

The Outlook for Wholesale Distribution in 2017

A survey of key business objectives and challenges facing wholesale distribution companies

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Executive Summary

Distributors project 2017 to be a good year – but that may be because 2016 was so bad the economy can't go anywhere but up for many of them. That's the prevailing mood among distributors who responded to this year's industry outlook survey from NetSuite in partnership with Modern Distribution Management.

In this year's survey, 41.3 percent expect sales growth of 5 percent to 10 percent (up from 38 percent a year ago), while 28.9 percent expect growth of up to 5 percent and 19.3 percent expect growth of more than 10 percent.

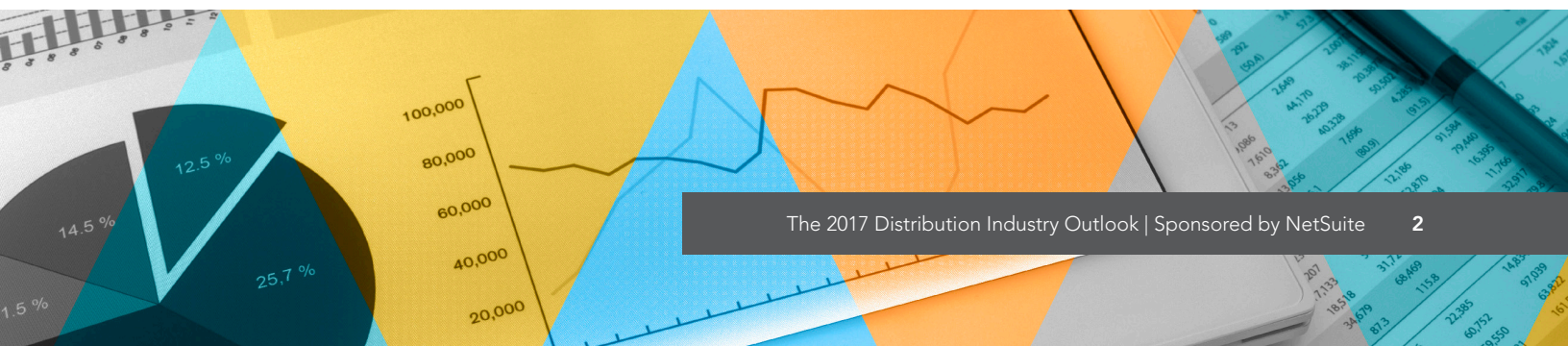
Most sectors are projecting strong growth or at least moderate growth. Building materials, the sector that has led distribution for the past few years, continued its especially rosy outlook into 2017, with nearly three-quarters of respondents expecting growth of at least 5 percent.

However, companies have business- and industry-specific concerns ranging from uncertainty over exactly when the economy will improve to questions surrounding a new president and worries that they're not meeting customers' evolving demands.

Talent tops the list of concerns for most distributors. Executives expressed worry about how well they are recruiting millennials, how effective their training programs are and if they have adequate succession plans in place.

Technology is a key driver of change. Some are pursuing their first e-commerce site, while others are looking for more mature offerings, such as a mobile app, in hopes of meeting customer demands for easier shopping and buying experiences.

This report highlights these and other trends, and it also reveals what distributors are planning to do in 2017 to build revenue and cut costs, while also improving their technological capabilities as the industry adapts to a new economy and evolving workforce.



Methodology

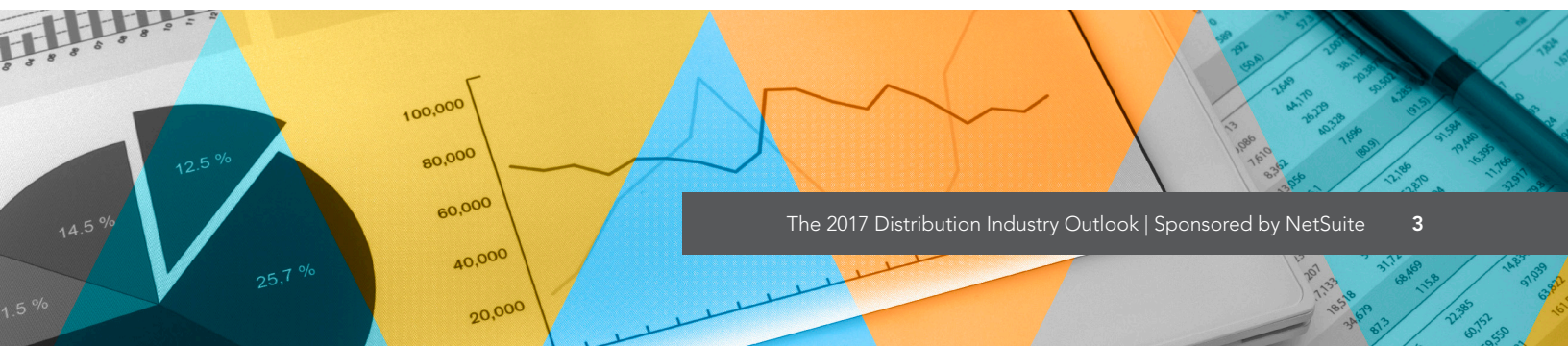
The results presented in this whitepaper are the result of an online survey of readers from Modern Distribution Management (www.mdm.com) and NetSuite in December 2016. Modern Distribution Management is the premier source of research on the wholesale distribution industry and offers news, blogs and premium newsletters to executives in wholesale distribution businesses or that sell through or to wholesale distribution businesses.

