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The Cultural Shift that will Create an Empowered, Integrated Sales Team

Marketing and sales make a powerful team when working together.

To win business and retain it, a distributor's sales team cannot act alone. Instead, it takes a sales "village," according to Colleen Stanley, founder of SalesLeadership, Inc. As Stanley told attendees during her presentation at MDM's 4th annual Sales GPS conference, creating the village starts by getting marketing and sales to break down the silos and truly work together.

By Elizabeth Galentine

A common complaint from the sales department is that marketing is sending them too few leads that are not strong enough. But marketing will counter that the issue is a lack of sales team training that is keeping sales people from converting the leads.

The reality is, Stanley said, everyone needs to own the sales number. By not giving marketing and sales at least partial ownership of the revenue number — so that they are measured and compensated by that number — then distributors are likely to see the formation of big silos between departments, where each is filled with its own data and asynchronous customer information. With this approach, "nothing is going to change in your organization as far as becoming customer-centric, buyer-centric," Stanley said.

Where to Pair Up

There are three positions on the sales team in particular where integrating marketing into their daily routine can really make a difference.

First, BDR/SDR: For the business or sales development rep, the marketing department is likely already generating the opportunities that bring an inbound sales person their leads. For example, by creating outbound emails, LinkedIn posts and content, web seminar content, sales enablement copy, etc. However, these materials may not be as effective as you think, because they are not tapping into the customer's true needs. "If your marketing department is not listening to calls, they are not learning," Stanley said. "They are not learning, what does the prospect really need? What does the prospect desire? What is the new business problem that needs to be solved?"

Next, the account executive: By having marketing department personnel listening to calls after leads have been handed off to the account executive, you will be able to leave customer interactions with a more complete understanding of what happened. This is because a marketing person is going to hear a different conversation from what the account executive hears. For example, they may hear objections that the salesperson is missing because they are so focused on closing the deal or making their quota, Stanley said. "Maybe your [marketing person is] going to hear a new need that the seller may not hear," she added.

Third, account management: The synergy here is around the goal of retention. Questions to ask yourself, Stanley said, include:

- What kind of retention tools do your customers want?
- If upselling and cross selling, does marketing know your biggest competitor?
- Do they know why your existing customers are reluctant to give you a new line of business?

How to Realign Priorities

Both sales and marketing departments may need a different set of key performance metrics to ensure they are thinking and working like a unified team.

Continued on p. 3

INSIDE

mdm
competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Elizabeth Galentine

Pump Up the Empathy, Get Customers' Attention

For those of you who missed the recent virtual edition of MDM's Sales GPS conference, the event was packed with takeaways that can apply to your business immediately — many with little to no need to make any new financial investments. That's not to say that financial investment is the top impediment or most important indicator of how difficult it will be to implement a change in your business.

I would argue, in fact, that financial considerations can rank well below factors that are often seen as 'soft': company culture, openness to change and even mental fortitude. That's one reason why I thought the session from Colleen Stanley of SalesLeadership, Inc., deserved to be highlighted in this issue of Premium. Check out our cover story, "The Cultural Shift that will Create an Empowered, Integrated Sales Team."

Stanley does an excellent job of addressing the EQ skills needed to make a connection with customers and prospects, especially during this time of what she called "COVID brain," where people's fight-or-flight instincts have been triggered by long work hours, new assignments taken on after colleague layoffs and the need to balance work and home life like never before.

Bringing your sales and marketing teams together on customer communications and interactions, Stanley argues, is a great way to ensure you are capturing a broader picture of what clients are going through right now. That way, your team can zero in on the best ways to communicate the fact that your business is here to solve their problems. "When we can have marketing and sales both listening to the conversations, I promise you, they will hear [customer needs] from a different perspective," she said.

This applies to written communications as well. Stanley noted distributors can fall into a trap of trying to sound too smart in marketing copy when they think they are speaking the language of the customer. To make an emotional connection with a customer or prospect, it helps to sound like them, but that doesn't mean just using the terms they use to describe a complex mechanical process. Dig deeper to address the problems they want solved within that process.

In a real-life example, Stanley helped a distributor to convert their marketing copy around an upcoming machinery webcast designed to target designers and engineers.

- "The basics of plastics material selection" became, "Avoiding mistakes in plastics material selection."
- "Advanced materials for friction and wear" became, "Selecting materials that don't wear out too soon or too often."
- "Metal and x-ray detectable plastics" became, "Eliminating the problem of plastics ending up in food."

By tweaking the copy to directly address the customer's pain points, Stanley pumped up the empathy factor. "It's a basic human need," she said. "Psychology, physiology, emotional intelligence and consultative selling skills. That's what wins business."

For much, much more on the small moves that win business, you can watch Stanley's entire presentation — as well as all Sales GPS content from the last four years! — by becoming a member of our Sales GPS Network. Find out more at mdm.com/sales-gps.

