mdm premium

VOL. 49, NO. 22
NOVEMBER 25, 2019

What Do You Have to Offer the Next Generation of Employees?

Steps distributors can take to increase employee retention for Gen Z

Add recruiting to the list of processes that distributors should consider overhauling to successfully compete and engage the increasing numbers of Gen Z prospects perusing social media to find the ideal workplace.

By Stacy Ward

Struggles with recruiting next-generation talent into distribution are often blamed on a larger talent shortage within (and outside of) the industry. Others attribute recruitment problems to a lack of company name recognition outside of heavy hitters such as Graybar or Amazon.

Both are true — and then some, says John Salvadore, a managing partner in the recruitment firm GRN Coastal. Yet, he and others with decades-long footholds in distribution believe that many distributor battle scars in the war for talent are self-inflicted.

"Recruiting is a two-way street," says Salvadore, a 30-year industry veteran with roots in the industrial manufacturing and distribution segments. "Companies that have a hard time recruiting are the ones that are doing it old school and are only taking a look at the candidate to see if he or she is worthy of working for them. I represent a lot of top talent in the marketplace and top talent has choices. If they walk into an interview and it's an interrogation, nine out of 10 times they will not leave with a favorable impression of that company.

"The best distributors are out in their communities being visible, active and providing a good culture for their employees, a fun culture that motivates a person to get up in the morning and go there," he adds.

Gen Z likes, dislikes, motivations and concerns are well documented, providing a roadmap for distributors that are serious about deploying a strategy that neutralizes vulnerabilities left by poorly trained millennials and retiring baby boomers tugging on opposite ends of the widening skills gap.

"Next-generation employees are not looking for just a lifetime job anymore," says NAW Institute for Distribution Excellence Fellow Mark Dancer, author of *Innovate to Dominate*, the 12th Edition in the Facing the Forces of Change series. "They want a job that does good by doing business. They want a job where they can learn in new ways. They want a job where they can make meaningful contributions on day one."

Gen Z, in particular, craves stability and structure, and "are financially responsible in a way that millennials are not because some of them watched their parents lose their homes," says Kathy Newton, a professor of Supply Chain Management and Technology at Purdue University and an associate dean for Graduate Programs and Faculty Success. "Like millennials, Gen Z is socially responsible, but even more so than their predecessors," she adds. "They care about values and they want their actions to align with their values, including who they work for."

Start with Your Culture

The question for distributors is how does their brand measure up? According to Dancer, who routinely works with traditional distributors to help them innovate their thinking and their models, winning at recruiting starts with a self-assessment of an organization's values and the behaviors that best represent them. That's how the NAW Fellow defines culture.

Before posting any new position, if a distributor is unclear about what they have to offer current and future employees, he recommends management and recruiting teams go to their separate corners and

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INSIDE

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competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Elizabeth Galentine

Distributors Will Determine Their Own Fate

As we enter the season for retrospection and planning for the coming year, there were two sessions at the recent Power Transmission Distributors Association's Industry Summit that hit on both of these activities in simple terms that, when acted upon, can put distributors in a stronger position heading into 2020.

The first was a presentation from marketing consultant Ron Karr, where he encouraged attendees to embrace a velocity mindset in their sales process. Meaning, to move forward with speed, but speed that has a set direction. Otherwise, that haste will only produce burnout.

Karr had several practical tips to improve the sales process, starting with acknowledging the need for daily reinvention in order to remain relevant to customers. He urged sales representatives to remember that customers value the counsel of a partner who will help them to make the right decision versus someone who just talks at them about product offerings. "No one wants to be sold to today … but people value leaders," he said.

Distributors need to train their customers to buy from them, Karr said. By focusing on purpose versus task, distributors can rethink routine processes like requests for proposals. The RFP inherently leads with price. Rather than wasting time with what he called senseless proposals, he suggested taking the opportunity to do things differently by being onsite with the customer, asking them focused questions about their business pain points and what success would look like to them.

Any time a customer is called upon — even if it's a scheduled, planned call — it is a disruption to that customer. Simply acknowledging this fact helps the salesperson to lead with the heart (an emotional connection focused on outcomes for the client) over the mind (a products and services focus), Karr said.

Accepting the role of leader means creating a safe environment for the people we want to work with. To drive home this point, Karr addressed the psychology of selling. Interacting with people triggers three types of hormones: cortisol (stress), oxytocin (trust and connection) and dopamine (feel good). Salespeople can work with these forces, rather than against them, by using customer-focused talk that is purpose-oriented and outcome-based.

From a forward-looking perspective, economist Alan Beaulieu encouraged PTDA attendees to think a half business cycle ahead. He predicts a mild 1.2% downturn in the first half of 2020, with a stronger recession in 2022, but added that such a downturn will likely take place no matter who wins the next presidential election. Statistically, past recessions have not correlated with whether a Republican or Democrat was in the White House, he said. "What counts is you," Beaulieu said, adding, "Companies that prep for a recession pull ahead during and after it."

He urged distributors to plan for a slowdown, using 2020 to "grab all you need out of 2021" before a more significant economic event. Ask yourself, what can be done to improve efficiencies to keep money in the business? As we work on our editorial calendar for 2020, this is a chief focus for MDM as well.

