MODERN DISTRIBUTION MANAGEMENT

mdm premium

VOL. 50, NO. 18
OCTOBER 10, 2020

How to Reframe Outdated Sales Operation Assumptions

Shaped by decades of conventional practice, these habits may do distributors harm more than they help.

Indian River Consulting Group's Mike Marks argues that sales transformation cannot happen for a distributor without releasing these long-held beliefs.

By Elizabeth Galentine

In the last six months or so since we entered the pandemic, companies have been taking time to think critically about their business practices and changing value propositions. In a presentation during MDM's recent Virtual Sales GPS 2020 conference, High-Performance Sales Models: The Next Paradigm, Mike Marks of Indian River Consulting Group reflected on the importance of such evaluations, but also noted distributors can unintentionally slow down sales transformation efforts in the process.

The managing partner at IRCG addressed historical assumptions about distribution that can often hold distributors back. For example, Marks said, many distributors still believe that if they take a field salesperson out of a territory, their business volume will then disappear with the person. However, IRCG's research shows that 80% to 98% of the products a distributor sells to a customer are products that customer has purchased from the distributor before. The customer will likely reorder whether that salesperson is there or not.

"If you're in the construction business and your field sales people are involved with [a customer that has a] 90% repurchase rate, and they're fundamentally doing project management services, you could probably cut your costs a lot and actually hire professional project managers to manage those customers — and the customer can have a better experience," Marks said.

Examine Your Assumptions

Other false assumptions that distributors use to make operating decisions include:

- If a sales rep does a good job with an account, it will be theirs forever.
- If they are in the office, then they are not selling.
- Their performance appraisal is their paycheck.
- Field sales reps are money motivated.
- I incent them on GP, so they get as much as they can.
- As long as he is heading that way, he can deliver the product.
- Discussions around prospecting are uncomfortable and often unproductive.

"There's pretty solid data right now that says these are in fact not true," Marks said. "So, if you're trying to talk about a sales transformation, it's very important that you examine all of your own assumptions in terms of what you're doing. And make sure that you don't make decisions on assumptions that technically and substantively aren't correct."

In order to avoid poor outcomes, Marks shared some sales transformation models that are working for distributors in today's environment. It's not simply that the pandemic has suddenly facilitated a necessity for distributors to rethink their sales team design. Many started down this road five to 10 years ago, and what the pandemic is doing is magnifying that preparation gap between those who got a head start and those who are just beginning. "The gap between the leaders, the people that have started and are working hard, and those people that haven't even started is getting exceedingly large," said Marks.

Continued on p. 3

INSIDE

mdm
competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Elizabeth Galentine

If There is Any Time to Re-Examine Long-Held Beliefs, It Is Now

I love the opening premise of Indian River Consulting Group Managing Partner Mike Marks' recent MDM Sales GPS Presentation on the nuts and bolts of sales model redesign. The managing partner at IRCG starts by addressing a series of assumptions long held by distributors about sales operations and sales team performance. Things distributors often think are improving their margin or protecting their territory, but can actually be hurting their business. For details, take a look at the cover story in this issue, "How to Reframe Outdated Sales Model Assumptions."

Re-examining long-held assumptions of my own has become somewhat of a regular pastime during this period of COVID-19-induced isolation. I'll spare you the details of my epiphany that maintaining separate laundry bins for each of my six family members was actually creating more work for me rather than less. Suffice it to say, a benefit of feeling like we're in a perpetual Groundhog Day scenario is it gives us the opportunity to question the efficiency and effectiveness of our daily routines and the things we do just because that's how they've always been done.

In the business context, we increasingly have the aid of actual hard data to accompany those evaluations. And in many cases, it's accompanied by more time now to dive in and examine the numbers.

In fact, Marks suggested that distributors who are really hitting their stride on sales transformation right now are those who have kept up with data maintenance through the years. "Having had the opportunity to work with a lot of these leaders over the last several years, every one of them have spent years being anal retentive in fighting to get their data clean," Marks said.

As Marks addressed distributor assumptions in his Sales GPS presentation, High-Performance Sales Models: The Next Paradigm, he didn't call out the following, but he did reference it later and I think it is perhaps the most basic assumption of all: the belief that all sales reps need to sell products.

He shared a great example of why this is not always the case. A distribution co-op that sells to hardware stores and others uses its sales reps to recruit customers into their program that provides supplies with auto-replenishment. The sales reps sell the program and are not involved in product transactions. If a customer does request a sales person come into one of their locations to write an order in-person, that customer is charged for the sales call.

"Think about working with your sales force. Instead of selling products, why don't they become the best-practice experts for your customers," Marks said.

Sales reps want to win. Increasingly, winning looks less like selling product and more like selling a solid value proposition. As Marks said, make customers want to buy the commodity products from you so that they can access your knowledgeable sales people, whose job it is to help them grow their business.