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CULTURAL SHIFT
Continued from page 1

Sales managers are very good at setting metrics for the sales team — leading indicators, lagging indicators, etc. But do your VPs of sales have a KPI for listening to and observing calls? Same goes for the chief marketing officer or even an outside marketing agency. What is the metric around their listening to sales calls and observing sales calls? "Because again, if you're not listening, you're not learning," Stanley said. "Without listening and learning, I promise you what you're missing in your conversations is that EQ skill of empathy."

Once the new KPIs are established, the conversation can then center around how to answer these buyer-centric questions, Stanley said:

- What's a day in the life of your prospect?
- What's the new business problem?
- What are their personal and professional stressors?

Being able to answer these questions is the beginning of empathy and being able to understand your client's point of view, she added. This is especially critical in this time of rapid COVID-19-induced change. The pandemic has created a lot of new business problems for customers — and thus a lot of new business opportunities for distributors who are aware of them. For example, Stanley referenced a recent *Wall Street Journal* article that addressed the need for kids who are now learning virtually to have chairs at home that are small enough for their feet to touch the ground, thus reducing distractions. "That's a new business problem," she said. "And how many companies are really going after that business problem?"

Emotion management and empathy skills are a smart place to focus for both sales and marketing teams, as the clients you are calling on have been taxed from all directions over the last six or seven months — working longer hours, taking on new tasks, balancing work and home life like never before.

"So, when we can have marketing and sales both listening to the client conversations, I promise you, they will hear it from a different perspective," Stanley said. "It is the absolute adage that two heads are better than one."

Focus on Problems Over Positivity

When both your sales and marketing teams can answer these questions, it will open up the ability for them to verbalize great sales copy that truly speaks to the needs of the buyer, Stanley said.

Otherwise, the natural tendency is to become self-focused rather than other-focused. This often leads down the overly worn trail of, "We have excellent customer service!"

As is pointed out in the book *Made to Stick* by Chip and Dan Heath, customers can't see or feel that kind of language. It doesn't mean anything to them, because everyone says it.

I can only create good copy and verbalize good copy if I'm listening to my prospects and customers intently. And that's why marketing might hear differently than sales. The beauty is when the two departments can collaborate. — Colleen Stanley, SalesLeadership, Inc.

Another approach, Stanley said, instead of focusing on the positive, is to focus on the problems that your customers are going through. "Nobody cares about what you do; they only care about the problems you can solve for them," she said. "The neuroscience research is very clear that prospects and customers will buy two to three times faster and more often to avoid pain than to achieve a goal. It's been labeled in psychology, loss aversion."

However, optimistic sales people tend to default to "benefit language" that prevents them from emotionally connecting with prospects and customers. This is seen on company websites, lead generation tools, and even the words that come out of your sales person's mouth, Stanley said.

"I can only create good copy and verbalize good copy if I'm listening to my prospects and customers intently," Stanley said. "And that's why marketing might hear differently than sales. The beauty is when the two departments can collaborate. That's when the magic happens in messaging and conversations."

For more from Stanley's Sales GPS session, "Culture Shift: The Empowered, Integrated Sales Team," and to access all of her previous MDM presentations, join the MDM Sales GPS Network. A monthly work group that will help you accelerate your sales process; the Network provides access to all previous Sales GPS content over the past four years. For more information, visit mdm.com/sales-gps.

Minimum Order Size: Is It the Right Move for You?

The questions to answer before moving forward with an MOS policy.

How distributors can assess whether or not implementing a published Minimum Order Size (MOS) policy makes sense when considering both company and market dynamics.

By McKinnon Shisko

The bittersweet sting of reality.

Salesperson 1: "Score, just got 50% GP on that ticket!"

Salesperson 2: "Nice work, that sounds like a real money-maker to me!"

Reality: 50% GP on a bag of cable ties scheduled for next-day delivery, guaranteed before noon, likely doesn't even cover the cost of the warehouse pick … not to mention the cost of all other SG&A expenses that a distributor naturally incurs. And to top it all off, no delivery fee was charged!

Although the above is an extreme example, I have seen this firsthand and have also heard similar horror stories from many other industry veterans. In fact, I am quite confident that many of you reading this had a quick chuckle as you were unfortunately able to relate to such a scenario at one point or another in your career.

For the traditional distributor, it is a well-known fact that small orders have a low probability of netting bottom-line dollars. It is largely economically unfeasible for them to do so unless you have tremendous scale, optimized supporting infrastructure and cutting-edge technology, like Amazon does.

But even they struggle to turn a predictable profit on these smaller transactions on a consistent basis. As proof, consider that they have subsequently deployed a type of strategic Minimum Order Size Policy: "add-on" items.

These are SKUs that are only available for purchase with over $25 of items shipped by Amazon to the same address because shipping them by themselves would be "cost-prohibitive."

Many would argue that Amazon has no minimum order size policy, but it is plain as day that they do; it is just very strategic and selective in its application.

So, at what point did wholesaler-distributors begin to accept low-volume, high-markup "7-Eleven" convenience-store type orders? Should we strive to make money on every single transaction? Is it even possible to do so?