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Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email tish@mdm.com or http://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

Next Gen
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work on three lists: what they think the company's values are, the behaviors that best represent them, and a subset of traits that align with the position they're trying to fill.

"It's not a tips and tricks for recruiting the next-generation of employees or a point-in-time answer," says Dancer. "Distributors have to sit down and think about their culture. But if you're trying to recruit next-generation employees, what they want from a business is not necessarily what distributors offer," he says.

This is why he and others suggest habitually networking with current employees and potential candidates. Live on LinkedIn and Indeed. That's where Newton says her students routinely go to find cultural fits. Listen to podcasts that target next-gen talent, visit online distribution communities and other forums that they frequent and take notes on what they value.

Follow these steps, "and distributors could end up with something very powerful," says Dancer. "They can use this information as a template and work it into a set of questions for interviewing. They can use it for screening, recruiting and as an evaluation tool."

Where are Your Relationships?

One of the ways Newton helps her graduate students connect with distributors and manufacturers is by exposing them to industry events and tradeshows. Recently, she took a group of six to STAFDA's annual convention in Nashville, where they had the opportunity to learn about distributors and manufacturers in the construction and industrial sectors and interview with potential employers. "I take students to MHEDA, the big show in Chicago," she says. "We try to do this as often as we can as well as get companies to come to Purdue to talk with students."

The companies that excel at recruiting are the ones that make building bridges a priority, says Newton. "They're always here interviewing or inviting our students to their events. They're visible and have an advantage over companies that are not as proactive."

Still, some do not see it as a worthwhile investment and others have never considered it — at least that's Newton's guess based on the inquiries she's gotten over the years while networking at association events. "Just recently while walking around at a NAFED event, a manufacturer stopped me and said, 'We can't find employees,'" she says. Her response: "Where are your relationships?" Turns out, the manufacturer did not have connections at any universities, colleges or two-year institutions.

"You don't always need a four-year degree," says Newton. "Two-year colleges are an affordable option for small family-owned businesses that want someone with a tech background. Distributors need to find a group that they can build relationships with — a high school, a college, or an association. Most depend on walk-ins. They don't have a marketing plan for attracting talent like they do for their products, and they aren't branding themselves as a great place to work."

Show Who You Are as a Company

There's plenty of action on social media about Delavan, Wisconsin-based, Geneva Supply, Inc., but many of the posts, photos, videos, likes and followers have nothing to do with the distributor's unique role in the supply chain. Five years into operating as a traditional household goods distributor, partners Jeff Peterson and Mark Becker decided to reengineer their business model after recognizing there was a lucrative niche in helping manufacturers ship and sell their products to Amazon.

In 2009, they founded Geneva Supply and today the company operates under the banner of solutions provider, acting as an intermediary that assists manufacturers in everything from third-party logistics and fulfillment to developing digital marketing and e-commerce strategies. "If people want to know what we do, they'll look at our website," says Peterson, who instead prefers to use social media to show who Geneva Supply is as a company.

Outside of branding itself as an "awesome place to work," Geneva Supply is a distributor that shrugs off the traditional — something its owners attribute to any successful transformation. It knows how to accumulate likes on multiple platforms, has more than 1,000 followers on Facebook, and is passionate about giving back.

Peterson was inspired to start nonprofit BizTank (gsbiztank.org) in 2017 after he and Becker were invited to speak at a local high school business class about the journey that landed Geneva Supply in the 29th slot on *Entrepreneur* magazine's 360 List in 2016. At the time, neither was sure the group of 20 students would be interested in what they had to say, but hands shot up throughout their presentation. Three students asked for a job shadow and the entire class expressed an interest in taking a field trip to Geneva Supply. Peterson and Becker saw another gap.

With a sophisticated production that includes a high-tech studio, two mascots, live streaming, national keynotes, a student-run podcast, job shadowing and volunteer hours, BizTank helps high school students begin to think through the often-asked, "What are you going to do with your life?" via an eight-week program that exposes them to a rich variety of career paths and entrepreneurs like human behavior hacker Susan Ibitz and digital strategist Sarah Evans.

To date, 239 students have gone through the program, with 13 high schools and one home school represented and $103,500 in scholarships rewarded. Although not the original intent, BizTank has become a powerful brand and led to the creation of the college internship program BizHub, and a partnership with the University of Wisconsin-Whitewater. The latter produces a steady stream of interns for Geneva Supply and two recent hires, a digital marketing strategist and quality control for the warehouse. Both are 21 years old.

Peterson often receives LinkedIn messages and thank-you letters from participants. One reached out to him this month via LinkedIn to tell him how much she missed being a part of BizTank and added, "Great progress on the company. I love seeing it on my feed."

"She follows Geneva Supply," adds Peterson. He challenges anyone who says it's difficult to make similar inroads. "It's not just the distribution industry that's struggling with the same set of challenges, but the truth of the matter is it's not that difficult," he says. "If a business calls their local high school and says they're interested in sharing what they do, guess what they would say?"

