MODERN DISTRIBUTION MANAGEMENT

mdm premium

VOL. 50, NO. 13
JULY 10, 2020

M&A Activity Poised for Post-Coronavirus Rebound

Distribution merger and acquisition activity is picking up

What does the new normal look like in a socially distanced business environment? MDM examines what's on the horizon for both strategic and financial deals, as well as for prospective buyers and sellers, in a world still dealing with the COVID-19 coronavirus.

By Eric Smith

To no one's surprise, the roughly three-month stretch of March, April and May proved to be an "air pocket" for distribution M&A, according to Reed Anderson, managing director and head of Houlihan Lokey's Specialty Distribution practice.

The dearth of deals during this period, which was the height of the coronavirus crisis for most U.S. businesses, was understandable for a few reasons. One, economic uncertainty surrounding COVID-19 complicated deal-making because it's hard for companies to justify a capital-intensive M&A amid struggling end markets and widespread unemployment.

Two, lending dried up, making it near impossible for buyers that maintained an appetite for acquisitions to line up the financing.

And three, company executives could no longer hop on a plane, meet with their target's counterparts and hammer out details of a merger or acquisition in person. For many businesses, this was the coup de grâce since CEOs and COOs could no longer look across a boardroom table and shake hands to seal the deal.

The rise of social distancing measures and stay-at-home orders across the country quickly placed almost many transactions on the shelf — especially "de novo," or new, transactions where the parties didn't know one another.

"In this current environment, conducting due diligence is harder, and assessing individuals and personalities is harder," Anderson says. "If you are a strategic buying a smaller player in your space, you can take comfort in generally knowing what that target has been doing, and you have personnel capabilities on your team to make sure that M&A transaction works well post-close.

"But if you are a private-equity platform buyer meeting a team, or a business, for the first time through a sale process, getting comfortable with the business and with the team is a lot harder today because you are not spending the same amount of physical time with them. You are not sitting down, breaking bread, touring facilities or having natural sidebar conversations as much. That adds a layer of complexity and risk."

Signs of Hope

The added layer of complexity and risk has somewhat eased, though not entirely with the coronavirus now surging across a country eager to reopen. But it appears that M&A is on the rebound.

Certainly, the number of closed transactions announced in June informed prospective buyers and sellers about companies' growing eagerness to complete unfinished deals or begin new ones.

According to MDM's most recent M&A roundup, several companies pulled the trigger on both acquisitions and divestments last month, including:

- Genuine Parts Co. selling S.P. Richards Co.
- W.W. Grainger Inc. shedding two overseas assets.

Distributors also added to their portfolios, including:

Continued on p. 3

INSIDE

mdm
competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Elizabeth Galentine

Distributors Find Value, Productivity in Work-From-Home Environment

Throughout the spring and summer, we've had the opportunity to interact with you in the same way I am sure you have been interacting with your customers and colleagues, over regular live video conference calls. Whether through our near-weekly MDM Live discussions, over the Sales Transformation Network — open to attendees of the upcoming MDM Sales GPS conference — or for other content-production reasons, it's been a benefit amid the disruption of COVID-19 to have this regular connection at a time when in-person interactions have been limited or impossible.

Early responses to MDM's annual Market Trends Survey indicate many of you are feeling the same way. (If you haven't already, please add your voice to the 2021 Market Trends Survey by visiting surveymonkey.com/r/ZNN3B2M)

Don't get me wrong, nothing can replace the value gained from face-to-face customer interactions and collaborating with colleagues, and you've expressed that, but a number of responses we've received to the survey so far indicate distributors have been pleasantly surprised with how well remote interactions are going.

This is most evident in the many positive responses we've received related to employees working from home.

What's that expression about no pressure, no diamonds? These responses, and others like them, show distributors are making advances in areas that have long been on the to-do list, such as improved technology adoption, better communication and more streamlined operations.

Here's a sampling:

• "Some employees like the flexibility of being able to work from home. Legacy employees have learned to utilize more modern technologies for communicating."

• "Better communication with our employees. Better employee engagement."

• "It appears that we have become a tighter group, more concerned with our associates' overall health, state of minds, and all more concerned with the operations."

That last bullet point touches on an important argument made by Colleen Stanley, president and founder of SalesLeadership Inc., and a speaker at this year's upcoming Sales GPS conference: Do not discount the business value found in emotional intelligence and soft skills management.

In the article, "Character Traits that Strengthen Remote Sales Management," p. 6, Stanley points out that teaching sales teams to have a strong sense of empathy will go a long way in their ability to close more sales, particularly in a remote environment where customers may have even less time for a sales pitch as they balance the simultaneous pressures of work and home life. "It's the most powerful influence skill you can teach," she says.