When Does a Published Minimum Order Size Policy Make Sense?

The short and sweet answer: It depends. And it depends on many factors. But first, there must be a benefit for such a policy to exist.

Given the growing prevalence of cost-to-serve analytics, "minimums" are currently a trending topic in the industry. For the sake of clarity, this article is about setting a floor for the entirety of a given transaction (minimum order size or MOS) instead of establishing base-line thresholds for a specific item's unit of measure (minimum order quantity or MOQ).

Simply stated, an MOS would require that you spend $25 in total no matter what you buy, while MOQ would require that, if you want to buy Q-tips, you have to buy at least a box (you can't buy just one Q-tip).

In this sense, MOQ is far more granular in approach and can actually be considered one of the actionable levers used to support an MOS. Alternatively, you can certainly implement an MOQ independently of an MOS, but a strategic use of both can be quite impactful.

For those distributors who are actively assessing and leveraging "what good looks like," and doing so with supporting data rather than relying on long-held cherished beliefs, a segmented Minimum Order Size (MOS) policy may be what the doctor ordered. If planned and executed correctly, you can almost immediately drive additional basis points to your bottom line.

The catch here is that the policy is used as a lever to support a greater customer segmentation strategy effort. An important distinction is that an MOS policy is just as much about who gets to break the rule as it is about who must follow the rule.

For instance, taking small orders can mean the difference between turning a targeted small but growing account into your next large cash cow or leaving them with a bad experience and a solid reason in hand to buy from your competition instead. In the words of industry veteran Bruce Merrifield, we know not every acorn turns into a giant oak tree, but certainly some do.

Another clear example would be keeping your current golden-goose customer happy when they get into a bind. Picture this: Your largest and most profitable account is in dire need of the cable ties from the introductory example.

What do you do? No one in their right mind would tell them, "Sorry, we are not able to sell you that as it does not meet our minimum order policy." You'd get them that material pronto, no questions asked and without hesitation.

On the other hand, continually allowing any customer to place low-dollar orders, regardless of their current or potential value to the distributor can lead to the death-by-a-thousand-cuts saga. In this scenario, a distributor's finite resources are consistently being consumed by suboptimal opportunities, thereby limiting total earnings and growth potential.

Typically, we see this scenario occurring at a distributorship that has not yet accepted the fact that not all customers, nor gross margin dollars, are created equal. This may sound harsh, but it is a fact-based and true statement.

Should you happen to disagree, then it is certainly possible that for you, "what good looks like" may not be appropriately aligned with reality. If you do a quick self-analysis and discover that you treat all customers, orders and opportunities the same, then implementing an MOS policy could be a negative move.

Without first doing a deeper dive into collecting and analyzing data that would lead to some level of basic customer segmentation, an MOS policy would be ill-advised.

What is Driving Small Orders?

After you've decided that a benefit exists to having such a policy, identify the reason that small orders are a problem and know the contributing factors based on supporting data. In general, factors manifest as a result of either the customer, the distributor or both.

Customer ordering behaviors and needs vary by geography, industry and size, as well as by business model and infrastructure, just as selling and fulfillment characteristics do for a distributor.

No matter which side of the customer segmentation fence you fall on, you must look both internally and externally when analyzing the impact of small orders within your business.

Though there is no shortage of customers who have less-than-stellar buying behaviors, we often discover that a large portion of small orders are caused by distributor-controlled sales or supply chain functions and behaviors.

For sales, think reactive order takers (market-serving) rather than proactive sellers and up/cross-sellers (market-making). For supply chain, think backorders due to suboptimal inventory levels, automated-but-forgotten-and-not-monitored ERP processes, and distributor-controlled high-turn low-dollar integrated supply/VMI relationships.

Instituting an MOS in scenarios where the problem is distributor-induced would be the wrong move, or at least a higher-risk one, as customers would be forced to pay for inefficiencies that are not necessarily within their control or purview.

It is critically important to recognize the causality and distinction between orders and invoices. Typically, order characteristics and frequency have greater potential to be customer-induced, while invoices are more heavily influenced by the distributor.

When Is a Good Time to Implement a Minimum Order Size Policy?

You must be willing to endure the challenges as well as have an appetite for the risk/reward. You must also be able to clearly answer "why" as it relates to an MOS Policy and do so with conviction.

Change is hard and "no one likes change except a wet baby" (a special thanks to Mike Marks for etching this memorable quote into my change-management repertoire).

As supporting evidence, regardless of the severity of the proposed change, people will typically say something like, "Now is not the best time" or, "Don't we have enough going on already?"

But this is especially true when the change

Continued on p. 6

> *Regardless of the severity of the proposed change, people will typically say something like, 'Now is not the best time' or, 'Don't we have enough going on already?' But this is especially true when the change can have vast sweeping effects and will likely force customer-facing team members into awakward or uncomforable situations.*
> *— McKinnon Shisko, Indian River Consulting Group*

MINIMUM ORDER SIZE

Continued from page 5

can have vast sweeping effects and will likely force customer-facing team members into awkward or uncomfortable situations.