Create It and They Will Come

U.S. Lumber Group is a millennial magnet, with more than 40% of its staff in the demographic. Many, average age 31, are positioned for advancement. Despite its recruitment success and a retention rate of 70% among its millennial employees, President Jeff McLendon says his company doesn't seek out a certain age group and likes to steer the conversation away from the topic of recruitment. To him, if distributors want to attract quality talent, the focus should be placed elsewhere.

"For us, the destination outweighs the recruiting," says the head of the Duluth, Georgia-based, distributor. "Creating a millennial place to work, which is not often done in distribution, is the most important thing we've done."

How does their culture differ from others? Intent. Like Geneva Supply, U.S. Lumber Group is clear about its mission and articulating its value. "We're a value-based company and have a set core of values that we work by and live by," says McLendon. It includes an attitude of service and positively impacting the workplace, customers and surrounding communities. "Millennials identify with that," says McLendon. "They feel like we're not just about making a profit or what we can do with our earnings."

Zeroing in on what they value is another key to creating a millennial workplace culture. U.S. Lumber's training and retention strategy is an extension of the must-haves it says 30-somethings need to thrive: an authentic relationship with authority; work that requires a high degree of multitasking; and a career with a purpose. Creating an environment that encompasses all three is the result of years of tweaks backed by a strong commitment toward improvement from management.

"We've made two important changes to our onboarding process," says McLendon, a Gen Xer who prefers to identify with Gen Y. "During their first few years of employment, we take all of the millennials who've joined us in a professional position — in procurement, sales, operations, as a supervisor — to a camp in the North Georgia mountains where the COO and I spend 48 hours onboarding them about the culture of our company as well as doing some training.

"We just took a group of 45," he adds. "We play games with a purpose; do team initiatives. I even play ultimate frisbee with them at midnight. They crave that time with senior management and the ability to develop a relationship."

U.S. Lumber Group has a systematic approach to nurturing its talent. Middle-management is trained on the nuances of coaching and mentoring the group. Now the annual review, referred to as Checkpoint, is more of a conversation about employees' thoughts on personal fulfillment and advancement, capped off with a suggested career path on how to get there. Lastly, to manage the entire process, U.S. Lumber brought in a chief mentor of sorts.

"She's also a millennial and is in charge of our onboarding and training process," says McLendon. "She oversees their professional development when they first join the company. She tracks their progress and emotional wellbeing. It's worked out well for us. Our employees feel like they have a sponsor and, having been promoted, she serves as an example of what they can accomplish within the company."

Companies looking to make a significant dent in their recruiting efforts should study the example, particularly when it pertains to Gen Z, says Barry Lawrence, program coordinator of the Texas A&M Industrial Distribution Program. He's also the founder of the Talent Incubator, a research program designed to prepare undergrads to make an immediate impact once they're recruited. Through research projects and an exposure to the tools and processes that facilitate innovative distribution, students learn by doing and are paired with individual distributors to help them work through real-life scenarios within their companies.

The challenge fulfills a need that Lawrence sees in his students and Gen Z as a whole. "They're life-long learners and always looking for an opportunity to continue to grow," he says, "so what we see with the companies that have the most successful recruitment policies, aligns closely with what we do at the Talent Incubator. When they bring talent in, they go through the onboarding process by giving them the opportunity to work in multiple parts of the company, pick up multiple skill sets to develop and solve problems, and report to management so that they feel connected to the company and its mission."

Editor's note: To support the excellence within such companies, MDM is launching our Future Leaders Award program in January 2020. To nominate yourself, an associate or colleague for recognition as an MDM Future Leader, simply fill out the online form at reports.mdm.com/young-leaders/.

Build a More Efficient Operation

Those who find the discipline to follow through with an action plan can see impressive results

Distributors site improved efficiency as a panacea for growing competitive pressures in a slowing economy, but often don't know where to start.

By Stacy Ward

In order to combat growing competitive pressures and handle market fluctuations, distributors often say they intend to become more efficient and streamline operations to keep business running smoothly. But Jon Schreibfeder, president of consulting firm Effective Inventory Management Inc., isn't so sure it's a priority. That's what the appearance of the warehouse often tells him when he's asked to find the leaks.

"The physical condition of the warehouse tells us a lot," he says, although his assessment always starts with the data and key measurements such as inventory turns and the cost of carrying inventory. Inside of the warehouse, telltale signs of inefficiency include excess dead stock, crowded aisles, overflowing garbage and products that are illogically stored, which contributes to increasing the cost to fill an order. "Many distributors have no idea what it costs them to maintain their inventory for a year, or what it costs them to fill an outgoing order," Schreibfeder says.

Getting their arms around costs, which includes the impact of a disorganized warehouse, represents an opportunity for huge savings if distributors can break free from the urge to fight fires, or what the inventory management expert calls the day-to-day tasks that often consume them. Companies that commit to diverting the focus can save millions, he says.

"Unfortunately, while this is a very important topic, it's not a ringing phone or an email that needs to be answered," Schreibfeder says, adding that those who do find the discipline have had impressive results. "We were able to help one of our clients reduce the cost of four line orders from $16.28 to $11.20. They're filling about 550 orders a day and they're open 250 days out of the year. That's a lot of money. You just have to create a plan and stick to it."