Meanwhile, for an immediate view of macroeconomic trends impacting distribution, don't miss the latest MDM Webcast, The 2020 Mid-Year Economic Update, available on demand now at MDM.com under the resources tab.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

CEO
Thomas P. Gale
tom@mdm.com

Editor in Chief
Elizabeth Galentine
elizabeth@mdm.com

Senior Analyst
Eric Smith
eric@mdm.com

Gale Media, Inc.
6309 Monarch Park Place, Suite 201, Niwot, CO 80503
Tel: 303-443-5060
Website: http://www.mdm.com

Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email info@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 us at 303-443-5060 or visit www.mdm.com/corporate.

ISSN 0544-6538

M&A Activity
Continued from page 1

- Dakota Supply Group
- Mars Supply
- DGI Supply
- Atlas Copco

But the biggest deal of the last month — truly, the largest in recent memory — was WESCO International Inc. closing on its $4.5 billion acquisition of Anixter International Inc. The combination of these two electrical giants would be newsworthy anytime, but the fact that they closed during the coronavirus speaks to their willingness to get this deal done and their belief in how the new-look behemoth will disrupt the marketplace.

The transaction wasn't without coronavirus-related complexities, of course. The companies included language in the closing announcement that COVID-19 "may have a material adverse effect on the combined company's business, results of operations and financial conditions, and other important factors that could cause actual results to differ materially from those projected."

In other words, their shared $200 million in synergies will likely take longer to realize. Despite the difficult environment WESCO and its Anixter subsidiary are facing, the company is sure to radically shift the electrical distribution landscape.

The acquisition now complete, the company becomes the largest electrical distributor in North America — by far — with annual sales of more than $17 billion.

While distribution likely won't see deals of that scale cross the news wires anytime soon, the likelihood has grown for M&A activity to escalate across this space in the coming months, says Nick Troyer, a member of the Distribution team within Baird's Global Investment Banking Group.

However, he adds, there could be a clear distinction in the deals that reach the finish line and those that fizzle out, and it all comes down to the sectors in which distributors operate.

"It is a bit of a case of the 'haves' and 'have nots' right now," Troyer says. "There are businesses that play in attractive thematic areas like outdoor living — companies like SiteOne Landscape Supply and Pool Corp. — that are experiencing solid demand. Pockets of health care and hygiene categories are very active.

"But other sectors like energy, where performance has been choppier and outlook less certain, will likely take longer to come back."

Beyond the category consideration, most experts agree that M&A will favor strategic buyers over financial buyers in the coming months for a variety of reasons, though balance will eventually be restored as economic conditions, especially the lending markets, return to normal.

"The advantage is definitely with strategic buyers today, whether those are standalone companies or private equity-backed companies," Anderson says. "Where private equity is putting more capital to work today is through their portfolio companies pursuing add-on acquisitions.

It is a bit of a case of the 'haves' and 'have nots' right now. There are businesses that play in attractive thematic areas like outdoor living that are experiencing solid demand. Pockets of health care and hygiene categories are very active. But other sectors like energy will likely take longer to come back.
— Nick Troyer, Baird

However, private equity platform opportunities are likely to increase significantly as we see the economy improve."

Valuations Increasingly Complex

Companies struggling through this current crisis could make intriguing acquisition targets, according to investment bankers who advise buyers and sellers in strategic and financial deals. But the number of so-called distressed sales — which are plentiful in other industries — isn't as likely in distribution, which is a unique business model.

"Distributors can generate cash in a downturn by unlocking working capital. As a result, we have not seen many distressed sales within distribution," Anderson says. "Companies generally have enough liquidity to survive — at least for the near-term. However, owners will need to make a significant reinvestment in working capital once the economy turns positive.

"That is where I anticipate more transactions, as owners seek growth capital or partners to help them expand market share as the economy improves. We are speaking to a number of business owners seeking to proactively position

Continued on p. 4

M&A Activity
Continued from page 3

their balance sheets, so they are in a position to take significant market share gains from less well-capitalized competitors when the economy improves."

Another issue: Valuations have become increasingly difficult to gauge. As Anderson notes, "One cannot make a blanket statement 'All valuations are down X.' Valuations are situation-specific, and even to talk about multiples in today's environment is a challenge."

In other words, when state and local governments enacted stay-at-home orders and shut down all non-essential businesses, the notion of a meaningful earnings variable went out the window.

Clearly, some businesses have performed better. Some have pivoted incredibly well. This is going to be about who the nimble businesses were that found solutions during this pandemic for their customers, and for employees and supplier partners. But it is never too late to start getting better.
— Reed Anderson, Houlihan Lokey

"I definitely would not say that a business that experiences challenges right now is going to face a distressed valuation," Troyer says. "On the other end of the spectrum, however, I do believe there will be a premium for businesses that outperform through this crisis.

