MODERN DISTRIBUTION MANAGEMENT

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■ *MDM Interview, part 1*

Amazon Business VP Prentis Wilson

Changing the way procurement works

Executive summary: In part 1 of this MDM exclusive interview, Prentis Wilson, Vice President of Amazon Business, shares his thoughts on the value proposition of Amazon Business, its current focus and the polarized view many distributors and suppliers have for the company's market position. A complete version of this interview will be available on MDM's new podcast series, Disrupting Distribution.

By Thomas P. Gale

Amazon Business launched in 2015 to replace Amazon Supply, which started in 2012. But its history goes back more than a decade to when Amazon built its first B2B marketplace on the platform of SmallParts.com, an appliance parts web site acquired in 2005. The company historically has been quiet in revealing its market strategy, which has led to a combination of fear, hyperbole and polarization around any discussion of Amazon Business among distribution and supplier executives. What seems to have been lacking is relevant context to help distributors make informed decisions about whether to partner or protect.

Amazon's B2B market position is changing fast. In MDM's most recent research (MDM May 10, 2018), a survey by Real Results Marketing found that while more than two-thirds of distributors surveyed view Amazon as a threat, more than a quarter of distributors polled said they sell, or are willing to sell, all the products they carry on Amazon Business.

The company is starting to communicate more into distribution channels, including making its top executive available for an interview with MDM. While not revealing new insight into Amazon Business's core strategies, Amazon Business Vice President Prentis Wilson does openly discuss its growth, view of distributors as customers and where the company is headed.

MDM: Prentis, give us a little background on your career in procurement and manufacturing prior to your current role.

Prentis Wilson: I actually started my career in manufacturing. I spent most of my time on factory floors, making everything from truck brakes to turbocharging systems. I held a variety of roles, whether it be manufacturing, engineering, to actually running the manufacturing operation. I got into procurement and sourcing because when I was running a factory, my lines kept getting shut down because our suppliers were unable to keep up with demand. I shifted my focus to engage with our supply base, and found that I loved it. It was a terrific time working with suppliers and helping them grow and develop. Through that effort, I grew into senior procurement roles at Honeywell, both Honeywell Aerospace and then also to leading all of procurement and sourcing for Cisco Systems.

One of the biggest challenges we faced was our obligation and policies focused on being able to buy from minority-owned or women-owned businesses. Being able to find and discover those businesses was often hard to do, particularly given that the cost of being able to manage the supply base and fully integrate and engage with those suppliers can get expensive. So there's always these efforts to rationalize the supply base, yet you're trying to always discover new ones.

As I was engaging with Amazon I thought to myself, "this is a huge opportunity to apply technology in a way that really helps these businesses reach more

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mdm
competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Ian Heller

Amazon Business: Partner, Competitor or Both?

As the lead analyst for Amazon Business at MDM, I try to discern the company's intentions and market performance. That can be challenging for its B2B division as the company doesn't say much about performance – especially the results.

That began to change last week when Prentis Wilson, the Vice President & General Manager of Amazon Business, agreed to an interview with Tom Gale, MDM's CEO. Wilson discussed the company's intentions in some detail, but we did not learn anything about the division's performance beyond a press release issued in July, 2017.

Wilson wants "suppliers to realize that we view them very much as our customer, and work hard to improve the experience for them." But as discussed in the interview, there's polarized and conflicting feedback from executives at some distribution companies selling on the company's third-party marketplace. Some leaders even say the cost and hassles of selling through Amazon Business are increasing, with reports of a lengthy receivables cycle.

Wilson also suggests that companies that provide information to these distributors and suppliers "don't understand what's happening and aren't providing accurate insights to readers." As the lead writer on Amazon, I take his feedback seriously. So, working with our research partner Real Results Marketing, we are conducting a survey of distributors that sell on the Amazon portal. We will report these results so that we can deliver broader and balanced coverage based on available data.

I believe Wilson means it when he says Amazon will help distributors thrive by supporting them for many years. My concern is that when companies face recessions or other financial challenges, they look for opportunities to squeeze profits out of their supply chains. It's only logical that Amazon Business will one day "go direct" on many items it currently sources through its third-party marketplace. Corporations maximize profits by their nature; the unique condition of this specific buyer-seller relationship is that Amazon will have the transaction data to effectively disintermediate distributors.

I acknowledge that Amazon Business is good for some distributors today – for example, minority and women-owned companies. Amazon relies on qualified partners to meet the needs of customers (particularly in government agencies) who have purchasing requirements for these types of suppliers. But that does not mean Amazon Business is a positive development for the entire spectrum of wholesale distributors – in the long run.

Amazon Business' unique value proposition, made up of a breathtaking assortment, cutting-edge technology and terrific supply chain capabilities is unprecedented – and delivers real value to customers. I think it's a relentless and principled competitor and predict continued success for the company.

But with some exceptions, I believe the short-term sales gains distributors get from selling through Amazon Business are not worth exposing precious transaction data to this competitor. Would you give it to anyone else?