Nearly 300 respondents in wholesale distribution and manufacturing responded to the survey. Almost 90 percent identified as a manager or above in their companies, with 50.2 percent being the owner or the executive of their companies.

Size distribution of respondents was diverse with 7.3 percent of respondents with less than \$2 million in annual revenues; 13.9 percent with \$2 million to \$10 million; 25.2 percent with \$10 million to \$50 million; 13.9 percent with \$50 million to \$100 million; 18.6 percent with \$100 million to \$500 million; and 21.2 percent with more than \$500 million in annual revenues.

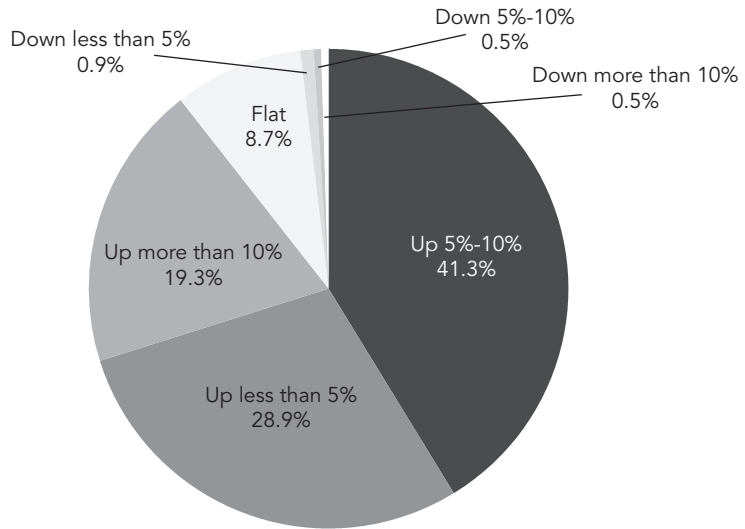
By employee count, 31.9 percent had 0-49 employees; 12.7 percent had 50-99 employees; 34.8 percent had 100 to 999 employees; and 20.7 percent had more than 1,000 employees.

Sector representation was also diverse, with Industrial the largest at 55.3 percent of respondents. Other sectors represented include Safety Products (28.7 percent); Electrical & Electronics (23.3 percent); Building Materials & Construction Products (20 percent); HVACR/ Plumbing Products (17.5 percent); Power Transmission/Bearings (17.1 percent); and Oil and Gas Products (15.9 percent). Others included Jan-San, Chemicals and Plastics, Consumer Products, Electronics, Pulp and Paper, Pharmaceutical, and Grocery and Foodservice. Respondents could name more than one sector, so totals exceed 100 percent.



Growth Outlook

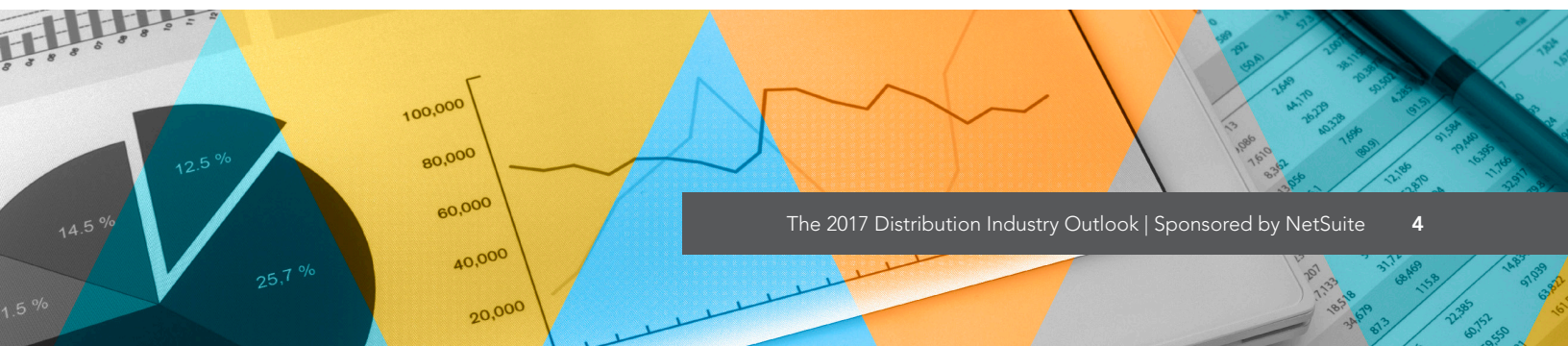
Most respondents still have a positive outlook for 2017, with 41.3 percent expecting sales growth of 5 percent to 10 percent (up from 38 percent a year ago); 28.9 percent expecting growth of up to 5 percent, and 19.3 percent expecting growth of more than 10 percent.