Many distributors surveyed are at least thinking about a plan, according to a recent MDM survey. When asked about their strategy to brace for an economic downturn or contend with competitive pressures, they said they planned to work on rooting out inefficiencies by focusing on expense creep, streamlining operations, more effectively using data, and investing in an ERP system to improve efficiencies.

MDM asked Schreibfeder and two other distribution specialists — Profit Isle founder Jonathan Byrnes and the host of the podcast Distribution Talk, Jason Bader — what steps distributors can take to cut costs and streamline operations. Their solutions are below.

Manage the Order Cycle

When data software solutions firm Profit Isle works with a distributor to identify the processes that are crippling its profitability, the firm often devises a plan based on near-term, midterm, and long-term targets. While routinely overlooked and unmanaged, a customer's order patterns can have a dramatic impact on profitability, says the founder of the firm, Jonathan Byrnes, and author of the book *Islands of Profit in a Sea of Red Ink*.

"When we were working with a large beer distributor," he says, "their new sales VP put in a program that required the salespeople to take a certain number of sales orders per day. That was causing them to call on a lot of small customers and they were losing a fortune."

The point is that all orders are not profitable orders. A better approach, says Byrnes, is to say to the sales team, "This is what a high-profit customer looks like. [We] would [like] you to get more of them. You can do that with your small customers but it's going to take you at least three to six months to move them" into the profitable category.

Separate the Stuff from the Stock

Stock is active inventory. Customers expect it to be in the warehouse and distributors must have it on hand to meet or exceed expectations. Stuff is everything else, i.e., dead stock or products no longer on the approved stocking list. To determine the products that should be stocked, sort items based on their annual hits, which Schreibfeder defines as the number of times each product was ordered, transferred, or used in an assembly during the past 12 months, regardless of quantity.

Typically, distributors ignore the stuff, hoping to eventually sell it for what it's worth — but high-performing distributors have a plan for liquidating unwanted inventory, says Schreibfeder, who suggests the following strategies: transferring the stock to another location that aligns with customer demand; reduce the price to move it; incentivize reps to sell it; and search the internet for sites that specialize in liquidating product.

Clean the Warehouse

One of the most effective ways to organize a warehouse is to assign aisles of responsibility, says Schreibfeder, who recommends putting certain employees in charge of keeping specific areas clean and organized.

Go with the Flow

If you're going to start looking at efficiency in your organization, be methodical, says The Distribution Team owner Jason Bader, who recently started a podcast that highlights the challenges and successes of distribution professionals. For him, the most logical place to start in the warehouse is receiving. "When you look at the process, search for redundancies or bad practices like receiving the product but not checking it into your software, or handing it off to a clerical person in the office to physically put it in the ERP," he says. "For some companies, it could be a considerable amount of time before the product is checked in and available to sell. That's a huge waste."

Organize with Cost in Mind

Always organize product to minimize the cost to fill an order, meaning the products that are picked most often should be stored in the most accessible location, says Schreibfeder. "You don't want to store product in a traditional way, having products lined up in size sequence or vendor-part-number sequence. As long as you have a good bin location system, your pickers should be able to find anything you pull," he says. "If you can save two to three minutes picking orders, over the course of a year, that turns into a lot of money."

Don't Settle When Shipping

"Most people think it's more efficient to use their own vehicles to get the product to the customer," says Bader, "but there are many situations in which a common carrier can do it much cheaper than you can. I think there's a failure there because some view shipping product by a common carrier as an inferior method. Distributors should ask themselves if they're getting a return on the money they're spending. In many cases, they're not."

Another factor to consider when shipping is how profitable is the order, adds Byrnes of Profit Isle. "One distributor we were working with had $150 million to $200 million in UPS costs. So, with their permission, we went to UPS and got a file with every single shipment. Then we matched it to the orders by the waybill number and we found that 70% of the UPS cost was for unprofitable orders; it was overnight service. Once those orders were shifted to two-day service, they became profitable."

Commit

How do high-performing companies and low-performing companies differ in their mentalities toward efficiency? "High-performing companies have support from management and they are insistent in reviewing metrics every month to make sure they are making progress," Schreibfeder says. "Low-performing companies don't stick to an action plan."

■ Wholesale Distribution Value Series

Creating Value with Inside Sales

Most distributor inside salespeople are actually playing the role of customer service reps

By Jonathan Bein, Ph.D.

Most distributors don't view their inside sales team as a proactive sales force. It's relatively rare for inside sales reps to make outbound calls to generate more business or to employ active selling techniques. In fact, in a survey, nearly two-thirds of distributor respondents told Real Results Marketing their inside sales force spends less than 25% of their time proactively selling.

That means they are spending most of their time processing orders and returns, providing technical support, managing inventory or tracking orders. In fact, most distributor inside salespeople are actually playing the roles of customer service reps and don't have the skillset for a more proactive role. As a result, these distributors are losing out on significant bottom-line benefits and shareholder value. Time and again, we've found that training the right people with the right skills to execute a proactive inside sales approach not only boosts sales per customer, but saves distributors money. This report shows how proactive inside sales, combined with an omnichannel strategy, can create real value for shareholders in a distribution company.