Specifically, telling salespeople that they have to have tough conversations with customers where the perceived benefit is skewed to the distributor (despite their being a real economic benefit for many customers as well!) usually goes over like a lead balloon:

"I'm sorry, your order currently doesn't meet our minimum. Are there other items that you need at this time? If not, I'll have to charge you a special handling fee instead to meet the minimum."

Though very diplomatic and professional, such a response from your sales team can and will elicit a wide variety of customer reactions, some of which can be quite entertaining. This is why we insist that the policy must be applied selectively and aligned with a greater customer segmentation strategy.

More than a Stand-Alone Plan

Without being part of a bigger vision, an MOS policy is far less likely to succeed. As a stand-alone initiative, it is often insurmountable to attain internal buy-in, effectively rendering it unenforceable and therefore moot.

When an MOS policy is a piece of the greater puzzle, it will shape the purpose, message and execution for your team and customers. This will help distributors avoid the commonly experienced landmines that many companies step on when implementing order minimums.

Recall the tough conversation above and estimate how long it will be until your own team does not enforce the minimum just to avoid awkward conversations if they do not understand or agree with the "why" of the policy.

If the MOS policy is clearly a lever in strategy implementation, you must also define the relevant goal.

As an example, is the focus of the policy to increase fee-based income or is it to try and drive an increased share of customer wallet? Could it also be to improve customer awareness around their Total Cost of Ownership?

Your answer to this piece will have implications that ripple throughout the process of both MOS policy design and execution.

In addition, give careful consideration to the possible impacts on the short- and long-term performance metrics.

You should be keenly aware that the makeup and characteristics of your customers that are subject to the policy will have a significant impact on both the up and downside potential.

The proforma analysis also needs to incorporate the impact on customer spend: For some customers, they won't even notice as it may never apply to them, whereas others may be impacted greatly and on a regular basis enough to drive them away from you being their supplier.

Key Takeaways

Before moving forward with an MOS policy, you should be able to answer at least three questions:

1. What is the strategy that this is helping to execute?
2. What is the policy's driving focus?
3. What is the risk/reward factor?

For a relatively quick, back-of-the-napkin estimate of the potential impact of an MOS to your company, gather the order transaction history from your ERP for a defined time period. I suggest looking at the most recent fiscal year or YTD. Have the report list unique orders and their associated dollar values on each row.

Next, pick a minimum-order amount for the policy and count the number of transactions that fall below that threshold.

Depending on the policy mechanism, you can either multiply the resulting quantity by a small-order fee in an amount of your choosing, or you can sum all occurrences of the difference between the minimum order value that you chose and the actual order values in the report.

Either approach will produce a ballpark-maximum estimate for the drop-through potential that an MOS policy can have on your bottom line.

If you want to increase the degree of accuracy, you can exclude orders from customers that would be exempt from the policy and even throw in a "lost sale" component to compensate for those customers who would rather walk away than be subject to an MOS policy. By no means is this approach exact, but it can at least help you determine whether you are dealing with a grape or a watermelon when trying to determine if the juice is worth the squeeze.

McKinnon Shisko joined Indian River Consulting Group in 2019 as senior associate consultant. McKinnon leverages his diverse experience and wide range of expertise to help organizations and teams effectively and efficiently achieve their desired results. Contact Shisko at mshisko@ircg.com or visit ircg.com.

M&A in the Time of COVID-19

Lawson Products Executives talk business growth strategy amid upheaval.

The pandemic didn't stop Lawson Products from pursuing the largest acquisition in its history. Mike DeCata, president and CEO, and Brian Hoekstra, vice president, mergers and acquisitions, spoke with MDM about the company's latest deal, how they navigated it during a global pandemic and how their M&A appetite remains strong even amid today's economic upheaval.

By Eric Smith

COVID-19 forced most companies to discard their M&A playbook. Gone were the days of such normal practices as hopping on an airplane to meet in person, getting quick approval from a board of directors to proceed with pursuing a deal or even shaking hands to seal the deal.

Acquisition opportunities had to make sense by every imaginable metric — especially on the balance sheet — and each potential deal was scrutinized to the point where many simply fell through during the first few months of this global pandemic.

But a handful of mergers and acquisitions did reach the finish line during this crisis, including some market-shifting moves from publicly traded companies. Count Lawson Products Inc. among that group. The Chicago-based company earlier this month announced the $35.3 million acquisition of Partsmaster, a Greenville, Texas-based MRO solutions provider.

It marked the largest deal in the company's history, and to better understand Lawson's appetite for acquisitions, even during COVID-19, MDM spoke with Mike DeCata, president and CEO, and Brian Hoekstra, who joined the company as vice president, mergers and acquisitions about a year ago — and just a few months before M&A activity came to a standstill.

In this wide-ranging Q&A, DeCata and Hoekstra dish on everything from the importance of financial stability to why cultural alignment is paramount to the hallmarks of an attractive target.