I need much more information before I can agree that Amazon Business is a positive for most distributors. I suggest that companies considering selling through any third-party marketplace proceed with great caution. And we'll do our best to provide as much information as is available to help you make informed decisions.

As always, I welcome your input. You can reach me at ian@mdm.com.

MODERN DISTRIBUTION MANAGEMENT

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Amazon Business Interview Continued from page 1

customers, and really help solve a big problem that we see across industry."

MDM: Did you have either responsibility or connection into both direct and indirect spend?

Wilson: Yes, I did. Especially at Honeywell. I managed all of procurement and supply chain, which included both sides.

MDM: Your background in manufacturing and procurement seems to tie into the two channels that Amazon Business serves its customers with. In the evolution of that portal the first has been leveraging Amazon technology to create solutions for the long-tail spend challenges of organizations for spot buys, and more recently it appears that Amazon Business is investing in solutions for broader enterprise, e-procurement challenges. Is that accurate? What are your views on how these channels have developed?

Wilson: Yes. It's super interesting; when we first launched Amazon Business, obviously we knew there was a big issue and big opportunity to solve the long-tail need of businesses. Amazon has a broad range of products, as well as a broad range of suppliers. We simplified the buying experience, so we can quickly come in and help our customers solve these needs and be able to help them reach more suppliers. Early on, our focus was heavily on tail spend because it was just a natural place to start. We engage with our customers a lot, and we stay very much obsessed with meeting their needs, and our customers have continued to push us to expand our relationship with them.

Now, we are definitely broadening our reach to be able to support larger customers with broader numbers of employees through their procurement systems. And in doing so we are actually bringing a lot of these suppliers into this customer's ecosystem, where we do all of the heavy lifting of the e-procurement system engagement.

We do all the heavy lifting of figuring out how to set up payments and payment processing, and essentially enable all of these suppliers – whether they are local or minority suppliers – to be able to reach these customers. As we see it coming to fruition and hear from our customers, it's really solving a big need for both the buying customers as well as the suppliers.

MDM: Essentially, Amazon Business really facilitates and helps to manage a multi-tier supplier relationship – is that what the picture looks like?

Wilson: Absolutely. Our marketplace is geared to simplify the buying experience, and to help suppliers reach more customers, and it does both of those things.

MDM: Does Amazon Business Marketplace solve the long-tail supply challenge with the ecosystem of vendors that now are selling through the marketplace?

Wilson: Yes. The customers that engage with us for that solution provide a lot of positive feedback; they're very happy with how that's working. The suppliers that engage, they're seeing strong growth in their purchases, so it is working. We're continuing to innovate in this area and improve the experience. We have a whole team that focuses on improving the supplier experience, so it's easier for them to work with us and grow their sales with customers.

We also focus on customers, and there's a broad range of capabilities that we make available. For example, there's data analytics that help customers view and track their purchases. They can track their spend with minority-owned businesses, for example. They can track their spend in certain categories. It just helps them better manage their purchases.

MDM: It's internally connecting the procurement function with the back-end financials as well for a customer?

Wilson: That's right. It adds a broad amount of visibility for customers. Frankly, one of the things we heard a lot from customers early on was that they lack visibility into their long-tail purchases. Not only is Amazon Business giving them visibility into that, it helps them manage it better and make sure they're directing those purchases to where they want them to go.

MDM: What do you see as the next stages to extend Amazon Business's value into enterprise organizations?

Wilson: We're laser focused on supporting the needs of our customers, and we are innovating there. We do see a rapid growth in customers that are adding literally thousands of employees on a single account, and we're making it easy

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for them to be able to manage their purchases, get visibility into those purchases, and be able to really bring a very intuitive buying experience to those employees.

That's been really helpful for them, and particularly for some of our customers that have a strong desire to be able to search for certain types of suppliers. Those things are happening now through our marketplace, and we're enabling customers to set preferences and identify preferred suppliers that they can buy from, which is really adding a lot of value for both the suppliers and the customers, as well as individual buyers.

MDM: Shifting gears a bit – wholesale distribution in the U.S. is a more than five-trillion-dollar market, in terms of what flows through distribution channels across 19 major product sectors and many more sub sectors. From your experience, you've seen that it's been a sustainable – if not perfect – model to create a flexible supply chain, and an extremely strong economic infrastructure. Is Amazon Business building the supply chain model of the future that will replace what's worked for essentially decades?

Wilson: I think we're in an incredibly interesting time right now, where technology is making things change across the board, and enabling suppliers to reach more customers. I think it's also enabling customers to be smarter in their purchases. It's just starting to transform how things are done. I think the technology that we're providing in the marketplace, that Amazon Business has built and is continuing to grow, is actually going to accelerate things for a lot of the distributors out there. It helps them reach more customers more efficiently. We're also going to be able to use technology to reduce a lot of the waste and inefficiencies that are out there, and it's going to really improve the discoverability and growth for a lot of companies.