Identifying accounts: When we talk about small or midsized accounts, we're referring to their spend with an individual distributor, not their total revenue size. When targeting accounts, consider both current spend, as well as potential for growth. If they are large in size, but only purchase one category from you, they may be a target for a proactive inside sales program.

Area of Opportunity

Prospecting: To cultivate new customers, distributors start with leads. Many distributors will then hand those not-always-qualified leads over to their outside sales force to follow up on. The result? Too many distributors are devoting one of their most expensive resources - outside salespeople - to an activity that may produce the least return. A proactive inside sales rep can increase the return on that investment, with a cost of sales 25%-30% lower than that of a field sales rep. The most compelling reasons boil down to simple logistics: Between visiting existing accounts, a field salesperson can reasonably make three or four new-business calls a day. Conversely, an inside salesperson sitting at a desk can easily make 20 contacts on that same day. On a cost-per-contact basis, prospecting through inside sales means significantly less expense. Based on the sample scenario in the box below, using inside sales to make outbound calls costs 33% less to reach more than 6 times the contacts a year.

Nurturing: As part of the proactive inside sales team's role, nurturing customer relationships can be effective at every phase of the lifecycle, from welcoming new customers to making mid-sized existing customers feel valued. Here are two examples:

1. Customer Retention: Followup by an inside sales rep is not just a courtesy. It can be a profitable move that can both protect and grow wallet share with customers. For some distributors, an annual increase of 1% in customer retention over each of 10 years results in a 20% increase in annual earnings.

2. Growing Midsized Accounts: It's easier and more cost-effective to grow an existing customer than it is to get a new one. One of the highest-return activities an inside sales team can do is grow midsized accounts with potential. If an outside salesperson has an account base of 50-75 accounts, chances are they are not paying attention to the accounts on the bottom of their list, spending close to three-quarters of their time on their 10 biggest accounts. Without those touches, these customers will either continue ordering what they always have, or they will be picked off by the competition. A proactive inside sales force can focus on growing these accounts, connecting with customers to better understand their needs so they can cross-sell or upsell other

EXAMPLE	Contacts/Day	Contacts/Year	Avg Annual Salary	Avg Cost/Contact
Field Sales	3-4	750-1,000	$100K	$100-$133
Proactive Inside Sales (Outbound Calling)	20-25	5,000-6,250	$60K	$10-$12

products and services that could benefit them. These acorns could either grow into large field sales accounts, or solid and profitable inside sales accounts that still benefit the organization. Real Results Marketing has seen mid-sized customers represent opportunities for double-digit growth within timeframes of six months or less when they become a focus.

Sample Company Return on Investment: Proactive Inside Sales

The following illustration details financial results expected from a move to a proactive inside sales strategy by a distribution company. The results in this report are based on projected costs associated with a project over a five-year period.

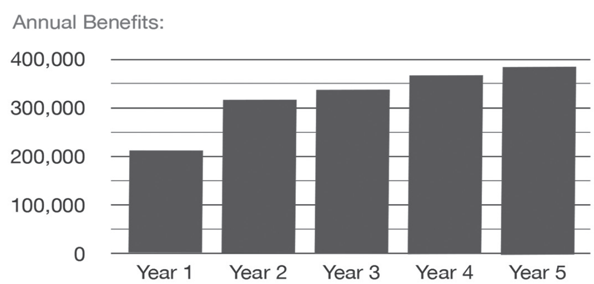
Results

Conservative annual growth rates for a proactive inside sales program are: Year 1: 8%; Year 2: 12%; Year 3: 13%; Year 4: 14%; and Year 5: 15%. This results in overall growth of the following:

	Amount
Payback Period (Years)	0.85
Net Present Value	$213,243
Annual Total Cost of Ownership	$202,875
Revenue Lift	$6,450,000
Gross Profit Lift	$1,612,500
Cost of Marketing	$1,009,036
Net Marketing Lift	$603,464

Inside Sales
Customers: 450
Revenue: $10M
Gross Margin: 25%
Gross Profit: $2.5M
Avg. Customer Size: $22,222

Company Profile
Customers: 4,000
Revenue: $100M
Gross Margin: 25%
Gross Profit: $25M
Average Order Size: $250



The Bottom Line

Most distributors don't realize the pot of gold they have within their mid-sized customer base. Many of these customers have the potential to grow. But because sales resources are usually directed at larger customers in the short term, this potential is not realized. This makes the creation of a proactive inside sales force an opportunity to create significant shareholder value for a distribution company. Using customer segmentation and an integrated sales and marketing approach, distributors can focus on those customers most likely to generate more revenue. This does not mean they are abandoning field sales. On the contrary: They're shifting their focus so field sales can have a greater impact.