MDM: Brian, you joined Lawson last fall to lead the company's M&A initiatives, and then most activity dried up. How has the pandemic changed your approach to deals?

Hoekstra: COVID-19 hasn't been fun for anybody, but it hasn't changed the way that we are approaching M&A. We're still looking for businesses that make sense from a strategic perspective. We're certainly not trying to do a small roll-up of the industry or anything like that, but we're looking for businesses that make sense. We're looking for businesses that have the high-touch sales model, are serving maintenance needs, are customer-based, are selling consumable products. We're continuing to look for opportunities that fit our filters. It's challenging to find those opportunities and to come to agreement on what valuation looks like in this environment, but for those strategic opportunities that make sense, we're going to continue to pursue them.

MDM: We saw deals dry up particularly in March, April and May and our monthly M&A Roundups were quite anemic. Did the last six months of COVID-19 drastically affect the marketplace for acquisition opportunities or limit the targets that you had your eyes on?

Hoekstra: People may not have been quite as willing to come to market when everything was upside down, but we're continuing to see deal flow, we're continuing to see opportunities floating around out there. Activity did slow down a bit during the midst of the crisis, and certainly for folks who hadn't already been out in the marketplace, I didn't see a whole lot of new stuff coming. As you said, there wasn't a lot of activity to round up in the roundups.

DeCata: I have to congratulate Brian because he closed the Partsmaster deal in less than a year of when he started — and it was by far the largest deal in the history of the company. The way we went about it, the thoroughness, the professionalism, the holistic, fulsome approach we took to this acquisition was far more comprehensive than the previous ones we had done. That was a large credit to Brian's experience prior to joining us.

MDM: How, and why, did Lawson pull off this acquisition in the middle of a global pandemic?

DeCata: We had been in contact with [Partsmaster] a long time ago and for the last two

Continued on p. 8

COVID-19 M&A

Continued from page 7

years we've been touching base with the parent company. But when everybody else was preserving cash, and worried about the end of the world, because of the processes we had put in place prior — including the financial infrastructure — and the actions we had taken to manage the unknown, we were very comfortable in continuing to pursue our acquisition strategy in the middle of the pandemic. I think it speaks to our preparation in advance of the pandemic, including our financial infrastructure and our bank relationships — all of those things paid dividends for us. With Brian's thoroughness and experience along with the processes and infrastructure we brought into this period, it gave us the courage and the willingness to continue on the path that we were on before the pandemic. I'm quite positive we will be very, very well rewarded because we had the courage to do this. I believe it will be the lowest-risk acquisition of the seven or so that we've done. I believe this one will come off the most seamlessly with the best integration and the best financial success, human resource success and customer success of anything we've ever done prior to this. But it did take a little holding your breath and re-examining the confidence you have in your own value proposition to do it in the middle of a pandemic.

MDM: At any time — especially when the pandemic started worsening in March or even later in the due diligence phase — did Lawson consider backing out?

Hoekstra: I'd be lying if I said I wasn't nervous at various points in time as we were continuing to talk about this opportunity. But as Mike indicated, from a strategic perspective this deal just made a whole lot of sense to us. And we continued to work it throughout the depths of the downturn and then as we saw it moderate a bit.

DeCata: The other thing that influenced us to such an extent, was that Partsmaster and Lawson go to market very, very similarly. What we knew, and we had known for many years, is that if we were able to put the two companies together, the customers would be the biggest beneficiaries along with the sales reps. Our SKU count and product category availability are about double what Partsmaster's SKU count is. And they add some truly outstanding private label products, some highly differentiate products, a commitment to operational excellence and customer service, as we do. Both the Lawson and Partsmaster customers will benefit and both the Lawson and the Partsmaster sales teams will benefit by having a broader portfolio of products to sell, which will result in higher commissions for our sales reps and their ability to more fully serve their customers.

MDM: Was the due diligence process delayed just because of the simple fact that you guys couldn't hop on a plane and visit the Partsmaster team in Texas?

Hoekstra: One of the things that I've learned throughout the pandemic is all the tools that are available in general these days make it not necessarily ideal but possible to do a lot of that work remotely. The video calling and the communications capabilities that are out there are not ideal, but they do work well.

DeCata: The only hard thing was not so much in the strict sense of diligence, but rather just getting to know people. It's easier if you already know each other to have a video call. But when you're meeting people for the first time on video, that's a lot harder. It's easier when you've sat and had dinner together and you've gotten to talk about your values, your philosophy, what your aspirations are for the company. In person, it's easier to get to know someone's family and kids — the personal side. It makes the hard work of diligence and negotiating and all the hundreds and hundreds of fine points all a little easier. We didn't have that luxury, but to Brian's point, I don't think we missed that much in the process. This was different than other processes, but the technology was not that much of a burden, and of course, we did it with a lot less travel, so if anything, it might have been a cost reduction.

MDM: How important is cultural alignment in M&A for Lawson, and how much did that play a role with the Partsmaster deal?