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 Editor
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_premium.

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.

ISSN 0544-6538

ASSUMPTIONS
Continued from page 1

Skills that are driving their success, he said, include:

• Analytics and Big Data application
• Change in project management and business process design.

"Having had the opportunity to work with a lot of these leaders over the last several years, every one of them have spent years being anal retentive in fighting to get their data clean," Marks said.

Sales Transformation in Action

In 2017, a beer distributor was growing faster than the market with an EBITDA margin greater than 10%. They were staffed 6:1 inside versus outside sales reps. The company made the decision to separate market-making activity from market-serving activity and lowered their costs as a result.

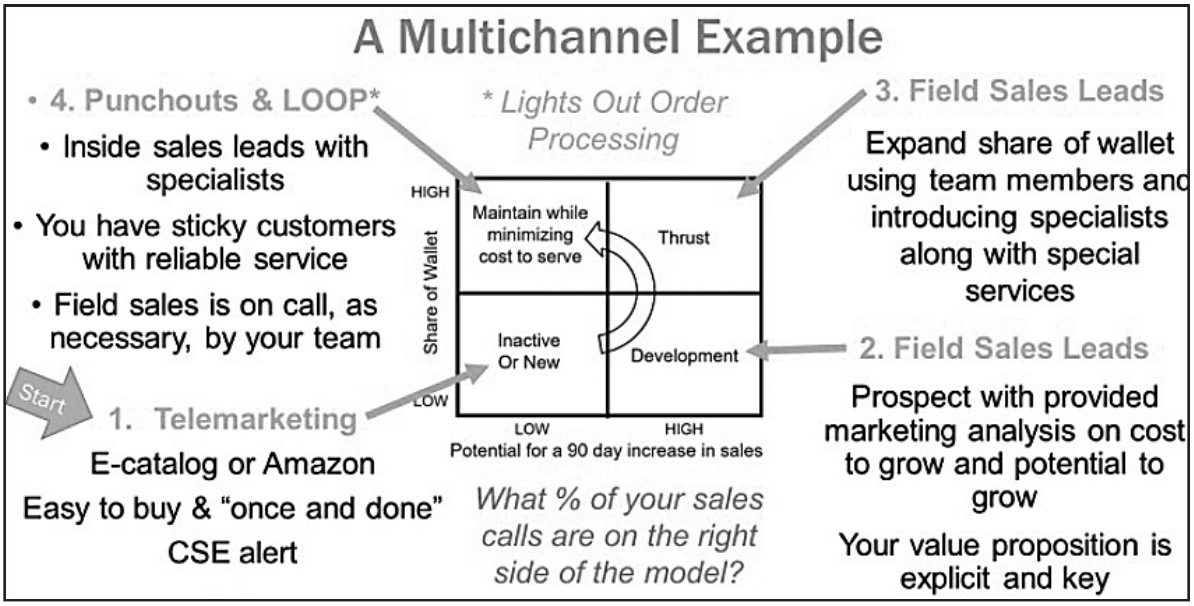
To understand market-making versus market-serving activity, Marks shared an illustration of a box divided into four portions to represent the customer lifecycle. The X axis represents the potential for a 90-day increase in sales and the Y axis represents the distributor's share of wallet.

2. Moving to the right, the second phase of the customer lifecycle is development, where potential for 90-day sales is high but share of wallet is still low. Think field sales leads where the team prospects with provided marketing analysis on cost to grow and potential to grow. Your value proposition is explicit and key, Marks said.

3. Above, the next box represents the thrust portion of the lifecycle, with high potential for 90-day sales and high share of wallet. This section also operates off of field sales leads but the team is expanding share of wallet using team members and introducing specialists along with special services.

4. The final sector of the customer lifecycle, the top left box representing high share of wallet and low potential for 90-day sales, is what Marks refers to as punchouts and lights out order processing. It consists of inside sales leads with specialists, sticky customers with reliable service and field sales on call, as necessary.

Taken together, the two quadrants on the left are market serving, while those on the right side are market making. With this important differentiation in mind, the beer distributor now has two different kinds of sales reps, one for market making and one for market serving.



1. The customer lifecycle starts in the lower left quadrant of the box, where the customer is inactive or new, with a low wallet share and low potential for sales increase. Think telemarketing activities, an e-catalog or Amazon-type relationship where the product is easy to buy but can also be a one-and-done interaction.

"Market serving says, how do I protect my revenue stream with that customer and create a good, frictionless customer experience? Market making is, how do I displace competition? Or how do I increase my share of wallet?," Marks explained.

Continued on p. 4

ASSUMPTIONS

Continued from page 3

So, the inside salespeople and digital team became the primary contact for those customers in the top left maintenance box. But when things come up, the inside salesperson will call a field salesperson to intercede if needed. They are able to maintain the 6:1 inside versus outside salespeople because field salespeople are not involved in recurring transaction management.