Not All Accounts Are Created Equal

The returns presented in this report are the result of a strategic approach to selecting and targeting the right accounts for growth through a proactive inside sales force. Not all midsized accounts should be targeted. In fact, distributors won't see the return they are seeking if they select accounts that are too small or don't have the potential to grow. Many distributors have "house" accounts that either don't have this potential or are already at their maximum revenue. These accounts are not the best targets for a proactive inside sales program. Consider these figures for the same company in our primary scenario, but with a lower average customer size:

Sample Small-Account Inside Sales Scenario
Customers: 450
Revenue: $5M
Gross Margin: 25%
Gross Profit: $1.25M
Average Customer Size: $11,111

	Amount
Payback Period (Years)	5+
Net Present Value	($70,789)
Annual Total Cost of Ownership	$202,875
Revenue Lift	$3,225,000
Gross Profit Lift	$806,250
Cost of Marketing	$1,009,036
Net Marketing Lift	($202,786)

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 www.realresultsmarketing.com.

mdm Industrial & Construction Markets Update

VOL. 49, NO. 22 | NOVEMBER 25, 2019

Manufacturing Production Decreased 0.6% in October

Industrial production fell 0.8% in October after declining 0.3% in September, according to the latest data from the Federal Reserve.

Manufacturing production decreased 0.6% in October. Much of this decline was due to a drop of 7.1% in the output of motor vehicles and parts that resulted from a strike at a major manufacturer of motor vehicles. The decreases for total industrial production, manufacturing and motor vehicles and parts were their largest since May 2018, April 2019, and January 2019, respectively.

In October, the strike in the motor vehicle industry contributed to a drop of 1.2% for durables. Excluding motor vehicles and parts, the output of durables moved down 0.2%. The indexes for electrical equipment, appliances and components and for miscellaneous manufacturing each moved down more than 1%; wood products recorded the largest gain, with an increase of 0.7%. The production of nondurables was unchanged, as increases in the indexes for food, beverage, and tobacco products and for printing and support were offset by declines in other indexes. The output of other manufacturing (publishing and logging) fell 1.0%.

Capacity utilization for manufacturing decreased 0.5% in October to 74.7%, a rate that is 3.6% below its long-run average. The operating rate for durables dropped 1.0%, while the rate for nondurables edged down 0.1%. The utilization rate for mining fell to 88.8% yet was still 1.7% higher than its long-run average. The rate for utilities declined 2.1% and remained well below its long-run average.

At 108.7% of its 2012 average, total industrial production was 1.1% lower in October than it was a year earlier. Capacity utilization for the industrial sector decreased 0.8% in October to 76.7%, a rate that is 3.1% below its long-run (1972–2018) average.

Distributor

Total Safety, Houston, a provider of integrated safety technologies and services, announced that it has acquired **Pacific Coast Tool** to expand its distribution offerings to power utility customers.

Hartman Independent Company, Canonsburg, Pennsylvania, a distributor of fastening and packaging solutions, has acquired the assets of **Levy Paper Company**, Morgan, Pennsylvania.

The Home Depot, Atlanta, reported sales of $27.2 billion for the third quarter of fiscal 2019, a 3.5% increase from the same period a year ago. Net earnings for the fiscal second quarter were $2.8 billion, down 3.4% from the year-ago period.

Sales for the first nine months increased 3.3% to $84.4 billion. Net earnings decreased 0.2% to $8.8 billion.

Owens & Minor Inc., Richmond, Virginia, reported sales for the third quarter of $2.4 billion, down 2.7% year-over-year. The company reported a profit for the quarter of $1.2 million, compared to a loss of $0.6 million the previous year's quarter.

For the first nine months, the company reported sales of $7.3 billion, up 0.7% from the same period in 2018. The company reported a loss for the period of $23.3 million, compared to a loss of $175 million in 2018.

DXP Enterprises Inc., Houston, reported third quarter sales of $327.2 million, up 6.2% compared to the third quarter of 2018. Net income was $13.1 million, compared to $8.4 million in the year-ago period.

Sales for the nine months were $971.7 million, compared with $905.2 million in the year-ago period. Net incomes rose 38.1% to $ 33.7 million.

Fastenal Co., Winona, Minnesota, reported October sales of $490.1 million, up 4.3% over the year-ago period. The company reported daily sales of $21.8 million, up 4.3% versus a year ago.

By region, U.S. sales grew 3.7% in October. By end market, manufacturing sales grew 5.8% while non-residential construction grew 4%, the company said.

NOW Inc., Houston, reported third quarter sales of $751 million, down 8.6% compared with the third quarter of 2018. Profit was $10 million for the quarter, compared with $20 million a year ago, the company said.

For the first nine months, sales were reported at $2.3 billion, down 2.2% from the same period in 2018. Profit rose 16.7% to $42 million.

Genuine Parts Co., Atlanta, has named William P. Stengel to the position of executive vice president and chief transformation officer.

Kaman Distribution Group, Bloomfield, Connecticut, has named Benjamin Mondics as chief executive officer. Littlejohn & Co. acquired Kaman Distribution Group earlier this year.

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest
Continued from p. 1 of this section

Stellar Industrial Supply has announced that CEO John Wiborg will be the first man named to the Women Industrial Supply Executives Advisory Council.

Summit Electric Supply, Albuquerque, New Mexico, has named Patrick Davis as president and CEO. Davis will work closely with Victor Jury, Jr., executive chairman, through the transition and going forward.

Lyman Companies, a leading provider of building products, services and expertise in the Upper Midwest, has named Charlie Bradburn as president. Bradburn joined Lyman Companies in 2009 and most recently served in the role of vice president.

Bradburn succeeds Lyman's outgoing president, Scott Richter, who was promoted to vice president of Midwest Region Operations for US LBM, Lyman's parent company.