DeCata: Relative to every acquisition, culture is really, really important, maybe even paramount. We know this company; they know us. We traded sales reps over the years. We've both been in business for a long time. That matters a lot. Integrity matters a lot. The underlying, underpinning values of a company matter a lot because the integration is where the rubber meets the road, and that's going to happen

Continued on p. 2 of the yellow section

mdm

Industrial & Construction Markets Update

VOL. 50, NO. 17 | SEPTEMBER 25, 2020

Mixed Bag for Latest Economic Reports

Key economic reports over the first three weeks of September reveal improvement in some areas but plenty of work to be done in others.

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

New orders for manufactured goods in July, up three consecutive months, increased $27.8 billion or 6.4% to $466.1 billion, according to the U.S. Census Bureau.

Total industrial production rose 0.4% in August after increasing 3% in July, according to the Industrial Production and Capacity Utilization Report, released by the Federal Reserve.

Indian River Consulting Group's (IRCG) weekly Pandemic Revenue Index for the work week of Sept. 14-18 indicated a sales increase of 4.9% versus the same week in 2019, which is the largest increase outside of a week distorted by a holiday.

Construction spending during July 2020 was flat. It was estimated at a seasonally adjusted annual rate of $1,364.6 billion, 0.1% above the revised June estimate of $1,362.8 billion, according to the U.S. Census Bureau.

The Chicago Fed National Activity Index (CFNAI) declined to +0.79 in August from +2.54 in July.

U.S. cutting tool consumption totaled $137.8 million in July, according to the U.S. Cutting Tool Institute (USCTI) and The Association For Manufacturing Technology (AMT).

The U.S. Census Bureau announced that the combined value of distributive trade sales and manufacturers' shipments for July — adjusted for seasonal and trading-day differences but not for price changes — was estimated at $1.4 trillion, up 3.2% (±0.2%) from June but down 1.2% (±0.4%) from July 2019.

Distributor

Winsupply Inc., Dayton, Ohio, broke ground on the future home of the Richard W. Schwartz Center for Innovation. The facility will also be the new home of Winsupply of Dayton.

Atlanta-based office product distributor **Veritiv** announced that Salvatore A. "Sal" Abbate has been named the company's CEO.

Hammond Lumber Co. announced the creation of a new senior leadership team. Mike Hammond, president and CEO of the four-generation, family-owned company has appointed internal promotions and several new roles within the company.

EPTDA — the executive association for industrial distribution distributors and manufacturers across Europe, the Middle East and Africa — announced the appointment of its new 2021/22 board of directors and president, effective Oct. 1 2020. EPTDA named Des Spillings, managing director, **Acorn Industrial Services Ltd UK**, as its new president.

US LBM Holdings, a distributor of specialty building materials in the United States, has opened a new roofing and siding location in Manchester, Connecticut. The location is the company's ninth new roofing- and siding-focused greenfield since 2018.

Industrial distributor **The NEFCO Corp**. announced the opening of a new location in Syracuse, New York, to further support and service the professional contractor trades in Central New York. It's NEFCO's third location in New York State.

Chattanooga, Tennessee-based industrial distributor **Bolts & Nuts Corp.** announced that it has changed its name and re-branded as **Stock'd Supply**.

United Rentals Inc., Stamford, Connecticut, announced that Paul McDonnell, chief commercial officer, will leave the company on Sept. 30.

Wayne, Pennsylvania-based buying group **AD** announced the opening of its new Canada warehouse and meeting center, located in the greater Toronto area.

Manufacturer

Bearings manufacturer **SKF**, Gothenburg, Sweden, announced it is investing approximately SEK 550 million (US$61.7 million) in strengthening its manufacturing footprint and competitiveness in North America.

3M (NYSE: MMM), St. Paul, Minnesota, reported total sales for August increased 2% year-over-year to $2.7 billion. Organic local-currency sales (which includes organic volume impacts and selling price changes) declined 2% while acquisitions, net of divestitures, and foreign currency translation increased sales year-over-year by 3% and 1%, respectively.

COVID-19 M&A

Continued from p. 8 of the white section

through teams coming together and trusting each other and working together — each with a degree of humility and respect, but also bringing forward each company's best practices. Both companies will have best practices that, together, we'll want to adapt. One of the first actions Brian took when he joined us a year ago was a small acquisition we were looking at. Brian — with an extremely high degree of courage — said, "Guys, I know I'm brand new here, but I wouldn't do this deal. These guys don't fit." They did fit financially, they fit as far as the business, but their culture was not a fit. And we give Brian tremendous credit for the courage to kill something a couple of weeks into the job. And he was 100% right. Yet, it took a high degree of courage to say, "This is also important."

MDM: Brian, what did you see in that target that made you speak out against the deal?

Hoekstra: I think it just went to the notion that they didn't think about the business in the same way that we think about the business. In that particular instance — as we were just discussing with Partsmaster — we did have the opportunity to sit down and talk to people face to face, and you get a good feel for them and how they think about the business. Ultimately, when you get around to the integration, if people just don't approach things the same way, it becomes hard to see eye to eye on where the decision needs to go on a longer-term basis. It was a red flag in my mind, and that one probably wasn't going to make a lot of sense for us — unlike this Partsmaster opportunity, which fits the mold.