Four Levers to Reduce Costs

Marks shared four strategic levers distributors need to pull in order to reduce costs.

1. Role specialization takes lower economic valued tasks away from field sales reps and groups them into full-time new roles paid appropriately for the value provided. "No customer is ever going to go to a website and confess all their supply chain problems to some anonymous website," Marks said. "Sales people earn the right to have that conversation."

The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself.
— Peter Drucker

2. Replace artisan processes with digital alternatives that will cost less but be more responsive, consistent and reliable. "What you're doing is taking the labor component out of answering customer requests," he said.

3. Segregate market making activities from market serving activities. Seen above in the beer distributor example. This will require some turnover and transition, Marks warned.

4. Create and provide clear value propositions and support tools for sales reps to augment or replace the critical 'sell yourself first' value proposition. "A lot of times for lifestyle distributors, their value proposition is a relationship with the field salesperson," Marks said. "It's not a relationship that's business to business. And that's one of the big things change.

The Power of Competitive Advantage in Business Models

There is always a gap between what distributors think they are selling and what their customers are actually buying from them, Marks noted. A fan of Grainger for years, he used the distributor as an example of a company that identified the right model for innovation: They will try something new, and if it doesn't work they do not punish the people who were responsible for it. Rather, they conduct "after action reviews," a formal process that asks, what can we learn? How do we do it better next time?

As one of the largest distributors of professional batteries in the world, Grainger is a well-known name. But even with their name recognition and history of innovation, a lesser known distributor, AED Superstore, has been able to compete by addressing what the customer is really buying when they purchase a professional battery. In this case, one used to power a defibrillator to assist someone having a heart attack.

According to Marks, AED offered a $10 million indemnification bond to customers that lets them know if the battery in a defibrillator should die, AED will cover the customer's first $10 million in liability. Each product is registered and AED is responsible for replacing batteries, not the customer.

The AED business model exploits the gap between what the customer is actually buying versus what is being sold. "They're selling risk management, and Grainger was selling a product," said Marks.

A distributor will not create any competitive advantage without changing their value proposition to increase customer switching costs. Low switching costs result in low gross margins for distributors, he added.

Value Propositions in a Business Model

As management consultant Peter Drucker put it, "The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself."

Competitors with the same business model know each other well, Marks said. In order to differentiate from each other to create sticky customers, distributors try to provide their customers with a better alternative by adding services, products and subscriptions and valuing them over transactions. But the real threat, Marks said, is people who come from the outside.

A value proposition — a distributor's tool to combat competition — is a solution to a set of customer problems. A business model has two parts, who are the group of customers you're going to serve? And then, what are you going provide for them?

Marks noted a business model is not

complete without customer segmentation. Otherwise, a distributor opens itself up to poaching risks by not understanding the cross subsidies of its customers. For example, Marks did strategy work for an electrical distributor whose largest customer was a contractor who turned out to be buying huge amounts of product from Amazon. "Customers want different things. Sometimes they want full service. Sometimes they just need product. That's called situation sourcing," said Marks. "Good segmentation segments your customers by how they want to buy."

This is critical to understand for a distributor who wants sales transformation. Some customers want and need full service, long-range planning, while others are very self-sustaining. Good segmentation design creates maximum similarity within a segment and maximum dissimilarity between segments. But, Marks warned, the old-school approach to breaking up business by industry served or size is poor criteria for today's customer. Instead, he said, segment them by how they want to buy. Electrical and plumbing industry distributors took a hit in the '90s when they didn't do this and Home Depot swept in and took the small contractor business.

Segmentation exposes cross subsidies and also identifies opportunities.

Examining the Team

Marks highlighted several questions for a distributor to ask themselves about the role of their sales team members in the company's sales transformation journey.

He noted the least productive territory design is to assign full responsibilities for all customer activities in a geography to a field salesperson.

- What are they supposed to do to help you market your value proposition and sell services?
- What are their responsibilities for growth?
- If the only thing you're measuring is how many GP dollars they generate, you're missing a lot.
- You need to know, what is my share of wallet with that customer? Am I the No. 1 or No. 2 supplier with that guy?
- What is my financial return on the customer when I'm in the No. 1 or No. 2 or No. 3 position?
- What segments should they serve?

"We've always figured that we never had to manage salespeople because their performance appraisal was their paycheck," he said. "It's a lot more complicated. You need to really think about which customers you want to invest field sales effort into. That's a design criteria. And that should go into how do you do your transformation?"

EPTDA President on What's Happening in Europe, Plans for 2021

New leader brings decades of experience to the executive position.

Des Spillings, managing director for Acorn Industrial Services Ltd. UK, recently began his stint as 2020/21 president of EPTDA. MDM checked in with Spillings about the association's plans for next year and how distributors are faring on the other side of the pond.

By Eric Smith

Des Spillings' distribution career has a familiar ring to it.