"When we've analyzed valuation multiples over time across distribution sectors, we clearly see the value in downside protection. The stronger performers are also likely to be the first to come back out."

But what makes a strong performer in the age of coronavirus? For T.J. Monico, practice leader, Industrial Distribution Investment Banking, KeyBanc Capital Markets, it's less about how a company suffered during COVID-19 but more about how it reacted.

Did the business manage cash? Did it pivot to pandemic-specific products like personal protective equipment (PPE)? Did it act conservatively?

In some ways, he says, the pandemic is reminiscent of the Great Recession of 2008/'09, which is the only comparison in our lifetimes. How businesses navigated that downturn still resonates today, and how they navigate COVID-19 will be asked for many years to come.

"I think the shape of the recovery — how quickly the company was able to get back to pre-COVID earnings — will be an important factor," Monico says. "For the last 11 years since the Great Recession, in every sale process, we talked about how the company performed in the Great Recession.

"I can't imagine that for the next three to five years we're not going to be answering the question, 'How did they do during COVID?' One thing we're telling all of our clients that plan to sell in a couple of years — make sure you're tracking and documenting what you did when COVID hit."

That means everything from isolating the financial impact of COVID-19 to documenting job-saving measures to proving you didn't just hunker down and wait for the storm to pass but instead pivoted your product mix (e.g., sold JanSan products or PPE) or retooled your sales model or enhanced your e-commerce capabilities. These moves will have more bearing on your perceived value to a pursuer.

"Clearly, some businesses have performed better," Anderson says. "Some have pivoted incredibly well. This is going to be about who the nimble businesses were that found solutions during this pandemic for their customers, and for employees and supplier partners. But it is never too late to start getting better.

"A number of businesses pivoted away from their depressed core markets or their core product so that they could distribute PPE or sanitation or other products that their customers need. Those companies are demonstrating a real value proposition to their customers. They are creating solutions."

Be Prepared for a New Normal

As deals trickle out and perhaps ramp up in the second half of 2020, the question now is not "Does the sales process change?" but rather "How much does the sales process change?" And that goes beyond trading a handshake for an elbow bump or formal bow and swapping face-to-face meetings for online video conference calls.

"We're seeing a lot of changes with the typical cadence of a deal," Troyer says. "Most notably, the in-person events — management presentations, the all-important management dinners, diligence sessions, and facility tours — those just aren't practical today. But we're still seeing deals get done.

"A lot of what we typically did in person has shifted to virtual. I certainly expect that to be the norm over the near term, but I also think some of these changes will stay with us over the longer term as well."

KeyBanc Capital Markets' Monico agrees. "The big challenge is what does the sale process look like on the back end of this?" he says. "I think if we see anything that's going to launch this year, it's going to be done in a very narrow, quiet fashion instead of auctioning the businesses broadly.

"Some business owners are at a point where they have a good reason to sell a business. I think the deals that are most likely to get done near term are going to be more creative or sold to strategic buyers."

Troyer says that while it's still early, he and the industrial team at Baird are optimistic that the M&A market is starting to turn the corner.

"We've been watching a lot of factors — stability in the financing markets, private equity appetite for new investments, the ability of strategic buyers to begin focusing externally again," he says. "We're looking across the Baird platform at developments within our existing engagements as well as new pitch activity.

"This all points to more M&A on the horizon as we head into the second half of the year. It will take some time to get back to pre-COVID-19 levels but in distribution, in particular, we're confident that the benefits of consolidation along with strong private equity interest in the space will continue to fuel M&A over the long term."

Monico says the volume of deals will come down to several factors. Companies, especially publicly held corporations, may want to stay on the sidelines to ensure they've stabilized their business before taking a deal to their boards. But opportunities will emerge, the economy will stabilize and M&A will recover — albeit at a slower rate.

"There's a liability for management teams to prioritize M&A right now," he says. "That said, as more time progresses, I think that'll be much more of a focus. Some of our strategic buyer clients are starting to have those conversations. At the same time, it's tough to value a business. It's tough for business owners to predict — even in the next month — how COVID is going impact the company and all the challenges that come with adding a new asset. I do think among businesses that aren't impacted as badly, aren't distressed, and have shown they can recover and have a good reason to sell, we'll start to see some activity. It's just going to be measured."

Character Traits that Strengthen Remote Sales Management

Critical selling 'soft skills' important to today's environment

Managers who prioritize strengthening the emotional intelligence skills of their sales team, such as empathy, find customers feel more connected and are more likely to share pain points that lead to purchases.