Growth Outlook by Sector

	Up more than 10%	Up 5%-10%	Up less than 5%	Flat	Down less than 5%	Down 5%-10%
Building Materials	31.8%	40.9%	27.3%	0%	0%	0%
Chemicals & Plastics	18.5	44.4	25.9	11.1	0	0
Consumer Products	26.3	36.8	31.6	5.3	0	0
Electrical/Electronics	19.6	39.3	30.4	8.9	1.8	0
Grocery/Foodservice*	40	40	20	0	0	0
HVACR/Plumbing	25.6	48.7	23.1	0	0	2.6
Industrial	17.4	41.3	31.4	9.1	0	0
Janitorial Supplies	21.9	34.4	37.5	6.3	0	0
Oil & Gas Products	21.1	44.7	31.6	2.6	0	0
Pharmaceutical*	8.3	58.3	25	8.3	0	0
PT/Bearings	13.5	46	29.7	8.1	2.7	0
Safety Products	21	28.4	27.4	3.2	0	0

* Small sample: fewer than 20 respondents



Top Concerns for 2017

Business-Specific

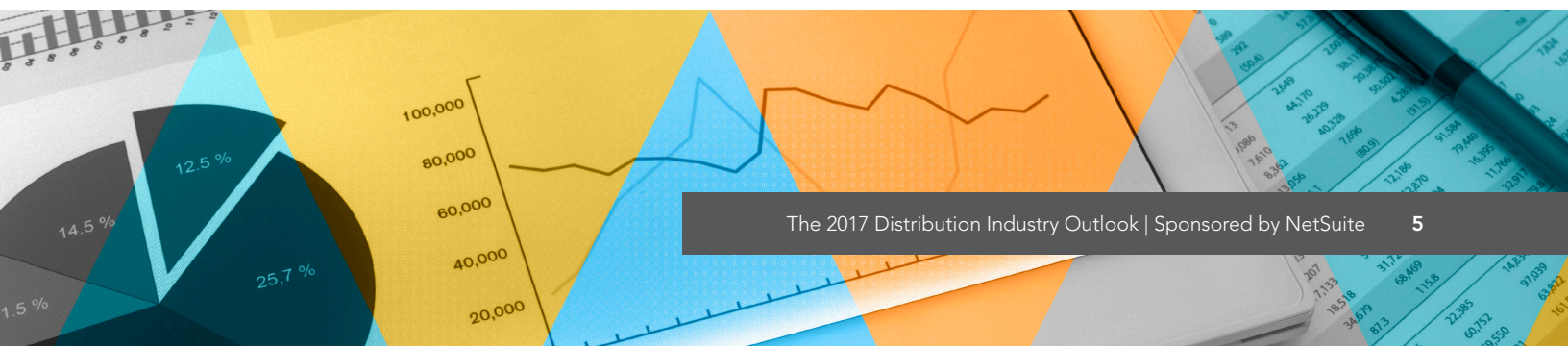
Respondents' business-specific concerns revolve around how well they're managing talent acquisition and retention, their ability to navigate disruption that's either happening now or perhaps looming on the horizon and how they can keep up with customer expectations that are being shaped by B2C experiences.

- **Talent management:** Finding and retaining talent continues to be top of mind for distributors, many of whom are seeing their aging sales forces dwindle. How well distributors adapt to what millennials want in a workplace – which includes, among other traits, robust training programs and varied benefits programs – could become a differentiator in 2017.
- **Navigating disruption:** Disruption can come in many forms, and distributors are looking for ways to insulate themselves from regulatory changes, rising costs, new competitors and margin pressures. More than merely fighting off competitive threats, some companies look to aggressively take share in 2017 by investing in talent and technology.
- **Meeting customers' changing demands:** "Dwindling customer loyalty" was one survey respondent's answer to the top concerns for 2017. As customers have more options – including both traditional competitors and disruptive forces – keeping them engaged becomes more difficult and more imperative.

Industry-Wide

Respondents' answers here varied greatly, but common concerns included:

- **Economy:** The mood has improved across distribution, but optimism remains subdued. While survey respondents project the overall climate to brighten, they also have grown weary of economists telling them that better days are ahead.
- **Regulatory climate:** A number of respondents questioned the new president's campaign promises, including the infrastructure bill, while others are worried about the many labor and employment issues taking center stage in Washington this year. Still others worry about the impact on international trade.
- **Consolidation at multiple levels:** Not only are distributors concerned with M&A among their competitors, but also throughout the supply chain as consolidation escalates among suppliers and customers.
- **Manufacturing productivity:** Survey respondents said they are worried that manufacturing will be especially slow to rebound and won't be able to keep pace with customer demands. Off-shoring will become a hot-button issue in 2017 because of what the incoming president insists will be a focus on keeping jobs in the U.S.