Twenty-five years ago, he joined Acorn Industrial Services Ltd. UK — a Sheffield, England-based distributor of bearings and mechanical power transmission products — as a warehouse employee. Then he worked his way over to customer service before being promoted to sales director.

After 10 years of gaining invaluable experience across the company's key departments, Spillings and another colleague, Martin Povey, acquired the company in a management buyout. They would own the business together for 10 years, selling to the family-owned, Swedish private equity firm Axel Johnson International AB in 2015.

Five years later, Axel Johnson still owns the business, and Spillings and Povey still run it, having grown Acorn into a £33 million (US$42.7 million) company that boasts 55,000 SKUs and 4,000 customers.

Now, Spillings gets to add another bullet point to his resume. He is taking over as the 2020/21 president of EPTDA — the executive association for industrial distribution distributors and manufacturers across Europe, the Middle East and Africa.

MDM caught up with Spillings for a trans-Atlantic video chat, where he dished on everything from EPTDA's goals to what's happening with European and UK distributors — many of whom are facing the same situations as their American counterparts. Here's our conversation.

MDM: Congratulations on being elected EPTDA president. Are you excited about both the challenges and opportunities in this role?

Spillings: I'm excited. It's a strange time to come in, but it's an exciting time, too. If ever we're going to make any changes, then we've got to do it now. If we don't make changes now, then we're never going to make them. I like that. I like the fact that it's going to be a period of making changes and changing things for the better. I hope to open the organization a little bit more and encourage more people to become a member or just have a look and see what EPTDA is all about.

MDM: What do you hope to accomplish in your year as president?

Spillings: The key thing that we've talked about over the last couple of meetings within EPTDA is that it needs to change, it needs to adapt. If we don't do that, then we can't be of any help to our members. The key thing now is to provide more content for the members — and the right kind of content, to pin down what they want and how quickly they need it. I don't have a magic wand on exactly what that content is at the moment, but we're aware that there's a desire for that, and we've got a desire to change to make sure we provide it.

MDM: Is now actually a chance for EPTDA to perhaps grow during this time when people are thinking about contraction and shrinking?

Spillings: The membership levels have been pretty consistent probably for the last four or five years. There's not been any real growth in members — a few drop in, a few drop out, as always. I think this is a chance to change the nature of EPTDA and change how people think about it and what it brings. For somebody who's maybe considering joining but hasn't done so in the past, we can show them the benefits, such as sharing problems or ideas with likeminded people.

There's always a few competitive worries; we understand that. But, on the whole, you tend to find out that the problem you've got, 10 other companies have the same problem. Normally, you can work things out when you talk about it.

MDM: Let's shift gears. How has business been the last six months or so for your company specifically but also for the distribution channel in the UK?

Spillings: I don't think it's been as bad as we thought it was going to be, to be quite honest. When we first started looking at the numbers, we were thinking maybe a 30%-40% reduction in revenue, but that's been closer to a 12%-13% reduction over that period. Certainly, April was the worst when we were probably down 25%. May got a little bit better. June was a little bit better again. July was almost back to normal. August was bad again, but to be fair, it was a short month and is traditionally a holiday period, so that's to be expected. And then September is good — I wouldn't say quite back to where we were pre-COVID numbers, but not far away. September was, let's say, the first real month of the "new normal."

If you look throughout Europe, it's a little bit harder to judge because some countries have been hit worse than others. I think the UK, Spain, France were probably the three worst. Now, we're all going through this second wave and some of the lockdown elements are coming back. In some sectors, we've been quite buoyant — food and beverage, medical. If we look at our transactions, we're probably in front of where we were pre-COVID, but what we've seen is the big orders aren't quite there. Efficiencies in the business have been key to making sure we can handle the extra capacity.

MDM: Has there been a shift with Acorn, or across European distributors in general, to some of the "COVID" product lines like PPE or JanSan?

Spillings: Yes. Acorn owns another company called Town and County Engineering Services, and they're almost 100% in the food production sector. They have the full janitorial — masks, sanitizers, wipes — and initially, they had a real spike in demand. It's lessened as people have gotten their supply chains a little bit more stable, but they've certainly moved into that to a greater extent than they were before. At Acorn, not so much.

We decided not to do that because we thought, "OK, we might get a short win, but then after a certain period, people will go back to their traditional suppliers for that product." We decided to stick to mechanical power transmission and concentrate on that.

MDM: The U.S. is seeing an inflection point in distribution between the companies that navigated this crisis and are doing well, and those that didn't adapt and are struggling. Is there a similar dynamic in the UK and Europe?

Spillings: I think so, although it's hard to tell because we don't know the ins and outs of everybody's business. I think we'll find that out probably at the beginning of next year when some of the results start to land. But the word on the street is there some more traditional businesses that couldn't adapt as quickly as others and have fallen by the wayside. You can see that in quite a few businesses. I can't speak for Europe on a broader level, but certainly in the UK, we're seeing the same trend.