By Elizabeth Galentine

Colleen Stanley, president and founder of SalesLeadership, Inc., has been doing 'remote' sales management since long before COVID-19 sent many distribution sales teams home this spring. The speaker at MDM's upcoming Sales GPS conference got her sales start in distribution and manufacturing, leading 130 sales representatives who were spread in locations across the U.S.

"It used to be ride-alongs. Today with COVID-19, maybe you can't do the ride-alongs. You need to do listen-alongs — pre-brief calls, debrief calls, lots of coaching," Stanley told members of MDM's Sales Transformation Network on a recent call.

Today's remote sales management includes pre-deal coaching — not just post-deal review, she said. It's more frequent check-ins with employees, creating an emotional connection. With many buyers now expecting sales conversations to take place over video, a lot of sellers have yet to successfully adapt to selling through the medium. Others are having difficulty with time management, Stanley said. They are feeling overwhelmed, unorganized, and are not getting as much done.

However, most sales managers do not teach time management. To fill the void, Stanley recommends sales leaders assign a book on the topic, such as David Allen's *Getting Things Done*, or bring in an outside expert to teach it. It's worth the investment, she said, because a seller who is losing one to two hours a day due poor time management can add up to 40 hours or more a month — then times that by as many team members who are having the issue. The result? "You've got a ton of productivity that's not happening," Stanley said.

The physiology of sales also comes into play when a sales rep is not properly managing their calendar. "It's not a sexy topic," she said. "But I promise you, it's one that's hitting the bottom line, and doesn't show up on P&L statements."

Leaders want and need peak performance right now, but a person who is stressed and anxious is producing the stress hormone cortisol, likely not sleeping well at night and then making the problem worse the following day.

Mind the Gap

The selling skills of many traditional sales people have not yet caught up with their buyers' accelerating preferences to shop online, or at a minimum, through remote transactions that quickly zero-in on value proposition. Customers are busy and primed to hit the delete button on many communications that don't immediately resonate with them and their needs. As a result, sales people need to be prepared with customized messaging for each type of buyer and decision maker. "If you don't have three different value propositions, designed for three different buyers, you're showing up barely generic — and generic is not cutting it," said Stanley. "It never has, but the luxury of being average is over."

Sales leaders looking to help their team members strengthen the depth of their value propositions would be wise to focus on empathy, Stanley said. "Ask your sales team this at the next group sales meeting, 'What's the day in the life like for this buyer? What are the personal pressures they're facing?' Because if you can't demonstrate empathy and your value proposition, you don't make the emotional connection," she said. "By demonstrating empathy, you demonstrate expertise."

Stanley recalled one sales group she worked with that was having difficulty understanding how a CFO thinks. So, they brought their own company's CFO into a sales meeting to have him explain how the company makes money and what key performance metrics he follows.

The same tactic works for bringing in your company's best customers. Ask them why they buy from you, why those specific products they purchase are important to them and what business problems they feel you and your products are able to solve for them.

In general, sales people don't ask enough questions, Stanley said. If you miss a question, you miss an answer, which can be a key part of customer decision making.

There are two root causes to why sales people don't ask enough questions, she added:

1. Delayed gratification/impulse control. "Sometimes, when they're starting to get closer to the pain point or you've got the prospect opening up, then they get excited and they start presenting solutions," Stanley said.

2. Solutions can be memorized. "This is why roleplay and practice are so important, because you need to get your team to the mastery level," she said. "That way … they're not looking for their next move — they just know the answer."

A New Sales Structure

There's a lot of talk about restructuring sales teams, particularly inside and outside sales. Any effort to restructure should include a specific definition of each role, Stanley said.

For example, one distributor might define inside sales as more of a customer service role, while others see it as a sales function responsible for inbound leads. Will there be a marketing element? All of these factors will contribute to the type of personality best suited for your definition of the role. "There's a difference between a person that can convert an inbound lead versus a person that makes outbound prospecting," Stanley said. "It's a different hiring model."

She's also seeing more companies make a deliberate effort to separate out the customer service function. Some sales people are reluctant to give up that part of the client relationship. To address that hesitation, Stanley recommends being purposeful about a handoff between sales person and customer service rep. Have a joint video conference call where the sales rep introduces the service rep as the expert. This way, rather than feel like they've been handed off, the client feels taken care of," Stanley explained.

She sees the blending of inside and outside sales as a model that will last beyond the immediate effects of the coronavirus. Customers are comfortable with video conferencing and want to engage over conference call.

As far as the sales team returning to the office versus continuing to work from home, Stanley cautioned against making a quick money-saving decision to keep the virtual offices permanent. Some people prefer the camaraderie of an in-person office culture, others are living with a bunch of roommates and don't have a home office to work from in the first place.

Strength Behind Soft Skills

In her recently released book, *Emotional Intelligence for Sales Leadership*, Stanley addresses soft skills needed for sales leadership that are not often taught. She admits the word "empathy" is thrown around a lot, but says, "it's the most powerful influence skill you can teach."