The Power Transmission Distributors Association has elected its 2020 Board of Directors and Manufacturer Council to lead the association during its 60th anniversary year. Brian Davis, executive vice president & COO, B&D Industrial, Norcross, Georgia, will become PTDA's president in 2020.

The North American Building Material Distribution Association has named the 2019 NBMDA award recipients at the 2019 NBMDA Annual Convention.

The recipient of the NBMDA Growth Award is Jeff Takac of Milesi Wood Coatings in Charlotte, North Carolina.

Economic

Nonfarm business sector labor productivity decreased 0.3% in the third quarter of 2019, according to the **U.S. Bureau of Labor Statistics**. Output increased 2.1% and hours worked increased 2.4%. From the third quarter of 2018 to the third quarter of 2019, productivity increased 1.4%, reflecting a 2.3% increase in output and a 0.9% increase in hours worked.

Manufacturing sector labor productivity declined 0.1% in the third quarter of 2019, as output increased 1.1% and hours worked increased 1.3%. Total manufacturing sector productivity also declined 0.1% over the last four quarters, as output decreased 0.5% and hours worked decreased 0.4%

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Calculation of MDM Inflation Index for October 2019

		BLS Price Indices Octl '19	BLS Price Indices Sept '19	BLS Price Indices Oct '19	% Sales Weight	Weighted Indices Oct '19 (1)X(4)	% Change Oct '19 Sept '19	% Change Oct '19 Oct '18
1136	Abr. Prod.	633.2	634.1	608.9	19.1	120.94	-0.14	4.00
1135	Cutting Tools	534.4	534.4	527.4	18.9	101.01	0.00	1.34
1145	Power Trans.	877.2	875.7	855.1	15.4	135.10	0.18	2.59
1081	Fasteners	566.9	564.2	530.4	9.0	51.02	0.48	6.87
1149.01	Valves, etc.	1070.9	1071.6	1045.9	7.6	81.39	-0.06	2.40
1132	Power Tools	395.5	395.5	389.0	6.5	25.71	0.00	1.65
1144	Mat. Handling	646.8	646.8	639.3	6.2	40.10	0.00	1.17
0713.03	Belting	948.9	947.3	913.8	6.1	57.88	0.17	3.84
1042	Hand Tools	835.7	835.7	814.9	8.1	67.69	0.00	2.55
108	Misc. Metal	504.3	504.8	499.2	3.1	15.63	-0.11	1.02

"New" Oct Index	363.9	October Inflation Index	696.47	0.05	2.87
"New" Sept Index	363.7	September Inflation Index	696.12		
		October 2018 Inflation Index	677.02		

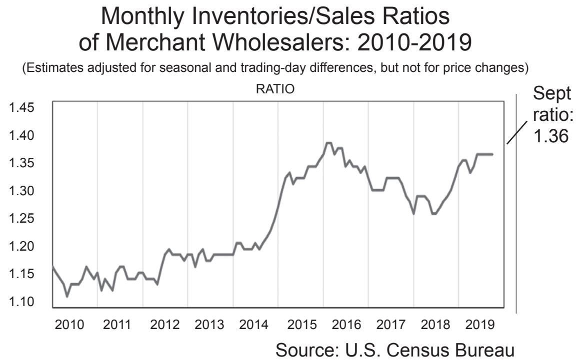
New index reflects 1977-100 base other #: 1967 To convert multiply by .52247

September 2019 | Monthly Wholesale Trade Data

MARKETS UPDATE SUPPLEMENT P. 3

Wholesale revenues in September were $498.6 billion, down 0.6% over September 2018 and flat over August. September sales of durable goods were up 0.1% over last month and down 1.4% from a year ago. Sales of nondurable goods were flat over August and up 0.1% from last September.

Inventories were $676.7 billion at the end of September, down 0.4% from the revised August level and up 4.8% from last year. September inventories of durable goods were down 0.1% from last month and up 6.9% from a year ago. Inventories of nondurable goods were down 0.9% from August and up 1.6% from last July.



Inventories/Sales Ratio. The September inventories/sales ratio for merchant wholesalers was 1.36. The September 2018 ratio was 1.29.