MDM: Let me ask the elephant-in-the-room question. If you're in front of a group of distributors, manufacturers, B2B suppliers that are considering marketplace options, what do you say to them to alleviate fears that Amazon Business could leverage their transaction data intelligence to displace them at some point?

Wilson: I find that there's a lot of confusion out there; what a lot of people – particularly distributors – maybe don't always recognize is that suppliers are our customers too. We focus very heavily on helping them reach more customers. We spend a lot of time improving the experience for these companies, and there's been a number of distributors that have embraced Amazon Business, and seen strong growth through that. In fact, top of mind, there's an office supply company that's engaged with us who won a bid with a company – one of our larger customers – and they're doing millions of dollars now just in their first quarter. Part of this is we help them get connected to a customer that they otherwise wouldn't be connected with, and it's been a big win for them.

MDM: From the way you describe it, the next question is this: Is it possible to be both a channel disrupter as well as a business partner at the same time? Or is that the right question?

Wilson: I'm not sure I would think of it that way. I think what's happening is the way procurement happens – there's a lot of innovation and Amazon Business is changing the way the procurement system works. I think it's changing things for the better for everyone. We're really helping to improve the supplier discovery process, while also helping companies reach more customers, and making it easier for businesses to be able to buy the way that they want to buy. I think in doing so it removes a lot of inefficiencies and a lot of waste. It's also helping to accelerate purchases in a lot of areas and helping people be able to leverage their strength to grow.

MDM: Then is there a way that Amazon Business can address the polarization that is taking place in distribution channels to specifically address the threats that are out there, and discussed at conferences, and what you've seen across a lot of the media channels?

Wilson: I think one of the biggest things that should happen is that companies that provide information to these distributors and suppliers – it's important if they really deeply understand what's actually happening, so that when they're providing information back to these companies, it's accurate, and it helps them actually draw the correct conclusion. I think sometimes companies get confused, or sort of misled in some ways, and the most important thing for people to realize is that this technology is here for them and helping them grow. There are a lot of companies that are really seeing the benefits. It's also important for these suppliers to realize that we view them very much as our customer, and we do work hard to improve the experience for

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Business Transformations:

Are You Ready for the Change?

Business transformations are large-scale changes to your company's business capabilities and behaviors to create significant improvement in performance. This article – using a case study of a distributor transforming their direct sales and customer service functions – outlines the biggest challenges in business transformation projects and offers a structure to ensure their success.

By Michael J. Vitale

EZ-SELL is a fictional B2B distributor of a configurable line of industrial products. They also offer related setup, maintenance and repair services. For the fourth consecutive quarter, EZ-SELL has lost customers and market share. The CEO asked the VP of Marketing to conduct a *Voice of the Customer* survey of their most loyal and recently lost customers to better understand why they were losing share. The results of the survey showed that EZ-SELL had the strongest product lines, but customers now wanted after-sale services bundled with their product purchases. EZ-SELL's primary competitor offered an integrated product/service purchasing experience for their customers.

The competing distributor works with customer purchasing teams to specify product and service kits, which can then be ordered immediately from sales representative's tablet computers. In contrast, EZ-SELL requires a separate service engagement to review the products purchased and determine the complementary service package. The service package then requires a separate purchasing transaction. EZ-SELL knew they needed to transform their direct sales and customer service functions. But were they ready to begin this business transformation?

Successful Change is Tough

Business transformations are complex, large-scale changes to your company's business capabilities and behaviors. Their purpose is to create significant improvement in performance. As with any worthwhile and complex human endeavor, business transformations are filled with challenges. In a 2015 global survey on transformations, nearly 2,000 executives – representing a range of regions, industries and company sizes – were asked if their transformations improved and sustained performance. Only 26 percent said their transformations had been very or completely successful. This dismal success rate is catastrophic given the significant investment and business disruption in a transformation. Why is the success rate so low? Typically, there is no formal approach for preparing companies to address the accompanying challenges.

All business transformations can be characterized using the simple three-phase lifecycle shown in figure 1. The Planning Phase sets the stage for the transformation and is arguably the most important phase as it clearly establishes the purpose and scope of the project. The transformation is carried out in the Implementing Phase; then the Optimizing Phase ensures value is created. The objectives of each phase are shown in Figure 1.