Pain Points

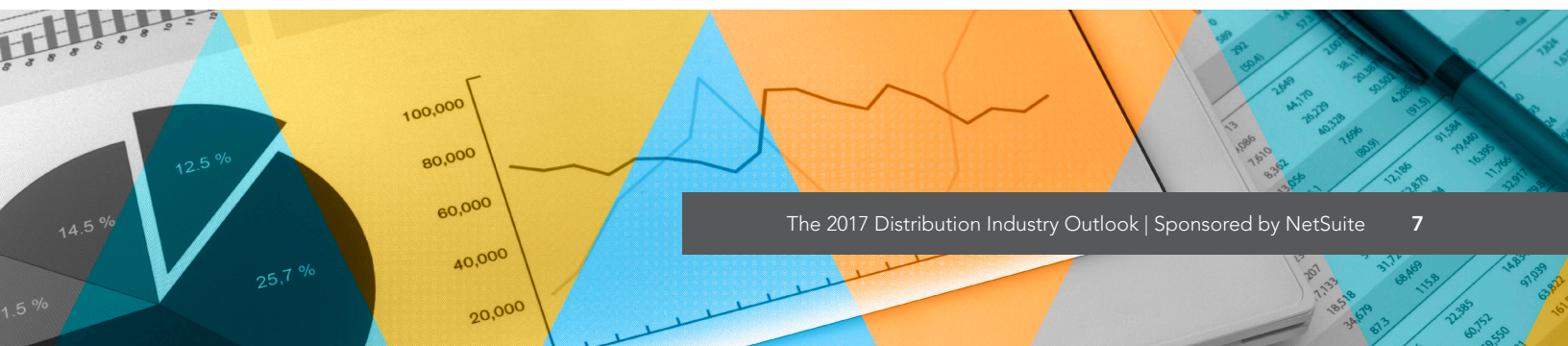
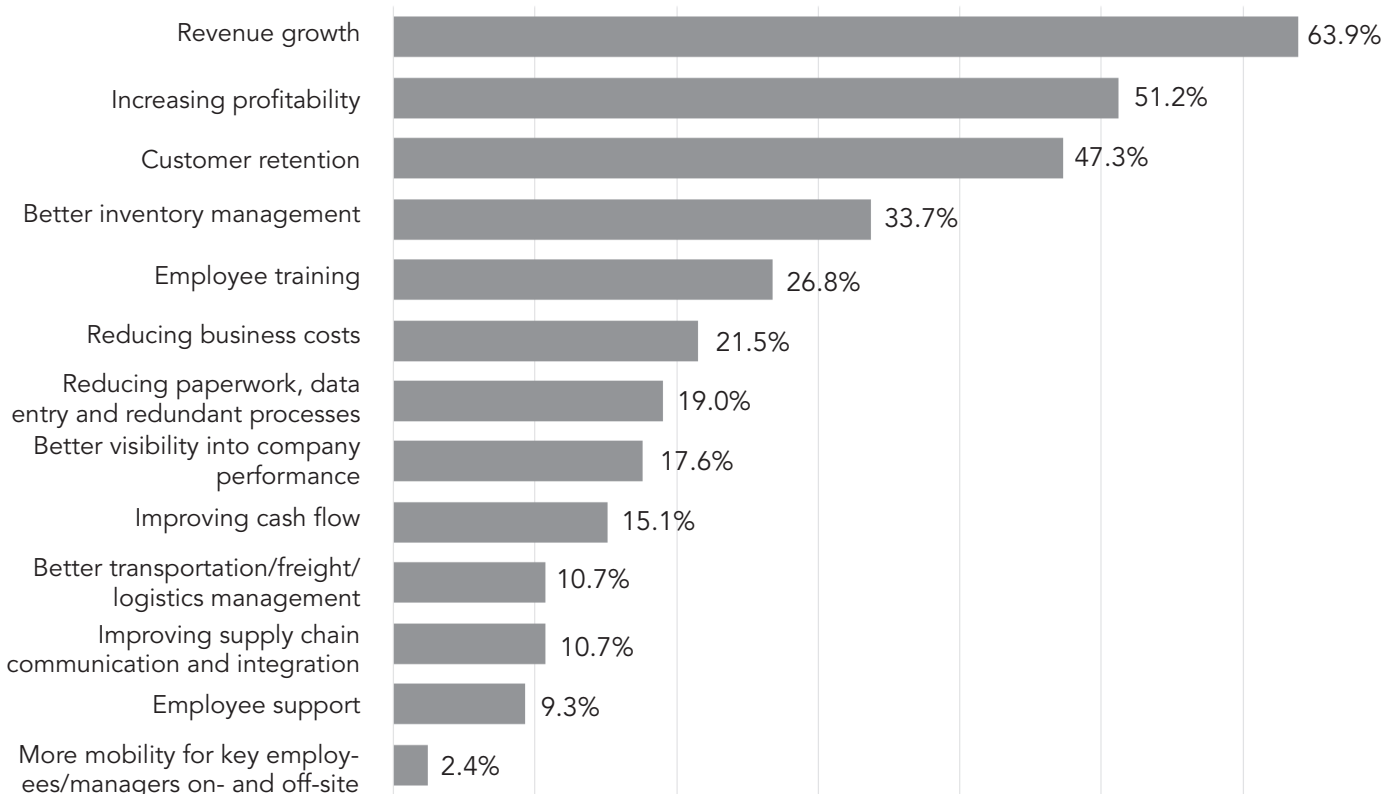
The top pain points distributors project for 2017 are similar to last year's – rising costs, the shrinking talent pool and economic stagnation. But distributors have been successfully managing their pain no matter the economic environment, and here is what they expect to deal with throughout the year.