If we look at our transactions, we're probably in front of where we were pre-COVID, but what we've seen is the big orders aren't quite there.
— Des Spillings, Acorn Industrial Services Ltd.

MDM: EPTDA covers numerous countries and even different continents. Are issues that your membership is facing similar across the footprint or do they vary by nation?

Spillings: I think overall the issues are the same, whether it's the UK, Slovenia or Sweden. The nuances might be different, depending on the local economic situation, but a lot of companies have the same people problems, the same delivery issues. If the automotive industry is in trouble, then there's a lot of distributors in trouble. There are some common themes that you see throughout the countries.

MDM: I'm glad you brought up people because talent acquisition is a huge issue here. Is there a talent gap in Europe and, if so, how are you addressing it? Does distribution in the UK also have the same stigma as not being a "sexy" industry?

Spillings: That's a good question. The talent

Continued on p. 8

EPTDA

Continued from page 7

issue isn't COVID-related — it's been there for a long time. Yes, we do have problems attracting people because it's not a very sexy industry. But let's be honest — nobody goes to the London School of Economics with the hope of selling bearings for the rest of their life.

Nobody goes to business school and says, "One day, sir, I want to sell bearings."

That's not why they go. They want something far more exotic than that, but we end up there through whatever channel, whether that's by accident or design. I think this is somewhere that PTDA, EPTDA and MDM can help — it's just the promotion of the industry as a whole. Distribution is hard at the moment, but it's an industry where you get to meet different people, see some fantastic places.

And it's quite strange, but once you start getting into the products — I'm never going to say it's sexy — but you start thinking about how things go together and how they affect everything around us.

MDM: Are there distribution-specific programs in the UK like we have at Texas A&M and Nebraska-Kearney?

Spillings: Not in the UK. You've got the mechanical engineering programs, maybe with some business management thrown in. Those would probably be the closest. But as far as I'm aware, I don't think there's anything regarding distribution. There's not anything in Europe as well that I've heard of. But certainly, that would be something that would be of advantage to a lot of people.

MDM: Digital is always a topic of conversation here. Where is Europe in terms of its digital advancements within wholesale distribution?

Spillings: Europe is getting better. I think it's in reasonably good shape in those terms. For us, this digital discussion has been going on for four or five years now, and exactly what's included in digital and what isn't included in digital, you can discuss and debate.

But if we're talking about e-commerce, then you're certainly seeing you know that the big companies getting more aligned and making the sites much easier to navigate and use. It brings new entrants into the market as well. You've got companies out there that let's say aren't holding stock and have no real technical competence, but they provide a great digital experience, and some customers are attracted to that.

This issue is only going to get bigger, without a shadow of a doubt. Thirty-percent of our transactions are taken over e-commerce, and that's growing. You can see there's a shift from customers that they're not picking the phone up as much.

They want to communicate through email or communicate over the website through a chat function. They may still then email the order through or sometimes even they'll look online and then phone the order through. You've got to provide that channel for your customer to come into your company. It might not be everything, but I think if you don't have it, it's going to be a real barrier for you going forward.

MDM: How would you describe the distribution M&A landscape in Europe?

Spillings: In Europe, you've got a few dominant players — the same as in the States — who are actively consolidating. Axel Johnson is one of the real big consolidators. What we've seen in the last six months is that it's understandably almost stopped completely, but a couple of things have gone through in September. I think the M&A market is starting to come to life a little bit, but I also think people are going to be a little more risk-averse for a while in their acquisition strategy.

Last year and the year before, everything was globalization and consolidation, and then the pandemic happened in March and April, and everything stopped. I think it'll take a little while to get back to where we were 12 months ago. For the last six months, it was like walking on quicksand. You didn't know where you were, you didn't know where the ground was going to stop, where it was going to end. There was a lot of uncertainty.

I think companies now can probably see a bit more certainty for the next six months. It might not be the certainty that they want, but at least that they can see some stability and where the picture is going to be for the next 6, 12, 18 months. That will bring people back to M&A.

mdm

Industrial & Construction Markets Update

VOL. 50, NO. 18 | OCTOBER 10, 2020

Is Ferguson Back in Acquisition Mode?

Ferguson, one of the more acquisitive companies in distribution, understandably paused M&A activity back in March. The COVID-19 crisis brought too much uncertainty not only to the deal environment but also the economic landscape as a whole.

But with business settling into a new normal and fiscal 2020 now complete, the UK-based distributor — which has a huge presence in the U.S. through its Ferguson Enterprises brand — is raring to resume acquisition mode.

"Going forward, we have a number of attractive traditional bolt-on acquisitions in the pipeline, several of which we expect to conclude later this year," Ferguson's group CEO, Kevin Murphy, told analysts on the 4Q earnings call. "But in addition to bolt-ons, we'll also use acquisitions to grow capabilities that will make our branches and our digital channels more relevant. Many of these opportunities allow us to get closer to the consumer and owner while adding to our own brand product offering."