Companies experience challenges in their transformations because they aren't ready to begin the work within the phases or – worse yet

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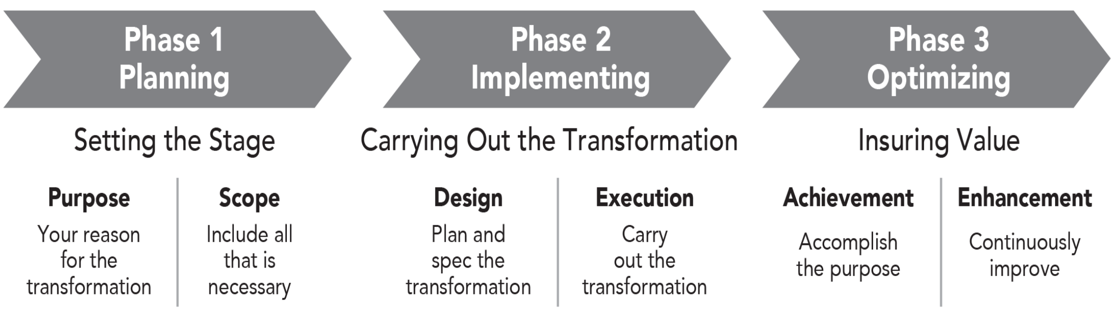
Figure 1

Business Transformation Lifecycle



– they don't know they aren't ready.

EZ-SELL needed to transform its business because of underserved customer expectations in an environment with better positioned competitors. As a result, they were losing customers/market share. Their transformation consisted of three sizable business changes:

1. Extend their offering to include bundled product/service configurations
2. Launch technology to digitally enable configuration/placement of orders at the customer's site
3. Develop a product/service selling capability

EZ-SELL can't afford to delay their transformation, nor can they afford to spend time and money on false starts. They must move forward in a careful and measured way, testing their level of readiness for the change and addressing gaps in readiness before beginning the actual work.

Business Transformation Readiness

Business transformation readiness can be simply stated as *Assess* and *Prepare*: Assess your company's level of readiness to take on a change; if you're not ready, then prepare your company for the change. These readiness techniques apply throughout all three phases of a business transformation. While it is beyond the scope of this article to cover readiness across an entire transformation, it is manageable and useful to look at some examples from the Planning Phase. The most important things you can do, after establishing the purpose of your transformation, are to clearly *understand the change impacts* and *prepare your business* to address them.

EZ-SELL knows it must make three large business changes to accomplish their transformation, but does the company truly *understand the impacts* of those changes? If EZ-SELL can't state with certainty how these three business changes impact the various parts of their business, then they don't understand the scope of their transformation. EZ-SELL should not move forward until they know the impacts to their business. That requires a scope assessment.

Scope Readiness can be assessed by asking yourself six questions about each of your business changes. These questions pertain to the impacts the changes have on your business.

- **What: Content & Deliverables –** In what ways will the content/deliverables of your business be impacted due to this business change?
- **How: Methods & Procedures –** In what ways will the methods, policies and procedures of your business be impacted due to this business change?
- **Who: Relationships –** In what ways will the business relationships (internal, reporting, customer, supplier, regulatory, etc.) be impacted due to this business change?
- **Where: Locations –** In what ways will your business locations (workspaces, offices, customers and suppliers) be impacted due to this business change?
- **When: Timing & Cycles –** In what ways will business timing (start/stop) or cycles of work be impacted due to this business change?
- **Why: Purpose & Motivation –** In what ways will your business purpose, reason or motivation be impacted due to this business change?

If you can't answer these questions, then this assessment shows you need to better prepare your business for the change. Inaction leads to delays or paralysis, which are as detrimental as moving forward before you are ready. Action is required to bring you to a state of readiness.

EZ-SELL must develop a product/service selling capability as part of their transformation. To understand the scope of this change, EZ-SELL uses the following framework to determine how this change will impact their distribution business.

Consider these three change impacts:

- **How: Methods & Procedures –** EZ-SELL must introduce new procedures for configuring products and services as a bundled offering. The sales and service jobs will change as a result, as will their performance measures and compensation plans.
- **Who: Relationships** – EZ-SELL must redesign their sales/service organization structure to ensure clear ownership of customer accounts and engagement activities. New roles will likely be created, and some roles will likely be eliminated.
- **When: Timing & Cycles** – EZ-SELL must create a new sales engagement cadence with its customers. The separate product and service sale cycles are no longer required. The sales lead development pipeline must now reflect the joint product/service offering.

If EZ-SELL stopped their transformation's change scope analysis at "Develop a product/service sales capability," they would miss these impacts and be poorly prepared to help their teams adopt the new product/service selling capability.

Business Change Impacts

Business transformation readiness covers the entire spectrum of change in a transformation. There are assessments and preparations at all critical checkpoints. The final one considered here is to understand whether your business is ready to begin addressing the impacts of the business changes. Gaps in readiness to address the impacts must be identified and closed prior to undertaking the change. Unresolved gaps result in unnecessary cost and delay. Change impact readiness gaps can be assessed by asking yourself the following questions for each impact.

Willingness: Where in your business is there opposition or uncertainty to address the impacts of the business change?

Ability: What competencies, licenses/permissions, or resources is your business missing to address the impacts of the business change?

If you can't answer these questions, then the assessment shows you need to better prepare your business for the change. In this case, inaction leads to despair and a feeling of helplessness in dealing with the impacts of the business change.