It is difficult to influence others (and their buying decisions) without knowing, caring or understanding what they're thinking or feeling. Empathy takes more than a throwaway response to a customer's statement that what they're going through sounds hard, difficult or frustrating. It's about demonstrating that you understand how they feel and are able to put yourself in their shoes. "It's only after you have connected with somebody that they're open to your advice and your solutions," Stanley said.

To strengthen the skill, she recommended managers role play with sellers. Use the opportunity to practice increasingly difficult selling scenarios so that the seller doesn't freeze when they encounter a tough buyer in the real world. "Everyone's heard this if you've been a sales manager: 'I don't like roleplay. It's not real,'" she said. "Well, neither is basketball practice. Go."

The disconnect comes when managers mistake CRM tools for roleplay. Reviewing data and reports and discussing what needs to be done about them is important, but it's not the same as roleplay that actually says and acts out what will be done — so that it is done correctly.

Ramping Up EQ

Emotional intelligence skills that are particularly important for managers during the pandemic include empathy but also emotion management and self-awareness, Stanley said. "What you're not aware of, your bones repeat," she said. "Introspection. How do I want to show up today? What did I do yesterday where maybe I didn't model the right behavior?"

To ramp up EQ in a company where it has not been part of the culture, Stanley recommended bringing in your top sellers to document their selling steps to create selling scripts. Documenting sales playbooks is hard, detailed work. As a result, a lot of companies elect to hire a sales consultant with experience in the process. But, Stanley noted, it must be a co-creation where the company's actual sellers are a part of the process and methodology. This will capture the business's unique vernacular and language.

This will inevitably lead to pushback over fears of sounding canned or disingenuous. But without a tight value proposition, Stanley retorted, you're not asking buyers the right questions and you will still sound canned. "Scripts aren't bad," she said. "The reason you think they're bad is you haven't practiced. … Once you've got a script, then you can go off script."

5 Steps for Aligning Working Capital with Customer Needs

Agile inventory management during difficult demand planning

A granular approach to forecast adjustment during a period of revenue decline can help distributors better understand demand shift and adjust for variability.

By Senthil Gunasekaran

The acronym VUCA, short for volatility, uncertainty, complexity and ambiguity, is a concept that originated with students at the U.S. Army War College. It was used to describe the state of the world after the Cold War. If VUCA is as fitting now as it was then, what does that mean for businesses?

It means we need to accept current conditions and focus on developing new capabilities, rather than wishing for pre-COVID-19 conditions or looking for a silver bullet.

This is especially critical for demand planning teams. They face volatile demand and uncertain signals from customers and suppliers. As states reopen and non-essential businesses restart, these teams should try to fulfill emerging demand without stretching working capital needs.

Rapid Response to Demand Disruptions

First, let's understand how conditions have affected the demand planning team. In mid-March, revenue went on a free fall and distributors' inventory stopped moving.

In April, the lockdown cut off demand signals for non-essential businesses. Then, as states started reopening in late May, demand resurfaced at varying degrees. Purchasing teams were tasked with adjusting working capital to align with a double-digit decline in revenue.

In the absence of established processes and purchasing protocols, panic-driven decisions ensued, mostly resulting in across-the-board purchasing cuts rather than more nuanced responses.

As a result, distributors have been scrambling to fulfill customer orders since demand started recovering in June, only to find that their purchasing processes and systems are not agile enough to quickly resume operations as they were.

Upon further research, we identified five critical actions for demand planning teams to balance customer service (product availability) and working capital (inventory) in this new environment. Let's take a close look at each of these actions.

Segment Demand Disruption

When faced with revenue decline, many distributors hit a pause button and adjusted their forecasts down across the board. Instead of this general measure, we suggest a granular approach that helps you understand demand shifts. For example, one industrial distributor faced an overall decrease in aggregate demand. They observed that, while their cutting tools category was down by 59%, the safety category had jumped 118%, with other categories falling somewhere in between the two.

The distributor measured the change in sales against the same week or month in the prior year. Based on the change, they segmented items into three groups:

- Surge (sales increasing more than 10%)
- Slump (sales dropping more than 10%)
- Static (all other items)

The distributor performed this analysis at both category and location (branch) levels to understand the widespread impact of COVID-19 across states. The purchasing team further divided the three groups to isolate items with extreme demand shifts.

The distributor integrated market segment dynamics and critical customer profiles into their analysis of these items. For instance, the nature of essential versus non-essential business shed light on extreme demand shifts.

Adjust for Demand Variability

Distributors' ERP systems typically rely on historical demand to make forecasts. However, with abrupt shifts in demand patterns like those identified in the previous step, these models react in the extreme without real-time contextual information.