- **Low-growth environment:** Lower revenue and shrinking margins top the list of pain points for most companies, who are hoping 2017 reduces margin pressure and strengthens demand across their customer bases.
- **Shrinking talent pool:** Distributors are struggling to fill open positions, especially in sales, but they are also concerned with retaining the employees they land and adequately grooming the next generation of company leaders.
- **Managing costs:** A perennial concern for distributors, rising costs surrounding health care, technology and training – just to name a few – have companies seeking new ways to find a quick return. The cost of not taking care of these issues, however, is even greater.
- **Customer loss:** Customer slowdowns and customer consolidation continue to frustrate distributors, but now changing customer demands could have an even greater impact as companies attempt to mimic B2C experiences while maintaining value-adds such as product knowledge.
- **Keeping up with faster supply chain:** Many distributors said they struggle to keep up with an increasingly digital world, from getting clean product data from the manufacturer to implementing the latest technology, including the internet of things.



Key Business Priorities

Revenue growth topped the list of business priorities for companies again this year, with 63.9 percent of respondents including it among their responses, up slightly from last year. This was followed by increasing profitability (51.2 percent), customer retention (47.3 percent), better inventory management (33.7 percent) and employee training (26.8 percent). Reducing business costs and reducing paperwork, data entry and redundant processes were also top priorities for many of this year's respondents.