EZ-SELL must consider each of the change impacts above to determine whether they have gaps in willingness or ability to address these impacts. A willingness gap can be closed using incentives or disincentives to address the opposition and uncertainty. An ability gap can be closed by acquiring or developing the missing competencies, licenses/permissions and resources. EZ-SELL must determine which method is best used in each case, but they must first clearly identify and address the gaps. The gaps create anxiety, confusion and ultimately resistance to change.

Bottom Line: Build a Change Process

A 26-percent success rate does not instill optimism and confidence in executives considering a business transformation. Too many companies skip critical assessment and preparation steps to address the inevitable disruption that comes with a large change project. However, as shown in this article, you don't have to abandon your transformative vision. Nor do you have to passively accept the stress and uncertainty in navigating the change. You can ensure your transformation is successful by taking steps to ready your business for the changes and impacts. Assess and Prepare – it's simple but requires thoughtfulness and discipline. Don't skip steps and fall prey to the change challenges plaguing most companies undertaking a transformation.

This was a brief introduction to the topic of readiness in a business transformation. It is part of a much larger work that characterizes the most significant challenges and shows how they can be overcome through business transformation readiness. Hopefully it has shown you how these readiness techniques can be used to mitigate transformation challenges.

Mike Vitale is a change management consultant with more than 30 years of experience in planning and driving business transformations in manufacturing, distribution and retail. He may be reached at vitale@x4mu.com. Mike will present a more detailed framework for successful sales model transformation at the MDM Sales GPS Conference on June 26-28, 2018. For more information, go to www.salesgpsconference.com.

Amazon Business Interview

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them.

MDM: Are there specific ways that information providers like us could do that? In terms of providing that deeper understanding?

Wilson: You know, I think this podcast is a great example of how we could do that. I think there are opportunities for us to engage more frequently, so that you're more aware of what's actually happening, so that you're able to further inform your constituents. I think those things could all be super helpful. Things are changing fast. Amazon Business evolves very quickly. We look very different in a very short amount of time due to the rate of innovation and the focus we have on our customers, so just staying on top of that, I think, is important.

Part 2 of this interview appears in the June 10 issue of MDM. The complete interview is available in early June in our new podcast, Disrupting Distribution.

Monthly Wholesale Trade Data: March 2018

Wholesale revenues in March were $497.9 billion, up 7.3 percent from March 2017 and up 0.3 percent from February. March sales of durable goods were down 0.3 percent over last month and up 8.4 percent from a year ago. Sales of nondurable goods were up 1 percent over February and up 6.3 percent from last March.

Inventories. Inventories were $627.4 billion at the end of March, up 0.3 percent from the revised February level and up 5.5 percent from last year. March inventories of durable goods were up 0.8 percent from last month and up 6.2 percent from a year ago. Inventories of nondurable goods were down 0.4 percent from February and up 4.6 percent from last March.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 2008-2017
(Estimates adjusted for seasonal and trading-day differences, but not for price changes)

Source: U.S. Census Bureau

Inventories/Sales Ratio. The March inventories/sales ratio for merchant wholesalers was 1.26. The March 2017 ratio was 1.28.

Sales and Inventories Trends: March 2018

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 02/18-03/18	Percent Change Sales 03/17-03/18	Percent Change Inventory 02/18-03/18	Percent Change Inventory 03/17-03/18
42	**U.S. Total**	**497,935**	**627,396**	**1.26**	**0.3**	**7.3**	**0.3**	**5.5**
423	**Durable**	**239,964**	**383,997**	**1.60**	**-0.3**	**8.4**	**0.8**	**6.2**
4231	Automotive	40,971	70,015	1.71	-1.6	7.8	-0.2	3.0
4232	Furniture & Home Furnishings	6,863	11,943	1.74	-1.7	-1.0	0.5	4.8
4233	Lumber & Other Construction Materials	11,663	17,517	1.50	-1.3	4.4	0.9	8.1
4234	Prof. & Commercial Equip. & Supplies	41,001	42,676	1.04	-1.5	3.3	-0.7	-1.2
42343	Computer Equipment & Software	20,015	16,565	0.83	-1.9	5.1	-1.5	-1.7
4235	Metals & Minerals	15,510	31,366	2.02	-0.2	15.3	4.5	19.2
4236	Electrical Goods	53,541	53,855	1.01	2.1	14.8	1.4	11.2
4237	Hardware, Plumbing, & Heating Equipment	11,929	24,583	2.06	-1.2	3.1	1.4	7.2
4238	Machinery, Equipment & Supplies	38,449	104,012	2.71	0.9	11.6	0.6	5.7
4239	Miscellaneous Durable	20,037	28,030	1.40	-2.2	2.7	0.8	4.3
424	**Nondurable Goods**	**257,971**	**243,399**	**0.94**	**1.0**	**6.3**	**-0.4**	**4.6**
4241	Paper & Paper Products	8,192	8,894	1.09	0.7	3.5	1.4	5.1
4242	Drugs	57,882	61,869	1.07	1.8	5.4	-2.2	2.9
4243	Apparel, Piece Goods & Notions	13,487	26,140	1.94	2.0	8.5	-0.7	-0.7
4244	Groceries &Related Products	52,701	35,538	0.67	-1.0	-1.6	-1.0	-0.2
4245	Farm-product Raw Materials	18,023	30,971	1.72	4.7	1.4	3.8	29.9
4246	Chemicals & Allied Products	11,049	12,162	1.10	-0.8	9.6	-0.3	3.8
4247	Petroleum & Petroleum Products	62,193	21,528	0.35	0.9	19.0	0.0	-4.1
4248	Beer, Wine & Distilled Beverages	12,196	15,520	1.27	1.5	3.8	-1.4	0.6
4249	Miscellaneous Nondurable Goods	22,248	30,777	1.38	1.0	1.2	-0.2	7.0