Murphy's acquisition proclamation came after the company reported fiscal 2020 sales of $21.8 billion. That was down 0.9% compared to fiscal year 2019, while profit of $1.3 billion marked a 4.8% decrease from the year-ago period. The company said its U.S. division saw revenue growth of 2.7% to $18.9 billion and underlying trading profit growth of 5.2% to $1.6 billion.

As the company eyes return to growth, that plan revolves around M&A. Before the company haled deal activity in March due to the COVID-19 crisis, it had already invested $351 million in six acquisitions during the fiscal year.

Distributor

Applied Industrial Technologies, Cleveland, has acquired Advanced Control Solutions, a Marietta, Georgia-based provider of automation products, services and engineered solutions.

Construction and industrial supplies and equipment distributor **Winsupply Inc**., has completed the acquisition of **Avon Supply Co**., a plumbing and heating wholesale distributor primarily serving the greater Boston market.

Broken Arrow, Oklahoma-based industrial and MRO distributor **BlackHawk Industrial** has acquired D&L Industrial, Irwin, Pennsylvania.

Endries International Inc., Brillion, Wisconsin, announced the acquisition of fellow fasteners distributor **K&L Sales Inc**., Hartland, Wisconsin.

Brady, a Las Vegas-based full-line janitorial supply, equipment and foodservice distributor, has acquired **Mission Janitorial & Abrasive Supplies**. San Diego, California.

SiteOne Landscape Supply Inc., Roswell, Georgia, has made two acquisitions in recent weeks — **Hedberg Supply**, the landscape supplies product division of **Hedberg Aggregates**; and **Burnco Landscape Centres Inc**., a wholly owned subsidiary of **Burnco Rock Products Ltd**.

Landscape distributor **Heritage Landscape Supply Group Inc.**, a McKinney, Texas-based subsidiary of **SRS Distribution**, has acquired **Aquarius Supply**, an independent distributor of irrigation, outdoor lighting, agronomics, and other landscape products.

Coastal Construction Products, Jacksonville, Florida — an independent distributor of caulking and sealants, waterproofing, concrete restoration and firestopping materials in the U.S. — has opened a showroom and warehouse in Raleigh, North Carolina.

US LBM Holdings, a distributor of specialty building materials in the United States, has opened a new roofing and siding location in Lakeland, Florida.

Building materials distributor **ABC Supply Co. Inc**., Beloit, Wisconsin, has opened a new location in Concord, North Carolina, outside of Charlotte.

ISA has launched registration for its next virtual event for 2020, the inaugural Women in Industry Virtual Summit, October 21-22, from 1 p.m. to 4:30 p.m. EDT.

NetPlus Alliance, the Lockport, New York-based North American industrial and contractor supplies buying group, has restructured its team and named several staff promotions.

MARKETS UPDATE SUPPLEMENT P. 2

Manufacturer
Swedish manufacturer **Atlas Copco** has agreed to acquire **Perceptron**, a publicly traded supplier of automated metrology solutions, for SEK 630 million (US$68.9 million).

Safety products manufacturer **SureWerx**, Elgin, Illinois, has appointed Christian Wiltrout as global COO, effective immediately.

Bearings manufacturer **RBC Bearings Inc.**, Oxford, Connecticut, announced the appointment of Robert M. Sullivan as vice president and CFO.

Emerson, St. Louis, announced it has completed the acquisition of the **Progea Group**, a provider of industrial internet of things (IIoT), plant analytics, human machine interface (HMI) and supervisory control and data acquisition (SCADA) technologies.

Atlas Copco has named Peter Kinnart as senior vice president, CFO, and member of the company's group management, effective July 2021.

Economic
Heating, Air-conditioning & Refrigeration Distributors International (HARDI), Columbus, Ohio, released its monthly TRENDS report, showing the average sales performance by HARDI distributors was an increase of 4.5% during August.

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

The **U.S. Census Bureau and the U.S. Bureau of Economic Analysis** announced that the goods and services deficit was $67.1 billion in August, up $3.71 billion from $63.4 billion in July, revised.