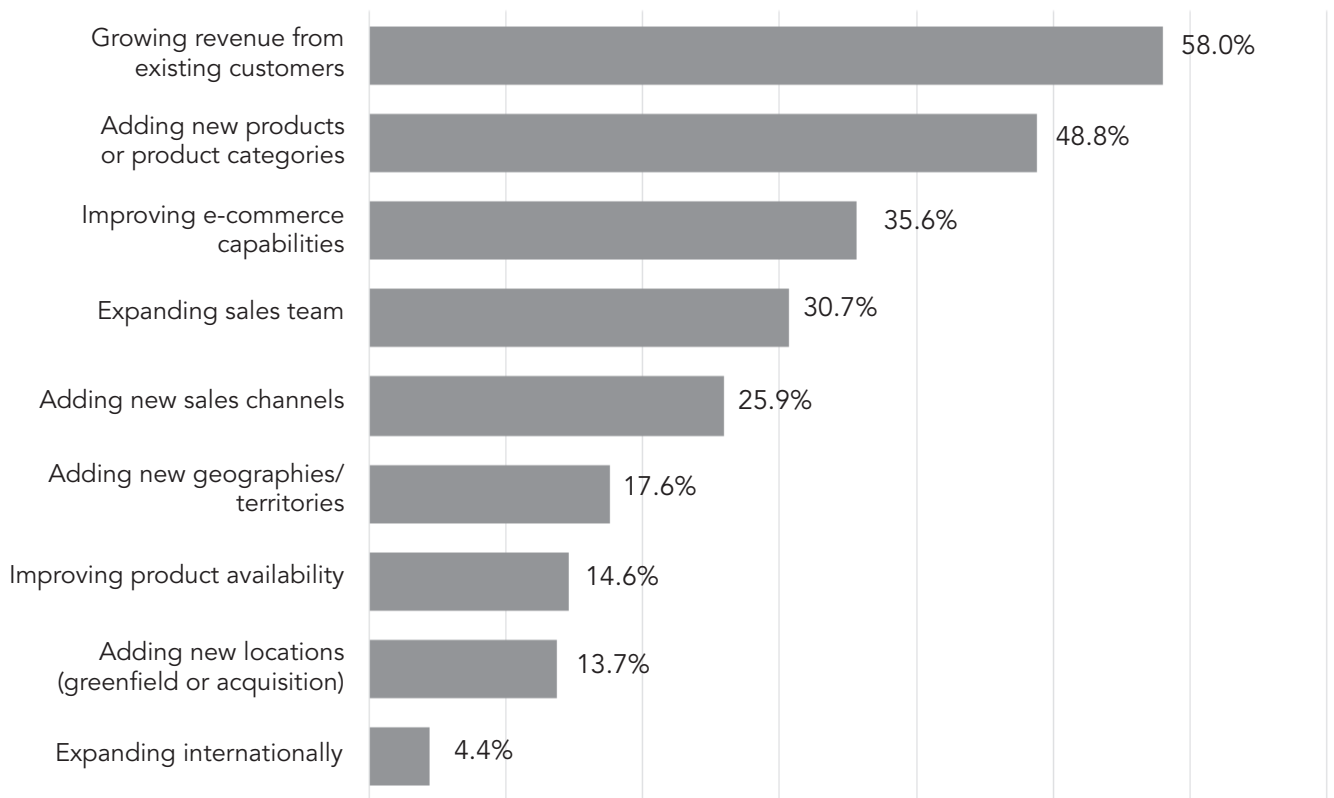


Plans for Building Revenue

The most common way survey respondents plan to grow revenue in the next 12 months is from existing customers (58 percent). Though down slightly from a year ago, building revenue from existing customers remains the most popular, with one respondent saying that a shift in how they treat existing customers is paramount: "We are servicing our best customers differently and we believe this will increase their spend/share of wallet with us."