Continuing with the previous example, the distributor's system forecasts using the average sales of the past three months. Decreased demand for cutting tools (down 59% and 37% in April and May, respectively) caused the system

Continued on p. 2 of the yellow section

mdm Industrial & Construction Markets Update

VOL. 50, NO. 13 | JULY 10, 2020

Manufacturing Sector Expanded in June

Economic activity in the manufacturing sector expanded in June, and the overall economy grew for the second consecutive month — after dipping significantly in April and May due to the coronavirus — say the nation's supply executives in the latest Manufacturing ISM Report on Business.

According to Timothy R. Fiore, chair of the Institute for Supply Management Manufacturing Business Survey Committee, "This figure indicates expansion in the overall economy for the second straight month after April's contraction, which ended a period of 131 consecutive months of growth."

The New Orders Index registered 56.4%, an increase of 24.6 percentage points from the May reading of 31.8%. The Production Index registered 57.3%, up 24.1 percentage points compared to the May reading of 33.2%. The Backlog of Orders Index registered 45.3%, an increase of 7.1 percentage points compared to the May reading of 38.2%. The Employment Index registered 42.1%, an increase of 10 percentage points from the May reading of 32.1%. The Supplier Deliveries Index registered 56.9%, down 11.1 percentage points from the May figure of 68%.

Also, the Inventories Index registered 50.5%, 0.1 percentage point higher than the May reading of 50.4%. The Prices Index registered 51.3%, up 10.5 percentage points compared to the May reading of 40.8%. The New Export Orders Index registered 47.6%, an increase of 8.1 percentage points compared to the May reading of 39.5%. The Imports Index registered 48.8%, a 7.5-percentage point increase from the May reading of 41.3%.

"June signifies manufacturing entering an expected expansion cycle after the disruption caused by the coronavirus (COVID-19) pandemic," Fiore said. "As predicted, the growth cycle has returned after three straight months of COVID-19 disruptions."

Distributor

Crawford Electric, Houston, appointed Vice President of Finance Mark Ganucheau. He joins the electrical distributor's executive team and head its finance department.

The board of directors of building materials distributor **Palmer-Donavin**, Columbus, Ohio, announced July 6 that Robyn Pollina will become the company's new CEO. She succeeds retiring CEO Ron Calhoun effective Aug. 1.

TTI Inc., Fort Worth, Texas, a distributor of electronic components, on June 26 announced industry veteran John Drabik will join the company as vice president in early July of this year. Drabik has held senior leadership positions across the industry and most recently held the position of president, Americas Components, **Arrow Electronics**. Drabik will report to Mike Morton, TTI chief operating officer.

Manufacturer

ABB, Zurich, Switzerland, on July 1 announced the completion of the divestment of 80.1% of its Power Grids business to **Hitachi**. The deal was valued at $7.6 billion to $7.8 billion. The company said the divestment allows ABB to focus on key market trends and customer needs such as the electrification of transport and industry, automated manufacturing, digital solutions and increased sustainable productivity.

Economic

Real gross domestic product (GDP) decreased in all 50 states and the District of Columbia in the first quarter of 2020, according to statistics on the geographic breakout of GDP by the **U.S. Bureau of Economic Analysis**. The percent change in real GDP in the first quarter ranged from -1.3% in Nebraska to -8.2% in New York and Nevada. Accommodation and food services; finance and insurance; health care and social assistance; and arts, entertainment, and recreation were the leading contributors to the decrease in real GDP nationally.

Construction spending during May 2020 was estimated at a seasonally adjusted annual rate of $1,356.4 billion, up 0.3% from the May 2019 estimate of $1,352.9 billion, according to new data from the **U.S. Census Bureau**. The May figure is 2.1% below the revised April estimate of $1,386.1 billion. During the first five months of this year, construction spending amounted to $543.2 billion, 5.7% above the $513.7 billion for the same period in 2019.

Heating, Air-conditioning & Refrigeration Distributors International (HARDI) released its monthly TRENDS report, showing the average sales performance by HARDI distributors was a decrease of 10.2% during May 2020. The average annual sales growth for the 12 months through May 2020 is 0.4%. The Days Sales Outstanding (DSO), a measure of how quickly customers pay their bills, was near 47.5 days.

5 Steps
Continued from p. 8 of white section

to forecast very low for this category.

However, the distributor expected this core product to recover quickly as businesses reopened and adjusted for the system's blind spot.

Instead of relying on the system forecast, the distributor modified their forecasting approach on multiple fronts for managing 'surge' and 'slump' items (two of the three segments identified in the previous step).