MDM: What is Lawson's appetite for M&A moving forward? Has it changed at all following the pandemic, increased following what you see as a successful Partsmaster deal?

DeCata: Our appetite hasn't changed, which is to say we still have a real appetite for more acquisitions. But we're also pursuing our other two growth strategies, adding sales reps and enabling our sales reps to be more productive. This is a three-part growth strategy. All three legs of the stool stand independently. But I would argue that [the Partsmaster acquisition] does give us a little bit more credibility. We've done a number of [deals], and every one of the acquisitions we've done, we enter the process with the aspiration to make it a successful deal that can be a reference for the next deal. If your

Continued on p. 4 of this section

Calculation of MDM Inflation Index for August 2020

		BLS Price Indices Aug '20	BLS Price Indices Jul '20	BLS Price Indices Aug '19	% Sales Weight	Weighted Indices Aug '20 (1)X(4)	% Change Aug '20 Jul '20	% Change Aug '20 Aug '19
1136	Abr. Prod.	636.2	638.2	631.4	19.1	121.51	-0.33	0.75
1135	Cutting Tools	538.8	538.8	534.2	18.9	101.83	0.00	0.86
1145	Power Trans.	887.9	886.6	869.7	15.4	136.73	0.14	2.08
1081	Fasteners	592.5	594.1	567.1	9.0	53.33	-0.27	4.48
1149.01	Valves, etc.	1107.7	1107.7	1060.3	7.6	84.18	0.00	4.47
1132	Power Tools	400.6	400.6	395.5	6.5	26.04	0.00	1.29
1144	Mat. Handling	656.3	656.3	647.6	6.2	40.69	0.00	1.33
0713.03	Belting	972.1	972.1	947.3	6.1	59.30	0.00	2.62
1042	Hand Tools	851.4	845.9	836.1	8.1	68.96	0.64	1.83
108	Misc. Metal	504.5	505.4	503.7	3.1	15.64	-0.17	0.17

"New" Aug Index	370.0	Aug Inflation Index	708.20	0.01	2.03
"New" Jul Index	370.0	Jul Inflation Index	708.13		
		Aug 2019 Inflation Index	694.10		

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

MARKETS UPDATE SUPPLEMENT P. 3

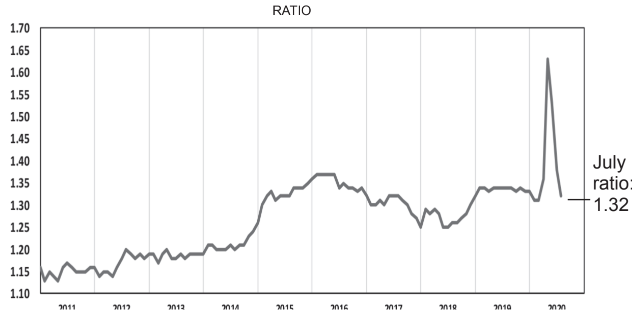
July 2020 | Monthly Wholesale Trade Data

Wholesale revenues in July were $479.2 billion, down 4.0% over July 2019 and up 4.6% over June 2020. July sales of durable goods were up 4.2% over the previous month and down 1.1% from a year ago. Sales of nondurable goods were up 5.0% over June and down 6.7% from last July.

Inventories were $234.8 billion at the end of July, down 0.3% from the revised June level and down 5.6% from last year. July inventories of durable goods were down 0.9% from June and down 1.1% from a year ago. Inventories of nondurable goods were up 0.6% over June and down 2.6% from last July.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2010-2019

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Inventories/Sales Ratio. The July inventories/sales ratio for merchant wholesalers was 1.32. The July 2019 ratio was 1.34.