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

mdm Industrial & Construction Markets Update

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ISM Spring Forecast: Economic Growth to Continue in 2018

Economic growth will continue throughout 2018, according to the Spring 2018 Semiannual Economic Forecast from the Institute for Supply Management. Purchasing and supply executives responding to the ISM survey said conditions will remain positive in both the manufacturing and non-manufacturing sectors.

Manufacturing industry professionals said they expect an average 6.6-percent revenue increase this year compared to 2017, 1.5 percentage points above the group's December forecast and 2.5 percentage points above the actual revenue growth reported in 2017. Respondents said they expect to operate at 85.8-percent capacity this year, with an expected capital expenditure increase of 10 percent, a 5-percent increase in raw materials prices, and a 1.8-percent increase in employment compared to last year.

Raw materials price increases and trouble finding qualified workers remain key challenges, according to Timothy R. Fiore, chairman of the ISM Manufacturing Business Survey committee, who released the report May 7. Respondents were asked additional questions about the labor issue, revealing the following insights:

- 77.9 percent said they have had difficulty hiring workers to fill open positions in the last six months;
- 53.3 percent said they have raised wages to recruit new hires in the past six months;
- 47.9 percent said they have offered additional training for new hires in the last six months.

Respondents were also asked about the implications of tariffs to their business, with most saying they will affect both product pricing and supply chain operations. Nearly 74 percent said they believe tariffs will raise the price of their products to customers, and nearly 56 percent said they will cause delays and disruptions to their supply chains.

Distribution News

Amazon.com, Inc. will open its first fulfillment center in Oklahoma. To be located in Oklahoma City, the 600,000 square-foot facility will create more than 1,500 full-time jobs by the end of 2019, the company said. Employees at the fulfillment center will pick, pack and ship small items to customers such as books, household items and toys.

Motion Industries, a wholly owned subsidiary of Genuine Parts Company, will acquire **Power Industries, Inc.**, also known as **Santa Rosa MRO, LLC**, based in Santa Rosa, CA.

U.S. LUMBER Group, LLC, Atlanta, GA, a building materials distributor, will acquire **Midwest Lumber**, Stillwater, MN. Terms of the deal were not disclosed.

Henkel, Dusseldorf, Germany, agreed to acquire **JemPak Corporation**, Canada, for CAD $118 million (US$ 92.6 million), strengthening its North American laundry and home care portfolio.

Safety and industrial supply distributor **Mallory Safety and Supply**, Portland, OR, has acquired **Essential Safety Products**.

Ferguson Fire & Fabrication, a distributor of fire protection systems and a subsidiary of **Ferguson Enterprises**, has acquired **National Fire**.

Foodservice distributor **Sysco Corp.**, Houston, TX, reported fiscal third-quarter sales of $14.3 billion, a 6.1 percent increase compared to the year-ago period. Profit was $330 million.

Canadian distributor **Wajax Corp.**, reported sales for the first quarter ended March 31 of $342.7 million, a 7.3 percent increase year-over-year. Profit increased 57.1 percent to $9.9 million.

The Home Depot, Atlanta, GA, reported first-quarter sales of $24.9 billion, a 4.4 percent increase compared to the year-ago period. Profit rose 19 percent to $2.4 billion.

Builders FirstSource Inc., Dallas, TX, reported first-quarter sales of $1.7 billion, an 11 percent increase compared to the first quarter of 2017. Net income was $23.2 million, compared to $3.8 million in the year-ago period. The increase was driven by sales growth, cost management, and lower interest expense, the company said.

DXP Enterprises Inc., Houston, TX, reported sales of $285.9 million for the first quarter of 2018, a 19.9 percent increase compared to the first quarter of 2017. Net income was $4.5 million.

Beacon Roofing Supply Inc., Herndon, VA, reported sales of $1.43 billion for its fiscal second quarter ended March 31, a 64 percent increase compared to the same period in 2017. The company reported a loss of $72.7 million, compared to a loss of $9.4 million in the second quarter of 2017.

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MARKETS UPDATE SUPPLEMENT P. 2

Houston Wire & Cable Co., Houston, TX, reported sales of $85 million for the first quarter of 2018, an 8 percent increase over the same period a year ago. Profit was $2 million, compared with a loss of $0.5 million a year ago.