Often, distributors build silos across functions, leading to narrow visions among C-level executives and middle managers.
— Senthil Gunasekaran, ActVantage

The distributor contacted their top 40 customers (who accounted for 86% of the business) and asked them to segment their end-customer business into two buckets according to essential and non-essential guidelines provided by the federal government.

Then, they contacted strategic suppliers related to 'surge' items to ensure supply capacity. They also changed their forecasting bucket from monthly to weekly for the next eight weeks for selected 'surge' and 'slump' items. This would enable them to follow changing demand closely.

Account for Supply Variability

Many distributors are diligent in collecting and integrating customer information. But they are less inclined to update and include supplier information in their planning.

For instance, they use suppliers' promised lead time to plan their safety stock, even though distributors have a trove of purchase order information to measure actual lead time. Purchasing systems rely on this information to determine the right amount of buffer stock.

When the pandemic hit, many suppliers stopped operations, shifted to manufacture a select few SKUs, or applied allocation rules in case of surging demand. If distributors don't account for such supply disruptions, they could see friction in manufacturer-distributor communications and ultimately customers would be disappointed.

On the other hand, if they are integrating recent, relevant data from suppliers, they can catch and adjust for disruption more swiftly.

An HVAC distributor with 27 locations quickly segmented 'surge' and 'slump' items (by location) and identified 19 corresponding suppliers. They agreed to share weekly demand information by location with those suppliers and updated their system with more realistic lead times every week.

This helped the distributor not only meet core customer needs on 'surge' items, but also avoid unnecessary build-up of 'slump' items. This quick pivot in working capital deployment also earned the distributor better payment terms since none of their regional competitors approached suppliers systematically.

Align Working Capital to Customer Mix

Distributors traditionally have a ceiling on their working capital that's been negotiated with lenders. In the current crisis, it's been easy for firms to fall into the trap of focusing too much on these absolute working capital limits and not enough on opportunities to strategically realign working capital altogether by taking a closer look at customer mix.

An industrial distributor noted two major shifts in its customer mix in April and May. The distributor shipped products to 392 medical, healthcare and hospital customers that had purchased little-to-no product from them in the past.

They also observed a surge (28%) in e-commerce customers' traffic. Seeing these shifts in their customer portfolio — in terms of new customers and channel mix — the distributor examined the items customers bought to determine additional working capital investment, and further classified the demand mix to understand one-time surge versus recurring demand before making additional inventory investment.

Put on Your Trifocal Lenses

Distributors' business models are built on the premise of meeting core customer needs by supplying profitable products from strategic suppliers. The three lenses — core customers, strategic suppliers and profitable products — are critical for executives to filter the signal from noise. They are especially critical in a crisis where you lack sufficient time to respond.

Often, distributors build silos across functions, leading to narrow visions among C-level executives and middle managers. As a result, a purchasing team might discontinue an item or product category based on turns or other metrics without considering the mix of customers buy-