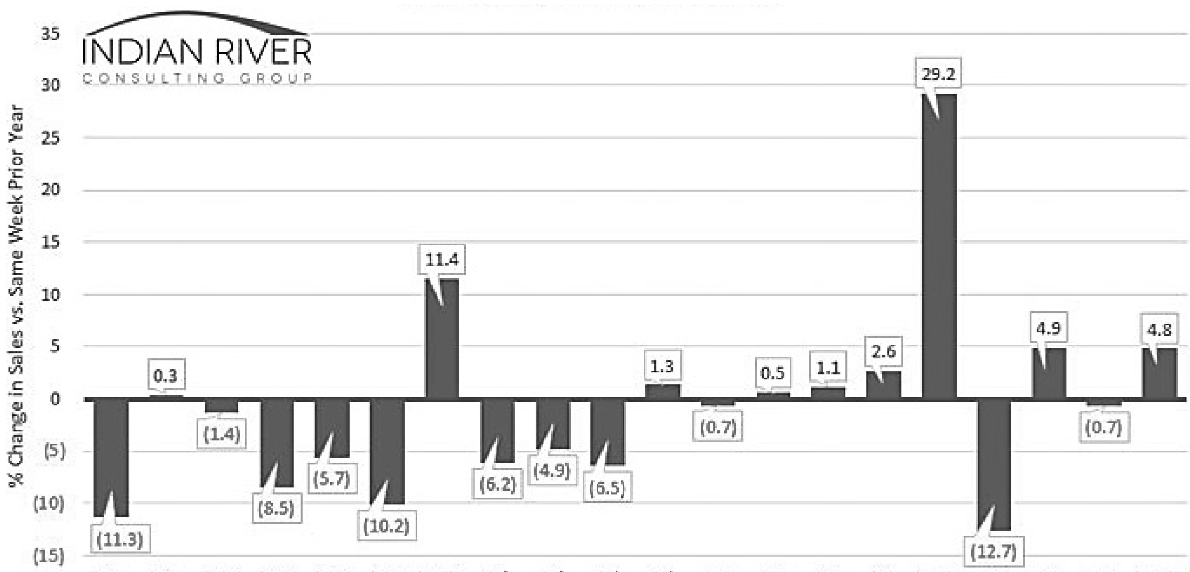
IRCG's Weekly Pandemic Revenue Index Shows 4.8% Increase

Indian River Consulting Group's weekly Pandemic Revenue Index for the work week of Sept. 28-Oct. 2, 2020, indicated a 4.8% increase compared with the same week a year ago.

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.

"Seven companies reported increases with five of them being double digits. The high was 32%. Of the four companies that saw decreases, the range was from less than 1% to 18%, so there is still a fair amount of variance among the participants," said Mike Emerson, IRCG partner.

Find resources on pandemic response, including a cash flow modeling spreadsheet and instructional webinar, and a cost-reduction planning webinar, at ircg.com/stress-testing.



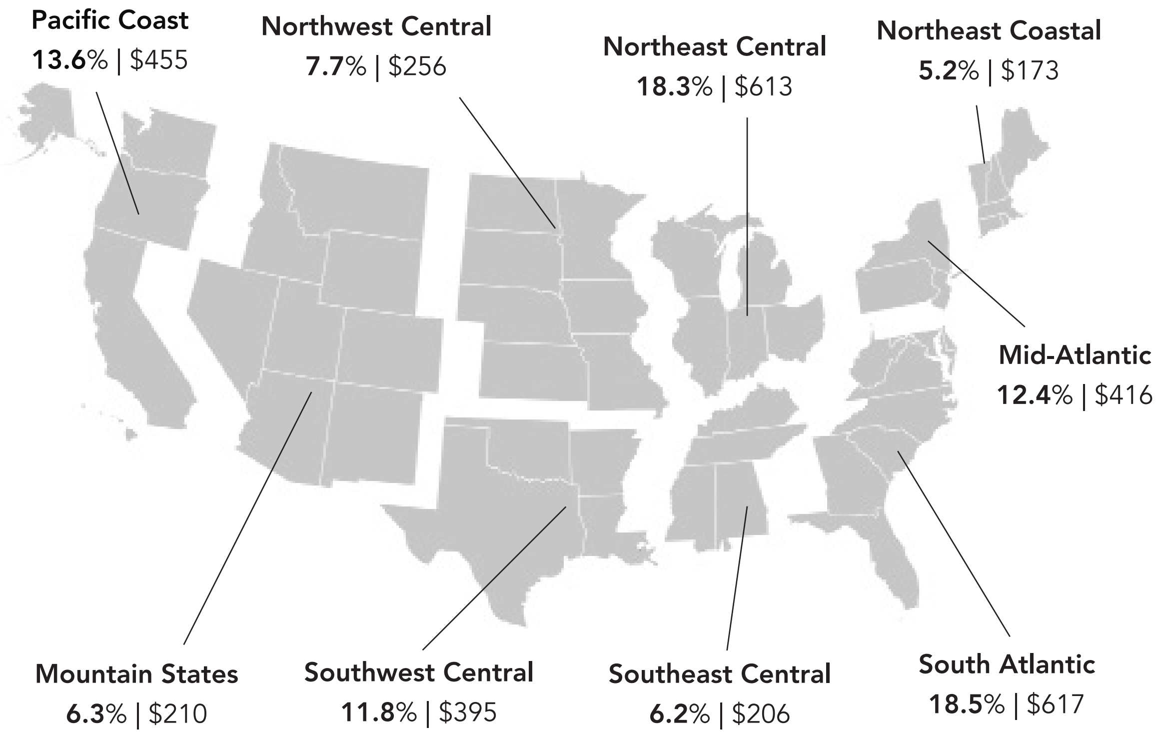
MARKETS UPDATE SUPPLEMENT P. 3

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

U.S. Total: $3.3 billion

Market demand for Compressors in the U.S. was $3.3 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: All compressors, industrial (primarily stationary) air types and construction use (mobile) air types.