3M, St. Paul, Minn., has named Mojdeh Poul as executive vice president, Safety and Graphics Business Group, effective July 1, 2018. Poul will replace Frank Little, who has announced his intention to retire.

DXP Enterprises Inc., Houston, TX, has named Eugene Padgett CAO, effective May 21. Padgett replaces Mac McConnell, who retired in March.

Building products distributor **ABC Supply Co. Inc.**, Beloit, WI, opened its fourth branch in San Diego County.

SRS Distribution, McKinney, TX, a roofing distribution holding company, has opened three new locations in Florida, Washington, and Virginia.

Economic News

The Conference Board Leading Economic Index for the U.S. increased 0.4 percent in April to 109.4 following a 0.4 percent increase in March, and a 0.7 percent increase in February.

Economic growth will continue throughout 2018, according to the ***Spring 2018 Semiannual Economic Forecast*** from the **Institute for Supply Management**. Purchasing and supply executives responding to the ISM survey said conditions will remain positive in both the manufacturing and non-manufacturing sectors.

ISSA, the worldwide cleaning industry association, Northbrook, IL, has formed a partnership with **Afidamp FAB**, the Italian trade association for cleaning industry manufacturers. The groups will work together to develop programs for members and the global cleaning industry.

Canadian manufacturing sales rose 1.4 percent $57.1 billion in March, according to new data from Statistics Canada. Higher sales at primary metal; aerospace products and parts; fabricated metal products; and other transportation equipment industries were the main drivers of the increase.

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Calculation of MDM Inflation Index for April 2018

		BLS Price Indices Apr '18	BLS Price Indices Mar '18	BLS Price Indices Apr '17	% Sales Weight	Weighted Indices Apr '18 (1)X(4)	% Change Apr '18 Mar '18	% Change Apr '18 Apr '17
1136	Abr. Prod.	608.3	609.7	595.5	19.1	116.18	-0.24	2.14
1135	Cutting Tools	515.7	515.7	510.6	18.9	97.47	0.00	1.01
1145	Power Trans.	837.3	836.9	817.9	15.4	128.94	0.04	2.37
1081	Fasteners	521.8	523.9	518.0	9.0	46.96	-0.41	0.73
1149.01	Valves, etc.	1031.0	1029.4	963.5	7.6	78.36	0.16	7.00
1132	Power Tools	390.4	389.5	380.6	6.5	25.37	0.23	2.56
1144	Mat. Handling	621.0	623.9	608.4	6.2	38.50	-0.46	2.07
0713.03	Belting	924.5	917.4	882.0	6.1	56.39	0.77	4.82
1042	Hand Tools	802.3	802.0	788.4	8.1	64.99	0.04	1.77
108	Misc. Metal	483.1	481.4	470.7	3.1	14.98	0.35	2.64

"New" April Index	349.1	April Inflation Index	668.13	0.01	2.67
"New" March Index	349.0	March Inflation Index	668.05		
		April 2017 Inflation Index	650.75		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247

MARKETS UPDATE SUPPLEMENT P. 3

Staples Makes All-Cash Offer for Essendant

by Thomas P. Gale

Just about a month after Genuine Parts Company entered into a merger agreement to combine Essendant and GPC's S.P. Richards business in a deal valued at $680 million, Essendant Inc. (Nasdaq: ESND) confirmed that it received an unsolicited proposal from Staples, Inc. to acquire all shares of Essendant stock for $11.50 per share in cash.

The private-equity owner of Staples, Sycamore Partners, already owns about 10 percent of Essendant. The FTC shut down Staples' attempted acquisition of Office Depot in 2015, arguing that the combination would lead to higher prices for office supplies. But both political and market factors have shifted quickly, and the relative market positions of Essendant and SPR make for a significantly different story for the competitive impact to their respective customers. (See my analysis last month – Deal Analysis: Essendant and S.P Richards Merger Offers Hope and Time.)

Essendant and Genuine Parts Company entered into a merger agreement on April 10, 2018 to combine Essendant and GPC's S.P. Richards business in a deal valued at $680 million, including a one-time cash payment to GPC of $347 million. The merged business products wholesaler has pro forma 2017 net sales of about $7 billion and more than $200 million in adjusted EBITDA. The merger agreement with GPC remains in effect, and the Essendant board of directors has not changed its recommendation that Essendant's shareholders vote in favor of that transaction.

A week later, on April 17, Staples communicated its initial proposal to Essendant, which Essendant declined after thorough review by its board in consultation with its financial and legal advisors. Staples sent a revised proposal on April 29 stating that it believed it will be able to identify incremental value opportunities to enable it to increase its offer significantly in excess of $11.50 per share after receiving confidential information and engaging in discussions with Essendant. On May 4, in consultation with its financial and legal advisors, Essendant's Board determined that Staples' revised proposal is reasonably likely to lead to a "Superior Proposal" as defined in the merger agreement with Genuine Parts Company ("GPC"). There can be no assurance that the Staples proposal will result in a transaction.