Adding new products or product categories was second again this year with 48.8 percent of respondents hoping to grow revenue this way, up slightly from 2016. The No. 3 plan for building revenue in 2017 is improving e-commerce (35.6 percent), followed by expanding sales team (30.7 percent) and adding new sales channels (25.9 percent).

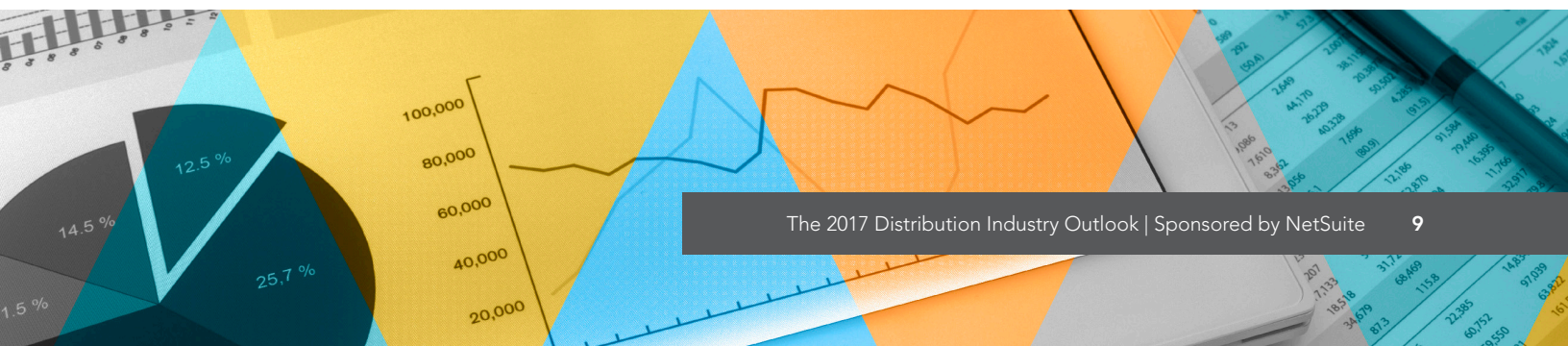
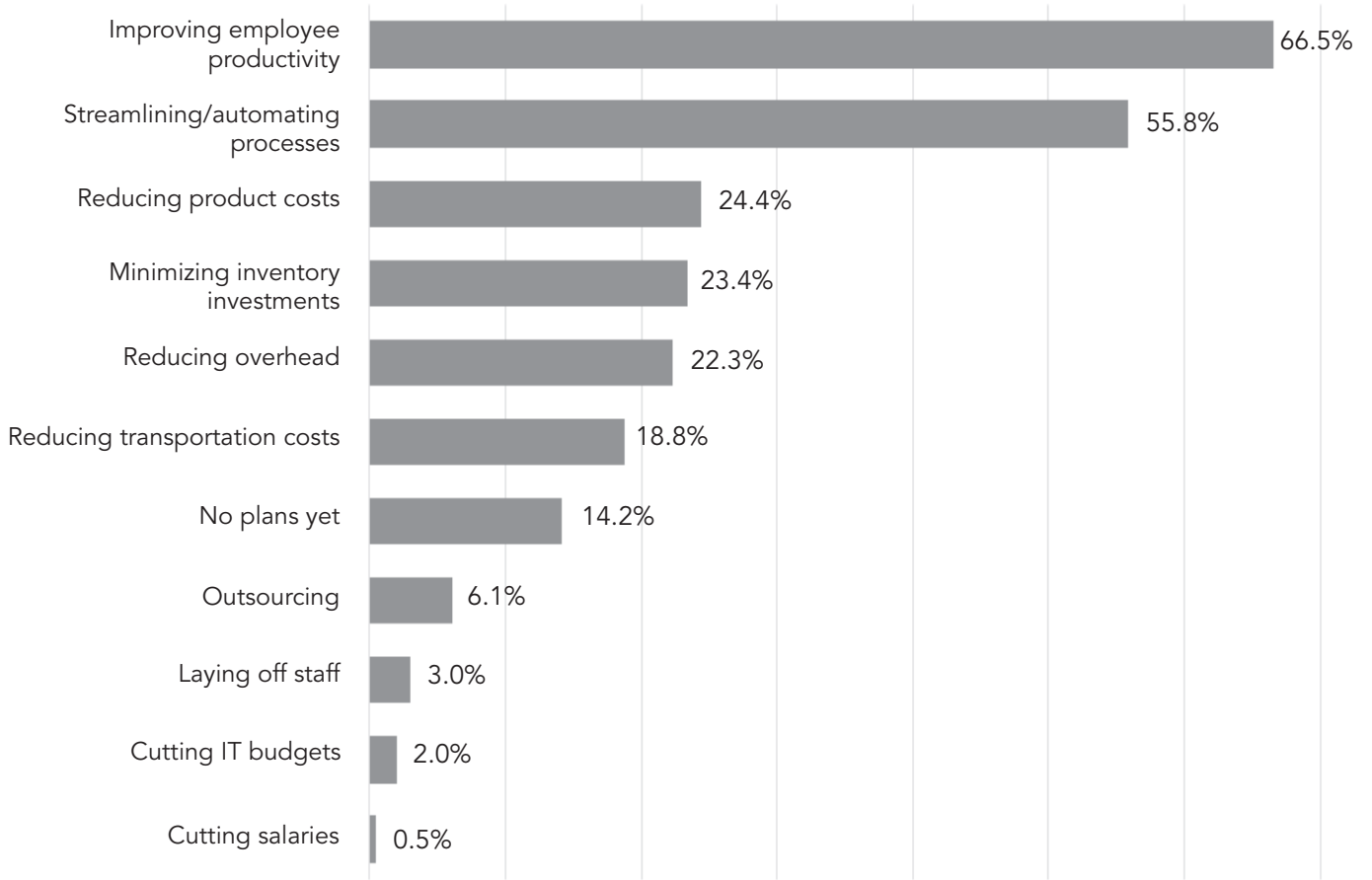
Distributors understand the importance of e-commerce in an omnichannel strategy, with one respondent noting, "E-commerce is a lower cost-to-serve channel that is appealing to certain customers."