Sales and Inventories Trends: September 2019

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	% Change Sales 10/19-11/19	% Change Sales 11/18-11/19	% Change Inventory 10/19-11/19	% Change Inventory 11/18-11/19
42	**U.S. Total**	**498,597**	**676,710**	**1.36**	**0.0**	**-0.6**	**-0.4**	**4.8**
423	**Durable**	**239,249**	**423,031**	**1.77**	**0.1**	**-1.4**	**-0.1**	**6.9**
4231	Automotive	39,703	71,632	1.80	-3.1	0.6	-1.2	10.7
4232	Furniture & Home Furnishings	8,005	13,994	1.75	2.0	4.7	-1.7	6.7
4233	Lumber & Other Construction Materials	12,220	19,511	1.60	1.8	4.2	1.1	4.8
4234	Prof. & Commercial Equip. & Supplies	43,856	55,426	1.26	2.1	4.9	0.6	8.4
42343	Computer Equipment & Software	22,249	20,785	0.93	3.0	4.0	0.4	-0.2
4235	Metals & Minerals	14,530	33,415	2.30	-1.4	-9.2	-0.8	-0.8
4236	Electrical Goods	48,844	58,312	1.19	-0.5	-7.4	0.0	3.9
4237	Hardware, Plumbing, & Heating Equipment	12,960	27,762	2.14	1.2	3.2	-0.1	6.4
4238	Machinery, Equipment & Supplies	39,717	111,708	2.81	0.5	-1.3	0.3	10.1
4239	Miscellaneous Durable	19,414	31,271	1.61	1.3	-4.6	-0.2	1.3
424	**Nondurable Goods**	**259,348**	**253,679**	**0.98**	**0.0**	**0.1**	**-0.9**	**1.6**
4241	Paper & Paper Products	7,535	9,557	1.27	-0.3	-9.0	-0.1	3.4
4242	Drugs	61,396	63,738	1.04	1.3	4.8	-2.2	1.4
4243	Apparel, Piece Goods & Notions	12,325	30,488	2.47	2.0	-5.8	0.4	12.1
4244	Groceries &Related Products	56,076	39,530	0.70	0.2	4.7	-1.2	2.4
4245	Farm-product Raw Materials	17,357	23,788	1.37	-6.3	6.0	-4.9	-6.1
4246	Chemicals & Allied Products	11,120	12,717	1.14	-2.2	-3.3	0.4	-2.1
4247	Petroleum & Petroleum Products	57,219	19,998	0.35	-0.5	-9.1	-2.0	-17.0
4248	Beer, Wine & Distilled Beverages	13,807	19,496	1.41	0.3	3.8	3.1	13.4
4249	Miscellaneous Nondurable Goods	22,513	34,367	1.53	1.9	5.0	1.9	7.1

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.

MARKETS UPDATE SUPPLEMENT P. 4

News Digest

Continued from p. 2 of this section

Manufacturer

Avery Dennison Corp., Glendale, California, has agreed to acquire **Smartrac's Transponder (RFID Inlay) Division**, Amsterdam, the Netherlands, for the purchase price of €225 million (US$249.2 million), subject to certain closing and post-closing adjustments.

The division is a leader in the development and manufacture of RFID products, with 2019 estimated global revenue of €125 million (US$138.4 million).

Material handling products manufacturer **Columbus McKinnon Corp.**, Amherst, New York, has announced plans to close its Lisbon, Ohio, factory and consolidate the operation into its facilities in Virginia and North Carolina.

Neenah Paper Inc., Alphareta, Georgia, reported sales for the third quarter of $231.8 million, an increase of 10% compared to the same period a year ago. Profit increased 19% to $14.4 million.

For the first nine months, sales for Neenah were $724.9 million, a decrease of 8.7% compared to the same period a year ago. Profit increased from $23.5 million to $39.8 million.

Hillenbrand, Inc., a global diversified industrial company that makes and sells premium business-to-business products and services for a wide variety of industries, reported fourth quarter sales of $486 million, up 2% compared to the prior year. Net income fell $30.1 million to $25 million.

For fiscal 2019, sales grew 2% to $1.8 billion. Net income was $121 million, up 59% over 2018.

Rockwell Automation, Inc., Milwaukee, reported sales for the fourth quarter of fiscal 2019 of $1.7 billion, flat compared to the same quarter a year ago.

Organic sales increased 1.4%. Net income was $8.1 million, compared to a profit of $345.9 million the previous year's quarter.

Sales for fiscal 2019 were $6.7 billion, up 0.4% over 2018. Net income was $695.8 million, compared to $535.5 million the previous year.

Office Depot Inc., Boca Raton, Florida, reported third quarter sales of $2.8 billion, down 4% over the previous year's quarter.

The company reported an operating income of $108 million and a net income from continuing operations of $60 million.

Year to date sales were reported at $8.1 billion, down 2.5% over the same period in 2018.

Jason Industries Inc., Milwaukee, parent company to a global family of manufacturers in the seating, finishing, automotive acoustics and components markets, reported sales for the third quarter of $85.6 million, down 20% year-over-year. The company reported a loss for the quarter of $30 million, compared with a loss of $4.2 million in the prior-year quarter. Organic sales declined 17.3% primarily due to overall weaker end-market demand in both engineered components and industrial.

Bearings manufacturer **NN Inc.**, Johnson City, Tennessee, reported third quarter sales of $213.9 million, a 4% increase over the same period a year ago. The company reported a loss of $5.6 million, compared to a loss of $13.8 million the prior year.

Sales for the first nine months of the year were $648.8 million, up 13.6% over the same period in 2018. The company reported a loss of $30.9 million, compared to a loss of $44.8 million in 2018.

Swedish bearing manufacturer **SKF**, Goteborg, Sweden, has completed the acquisition of Form Automation Solutions, a US-based software development start-up company.

Johnson Controls has named Brian Stief, vice chairman and chief financial officer effective immediately.

As vice chairman, Stief will serve as an adviser to George Oliver, chairman and CEO, and continue his duties as chief financial officer. Stief plans to retire effective Dec. 31, 2020 following the expiration of his previously announced retention arrangement.

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ISSN 0544-6538

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