On May 7, 2018, GPC made an enhanced proposal to the previously announced merger agreement with Essendant under which Essendant shareholders would be provided a non-transferable right to a contingent cash payment following completion of the merger and based on the subsequent trading price of Essendant shares. The contingent payment would have a maximum value of $4.00 per share and a minimum value of zero. Specifically, the contingent payment would be equal to $12.00 per share minus the greater of (a) the weighted average price of Essendant shares during a 20-day measurement period ending at the later of (i) December 31, 2019 or (ii) the 12-month anniversary of closing, or (b) $8.00, subject to other terms and conditions. There can be no assurance that the GPC merger agreement will be amended to incorporate this proposal.

The deal structure for the GPC-Essendant deal is a definitive merger agreement to combine Essendant and GPC's S.P. Richards business in a Reverse Morris Trust transaction. Upon closing of the transaction, GPC shareholders will own approximately 51% and Essendant shareholders will own approximately 49% of the combined company.

Extra Innings

As I noted last month, the deal with GPC buys Essendant time to build a differentiation strategy to combat a long list of competitors – digital, retail and otherwise – that have decimated traditional distribution channels for office products. Those in the sector view the deal as practically inevitable – a combination of competitors that serve a shared market of smaller, independent office products dealers.

It's a strong exit strategy for GPC, with $16 billion in 2017 revenues, allowing it to focus on strengthening capabilities in automotive, industrial and electrical markets with NAPA (53 percent of revenues), Motion Industries (35 percent of revenues) and EIS (5 percent of revenues). SPR currently makes up 12 percent of that pie. Of the sectors GPC operates in, SPR's traditional customers of smaller independent office products dealers are perhaps the most vulnerable to the entry of disruptive competitors over the past ten years.

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MARKETS UPDATE SUPPLEMENT P. 4

Staples Bid for Essendant
continued from p. 3 of this section

In the spirit of the first month of baseball season, I also commented last month that the combination of Essendant and S. P. Richards solves some immediate problems for both managers; the big question is whether the new team runs out of innings before it learns how to play together. With the Staples bid, you have to wonder whether that game will be called on account of raining offers.

Essendant's confirmation follows its Schedule 13D filing with the U.S. Securities and Exchange Commission by Staples, Inc., Sycamore Partners and certain affiliates disclosing a 9.9-ownership stake in Essendant. Staples is a portfolio company of Sycamore Partners. Investment firm Blackrock holds major positions in both GPC and Essendant, owning more than 10 percent of the stock in both companies.

Citigroup Global Markets Inc. is acting as financial advisor and Skadden, Arps, Slate, Meagher & Flom LLP is acting as legal counsel to Essendant.

Industry News Recap
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Manufacturer News

Air Products, Lehigh Valley, PA, completed its acquisition of the **Coal Gasification Technology** licensing business from **Shell Global Solutions International B.V.**, a subsidiary of **Royal Dutch Shell plc**, and formed a strategic alliance with Shell for residue gasification technology to refinery complexes.

Swedish manufacturer **Sandvik Materials Technology** will divest its 50 percent stake in **Fagersta Stainless** wire rod mill, a joint venture between **Sandvik Materials Technology** and **Outokumpu**.

Air Products, Lehigh Valley, PA, opened an engineering center at Pune in Maharashtra, India, focused on its engineering, procurement and construction (EPC) activity.

Rexnord Corp., Milwaukee, WI, reported results for its fiscal fourth quarter and full year ended March 31. Fourth-quarter sales rose 14 percent to $575 million, and the company reported a $68 million loss. Sales for its fiscal year rose 8 percent to $2.07 billion; profit was $53 million, compared to $67 million the prior year.

Manufacturer **Regal Beloit Corp.**, Beloit, WI, reported first quarter sales of $878.8 million, an 8 percent increase compared to the first quarter of 2017. Profit was $59.3 million.

Honeywell, Morris Plains, NJ, said that Olivier Rabiller will continue to lead the company's Transportation Systems business as president and CEO after it spins into a standalone, publicly traded company by the end of the third quarter.

Honeywell, Morris Plains, NJ, has appointed Michael G. Nefkens president and CEO of its Homes business.

Honeywell, Rolle, Switzerland, has named Alessandro Gili CFO for its Transportation Systems business.

Georgia-Pacific, Atlanta, GA, has formed Point A Center for Supply Chain Innovation, which will open this June.

Kimberly-Clark Corp., Dallas, TX, has named Kim Underhill group president, Kimberly-Clark North America.

Turtle & Hughes Inc., Linden, NJ, has named Kathleen Shanahan as company co-CEO.

IBT, Inc., Merriam, KS, has reorganized into a portfolio company, headed by parent organization Cumulus Companies and consisting of three business areas: industrial distribution, conveyance belting products, and aerospace parts manufacturing.

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