario would be like tossing a bigger rock in the electrical and datacomm products distribution pond that would create some waves – both in disruptive impacts and opportunity – for suppliers and competitors alike. Stay tuned!

For comments, you can reach me at john@mdm.com.

Modern Distribution Management

Founded in 1967 by J. Van Ness Philip

Questions, comments, article proposals, address changes or subscription service to: Gale Media, Inc., 6309 Monarch Park Place, Suite 203, Niwot, CO 80503. Tel: 303-443-5060.
Website: http://www.mdm.com
ISSN 0544-6538

To subscribe to Modern Distribution Management, please call 888-742-5060, email tish@mdm.com or **http://www.mdm.com.**

Subscriptions are available by online delivery and/or first-class mail. Published twice monthly; $395/yr., $415 U.S. funds other countries.