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



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

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

End User		Estimated Consumption
1731	Electrical Work	$182,000,044
1711	Plumbing, Heating and Air-Conditioning	$136,751,302
2621	Paper Mills	$88,857,593
1542	General Contractors-Nonresidential Buildings	$64,710,812
8062	General Medical and Surgical Hospitals	$59,853,189
2834	Pharmaceutical Preparations	$51,380,423
2631	Paperboard Mills	$49,867,830
2086	Bottled and Canned Soft Drinks and Carbonated Waters	$44,673,024
1521	General Contractors-Single-Family Houses	$38,182,946
3714	Motor Vehicle Parts and Accessories	$37,342,436

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

MARKETS UPDATE SUPPLEMENT P. 4

What is Distribution's Economic Outlook for 4Q and Beyond?

A sneak peek at MDM and Baird's 3Q distribution survey results.

Where did distributor revenues land in the third quarter? We answer this question and more in this preview of the latest MDM-Baird Distribution Survey — and the results might surprise you.

By Eric Smith

It appears the third quarter wasn't as bad as many thought it would be. Distributors posted an industry average of –3.2% growth in the period, according to the latest quarterly MDM-Baird Distribution Survey.

Though still negative, that's a significant improvement from the disastrous second quarter — the height of the COVID-19 crisis — when distributors posted an average decline of –9.8%.

"Third-quarter survey data showed a moderately better-than-expected sequential recovery, with building products providing most of the upside," wrote Baird analyst Dave Manthey. "However, several hard-hit industrial supply categories rebounded sequentially. Looking forward, industrial supply distributors forecast a continued gradual recovery into 4Q20 but are initially cautious on 2021, while building products distributors forecast modest y/y growth in 4Q20 and 2021."

Another nugget from the report: Pricing turned positive (+110bps y/y) after last quarter's deflationary reading, although pricing across certain categories (cutting tools and fasteners) continues to be lower, Manthey wrote.

These stats are just a sneak peek from the latest Baird-MDM Distribution Survey — look for much, much more in the Oct. 25 issue of MDM Premium — but these data points speak to an important trend as the country continues to navigate the pandemic: While not every report is upbeat, there has been plenty of encouraging news to kick off October.

Distribution M&A activity has accelerated in the first week of the month and quarter, with deals already from Endries International, Applied Industrial Technologies, Winsupply, SiteOne Landscape Supply, BlackHawk Industrial, Brady, Heritage Landscape Supply and Emerson. This link will take you to all of our M&A news.

Indian River Consulting Group's (IRCG) weekly Pandemic Revenue Index for the workweek of Sept. 28 to Oct. 2 indicated a 4.8% increase compared with the same week a year ago. (See p. 2 of this supplement) Seven of the last 10 have shown an increase, albeit some were very small bumps and some increases were the beneficiary of a favorable comp with 2019.

And the seasonally adjusted Fastener Distributor Index (FDI) for September was 52, up from 49.2 in August, according to the latest analysis from Baird, FCH Sourcing Network and the Institute for Supply Management. The Forward-Looking Indicator (FLI) also improved, up to 60.6 from the ~53-54 range of the past several months.

Fourth-Quarter Expectations

As we have been covering in MDM, the fourth quarter got off to a rocky start with the president's COVID-19 diagnosis rattling the markets and consumer confidence. What's more, we've seen a couple of less-than-enthusiastic reports, endured ongoing disruption due to the pandemic and wondered about the outcome of a contentious presidential race.

So we polled our audience on LinkedIn about how they project the markets to perform in 4Q. Nearly half (48%) of about 30 respondents said they expect "flat" growth in the quarter, while 31% expect "strong or moderate" growth and 21% expect "strong or moderate" decline.

Respondents to the MDM-Baird Distribution Survey agreed, forecasting a slight sales decline of –0.3% in the period and a 1% increase in 2021. Look for more specifics in the Oct. 25 issue of MDM Premium.

In the meantime, if you're not already, please consider becoming a member of our LinkedIn group, Modern Distribution Management's Independent Distributor Network. There, more than 10,000 professionals in the distribution, manufacturing and consulting fields are sharing relevant articles, best practices and questions for the community.

In the coming weeks, you'll see even more engagement from the MDM team, so be on the lookout for some lively conversation around the issues affecting wholesale distribution.