Sales and Inventories Trends: July 2020

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	% Change Sales 6/20-7/20	% Change Sales 7/19-7/20	% Change Inventory 6/20-7/20	% Change Inventory 7/19-7/20
42	**U.S. Total**	**479,151**	**632,304**	**1.32**	**4.6**	**-4.0**	**-0.3**	**-5.6**
423	**Durable**	**234,847**	**378,395**	**1.61**	**4.2**	**-1.1**	**-0.9**	**-7.5**
4231	Automotive	39,217	60,347	1.54	9.4	-3.0	-0.6	-12.9
4232	Furniture & Home Furnishings	7,526	11,839	1.57	8.5	-9.0	-3.0	-16.3
4233	Lumber & Other Construction Materials	12,764	18,593	1.46	3.3	0.6	0.4	-6.0
4234	Prof. & Commercial Equip. & Supplies	44,363	48,756	1.10	5.5	0.1	-2.7	-4.9
42343	Computer Equipment & Software	22,482	15,620	0.69	3.2	3.2	-2.4	-10.2
4235	Metals & Minerals	11,316	29,439	2.60	6.8	-21.3	-2.7	-10.7
4236	Electrical Goods	48,685	53,503	1.10	2.0	0.8	1.0	-3.3
4237	Hardware, Plumbing, & Heating Equipment	14,376	26,268	1.83	2.2	9.8	0.1	-1.9
4238	Machinery, Equipment & Supplies	36,747	100,895	2.75	-0.5	-2.2	-0.8	-5.3
4239	Miscellaneous Durable	19,853	28,755	1.45	4.7	7.6	-1.3	-12.9
424	**Nondurable Goods**	**244,304**	**253,909**	**1.04**	**5.0**	**-6.7**	**0.6**	**-2.6**
4241	Paper & Paper Products	7,267	9,657	1.33	7.1	-3.5	-0.2	4.3
4242	Drugs	63,482	70,454	1.11	3.1	6.3	3.1	6.8
4243	Apparel, Piece Goods & Notions	10,359	26,379	2.55	8.5	-19.5	-4.7	-7.5
4244	Groceries & Related Products	58,627	42,533	0.73	1.1	0.4	0.5	3.5
4245	Farm-product Raw Materials	16,091	22,312	1.39	0.5	-9.0	2.8	-12.0
4246	Chemicals & Allied Products	9,830	12,097	1.23	2.6	-9.5	-2.5	-8.7
4247	Petroleum & Petroleum Products	40,443	19,036	0.47	17.3	-30.4	2.9	-17.1
4248	Beer, Wine & Distilled Beverages	15,506	17,024	1.10	10.4	15.6	-1.1	-7.8
4249	Miscellaneous Nondurable Goods	22,699	34,417	1.52	0.2	-2.6	-0.3	-3.9

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.

COVID-19 M&A

Continued from p. 2 of this section

aspiration is for everything you've done to be a reference for everything you're going to do, that's a very high standard. You can't be casual and cavalier. This is our largest acquisition, and I believe it will open more people's eyes to the fact that everything we've been saying for about five years — we're still saying it. If they didn't believe us before about a willingness to do more and larger acquisitions, they probably are more likely to believe that we are, even in this environment.

MDM: For readers of this Q&A who might be looking to be acquired, what's your message in terms of setting themselves up as a target to an acquirer like Lawson or a different company in this space? What are some hallmarks of an attractive seller?

DeCata: I would look for a track record with consistency, which would be the same thing anybody would say. If you had a terrible five years, and all of a sudden you have a spectacular year and this is the year you want to sell, that will raise red flags. If anything, COVID has taught us that unpredictable things happen in the world. Very few of the companies in our space are public, many are family-owned, and so what used to be discussions that Brian and I would have with potential sellers, their orientation was, "Well, I'm having a lot of fun this year. When I'm having less fun, we should get together." That's probably not the right strategy because the price we pay is probably going to be less. But the even bigger lesson learned from COVID is with no notice, crazy things can happen that can delay your retirement plan for years. Accepting the fact that there are a lot of unknowns out there and the world is hard to predict. I would advise someone to be candid about their willingness to deal with the ups and downs of long cycle activities in their planning. If you're not ready to be in your business five years from now, you should be thinking about what you're doing right now because the world is unpredictable.

MDM: Do progressive companies that have adopted digital tools and analytics capabilities rise to the top of your target lists?

DeCata: Yes, but more importantly, I think that the more analytical companies are probably the more profitable companies. They use their resources more wisely because if an idea doesn't work, they kill it more quickly than somebody else would. And they invest wisely because they analyze if the investment is returning as we hoped. The analytics orientation process results in a better, stronger, more profitable and more attractive business. When we acquire someone, they become part of a public company with a public company rigor that goes into protecting shareholders. All of those are things that would be considerations. Candidly, in our space, most of the companies are smaller, very few are public that we would acquire. There probably isn't such a large population of target companies that we could say, "Well, you've got to be analytical and you got to do this, and you've got to do that." That further reduces the target set to a point where it might not be workable.

MDM: Will you look at how companies navigated the COVID-19 crisis when considering future targets?

Hoekstra: Certainly, we're going to look at it. And then we're going need to understand what's going on, we're going to need to understand the drivers. Obviously, at a high level, we understand what happened to our business, but we're going to have to understand what happened to theirs and how they got through the process and how they came out the other side.

DeCata: There are other things we would want to focus on as it relates to this situation, including leadership and if there was an even hand at the tiller. We'll also look at product composition and is it repeatable. Someone who had a huge uptick in PPE — is that PPE business sustainable or is it a one-off? You wouldn't want to overvalue someone for something that isn't repeatable, but you also wouldn't want to penalize someone for the same type of reason, someone who took a deeper dip for activities out of their control. In both cases, you need to normalize things a little bit. Now, the reaction of management is sustainable, because there will always be future crises, and the management's ability to accommodate and be resilient matters a lot. But the short-term spike in numbers up or down — you'd want to look at it and not let either of those unduly influence the attractiveness of a company.