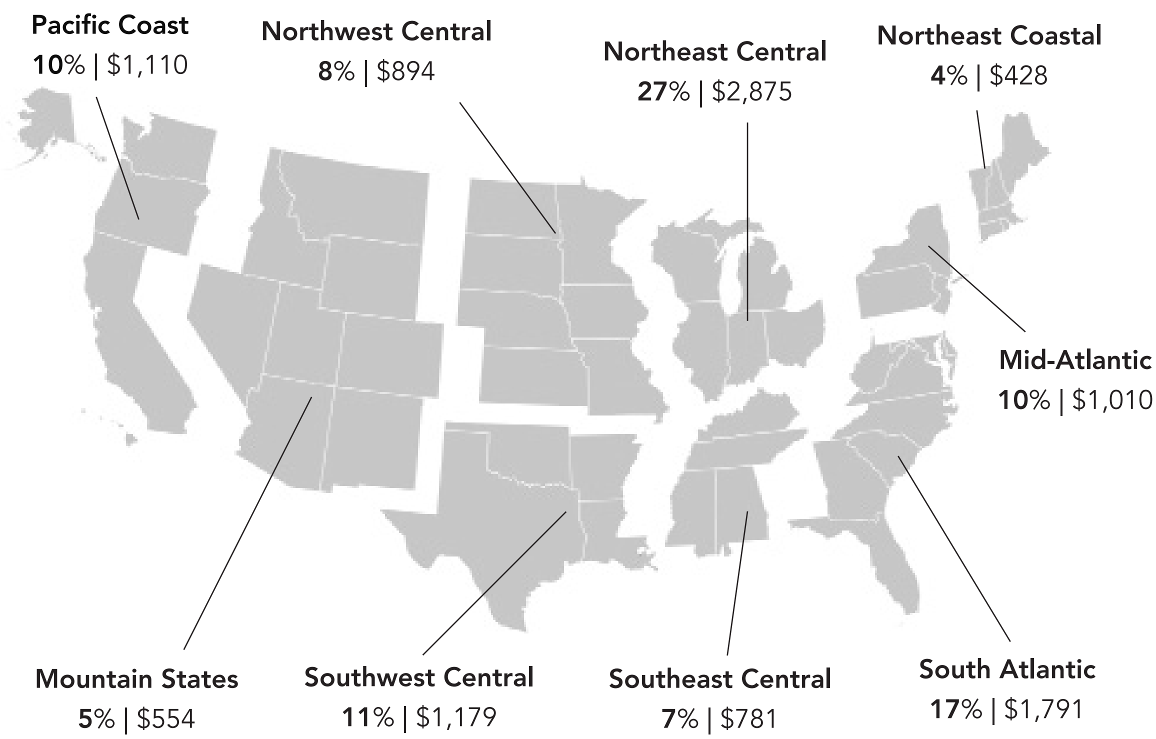
Continued on p. 4 of this section

Bearings Market Demand in the U.S. | Market Snapshot

U.S. Total: $10.6 billion

Market demand for Bearings in the U.S. was $10.6 billion in 2019, according to data from MDM Analytics. All estimates are 2019 end-user demand, in U.S. dollars, including distributor margin. Includes these categories: Ball MRO and OEM, Mounted MRO and OEM, Roller MRO and OEM.

U.S. End-User Market Demand for Bearings by Region, $ Millions (2019 est.)



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

Top 10 end markets in $ volume, by NAICS code, consuming Bearings (2019 est.)

End User		Estimated Consumption
441310	Motor Vehicle Parts and Accessories	$1,777,689,824
336412	Aircraft Engines and Engine Parts	$427,652,176
322121	Paper Mills	$420,001,409
238210	Electrical Work	$418,836,273
336211	Motor Vehicles and Passenger Car Bodies	$358,948,964
333120	Construction Machinery and Equipment	$337,366,704
333111	Farm Machinery and Equipment	$329,580,077
237310	Highway and Street Construction (except Elevated Highways)	$261,363,079
333415	AC & Warm Air Heating Equip. & Comm. & Indust. Refrigeration Equip.	$234,328,125
322130	Paperboard Mills	$225,508,453

Source: MDM Analytics, Niwot, CO. Contact info@mdm.com for permission to reprint/share. Learn more about MDM Analytics at www.mdm.com/analytics.

5 Steps
Continued from p. 2 of this section

ing those items. Or the sales team might promise to stock an item without considering its profit profile and supplier base. At challenging times like these, such silo-driven decisions can cost firms both customer loyalty and healthy financial returns.

A building materials distributor has systematically built three critical analytics — item, customer and supplier stratifications — over the years. Throughout this crisis, the distributor used these analytics as an anchor to make critical decisions around redeploying working capital, allocating shortage products, obtaining extended supplier terms, and acquiring new customers across multiple channels.

Trifocal lenses helped the distributor make decisions that were both data-driven and timely. The executives and middle management used the same terminology and made decisions with clarity and confidence.

Distill the Signal from Noise

Managing demand planning (and resulting working capital and customer experience) is a critical deciding factor in terms of how well — and how quickly — distributors recover. Though the road to revenue recovery is ambiguous, effective demand planning helps them make customer-facing decisions more confidently.

Distributors that successfully execute these five steps will have the clarity to distill signal from noise and position themselves to eventually come out of the crisis ahead of their competition. Conversely, firms that wait until the crisis is over to think and act on these opportunities will be too late.

Senthil Gunasekaran is co-founder of ActVantage, which helps distributors drive profitable growth through analytics and talent development. He has more than 18 years of experience helping hundreds of distributors and manufacturers, while co-authoring seven books for the NAW. He also delivers executive education and speaks at industry forums. Prior to ActVantage, Senthil led research and industry projects at Texas A&M's ID program. Contact him at senthil@actvantage.com or visit actvantage.com.

IRCG's Weekly Pandemic Revenue Index Shows 11.7% Increase

Distributors finally caught a break, according to the latest Indian River Consulting Group (IRCG) weekly Pandemic Revenue Index. The PRI for the work week of June 29 to July 3 indicated a 11.7% revenue increase compared with the same week a year ago, but the spike could be the result of a calendar anomaly rather than marked improvement for the industry. "This is a significant departure from what we've seen in previous weeks," says Mike Emerson, IRCG partner. "The reason for the large increase is very likely due to Independence Day falling on Saturday this year versus Thursday last year, with three selling days in the week last year."

This was only the second increase for the PRI and first one since a 0.3% bump in late May. IRCG's distributor Pandemic Revenue Index gives distributors a weekly quantified view into how other distributors in the industry are faring as the global COVID-19 pandemic progresses.