Plans for Cutting Costs

Improving employee productivity was again the method of choice for cutting costs this year, albeit at a lower response rate – 66.5 percent – than last year. Streamlining or automating processes came in at No. 2 for the sixth consecutive year, at 55.8 percent.

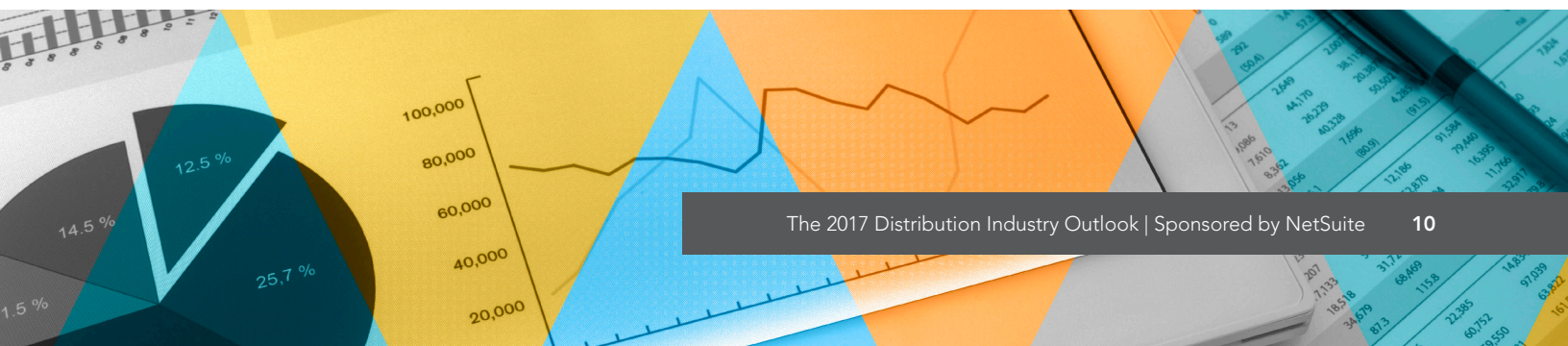
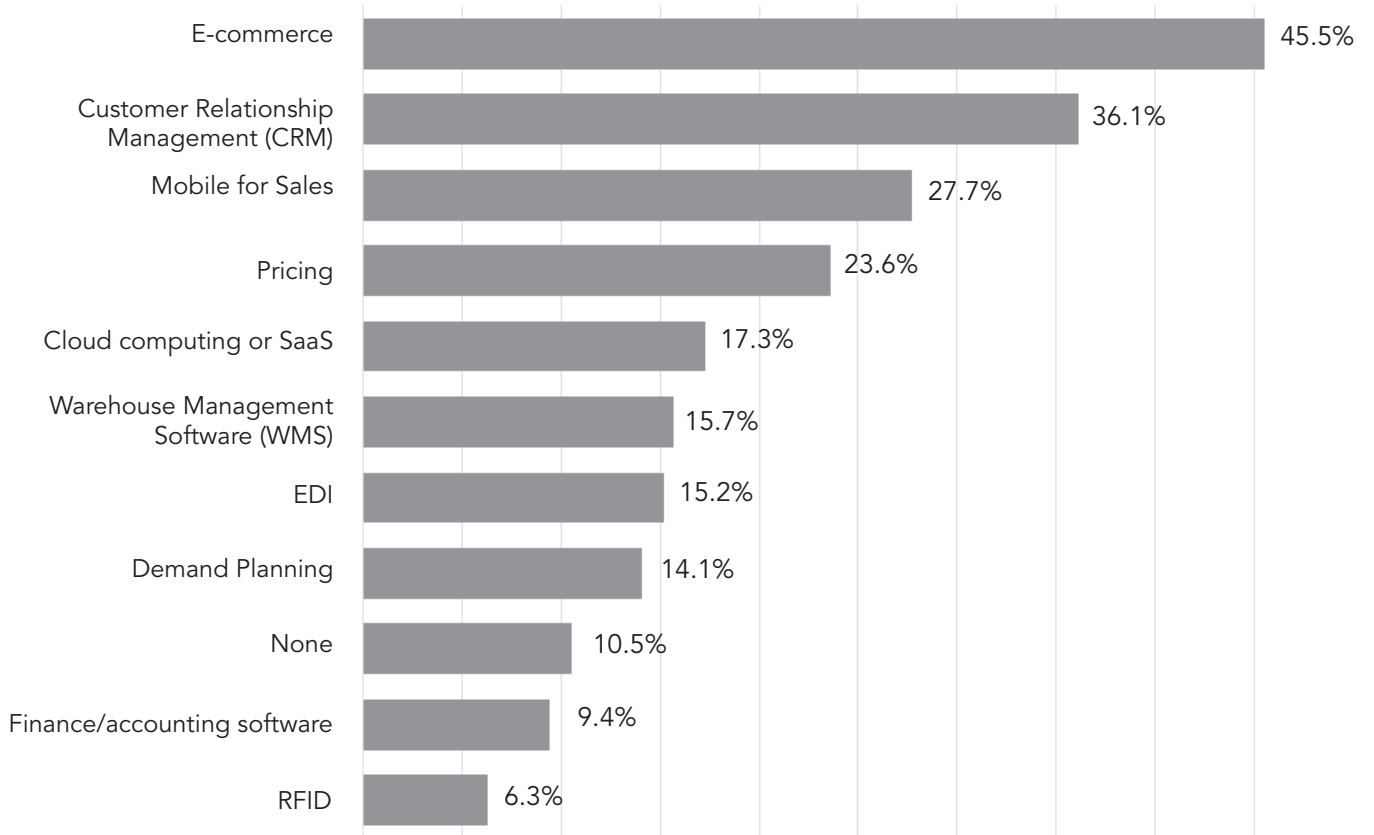
Distributors continue to look for multiple ways to cut costs. As one respondent said, the company is “reducing overhead through continued automation.”



Technology Plans

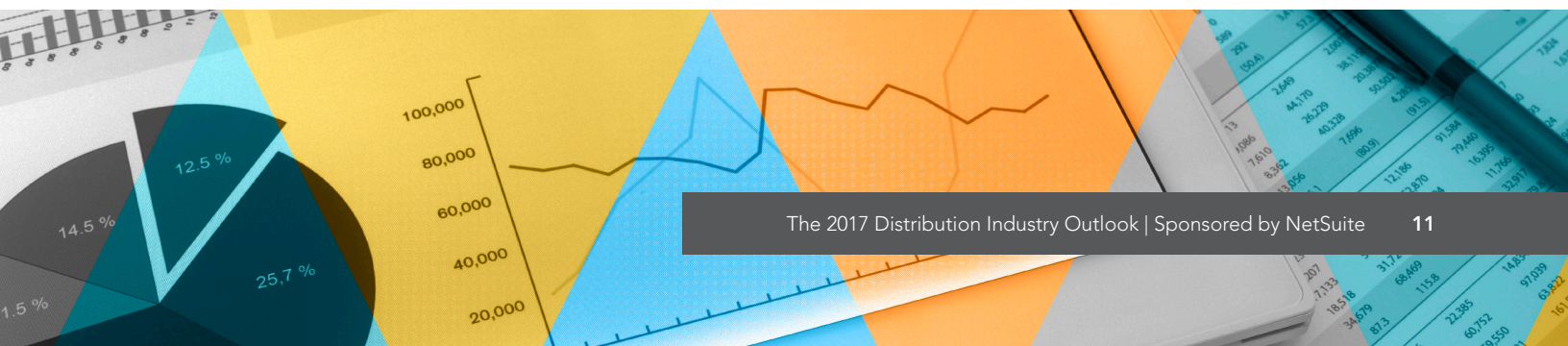
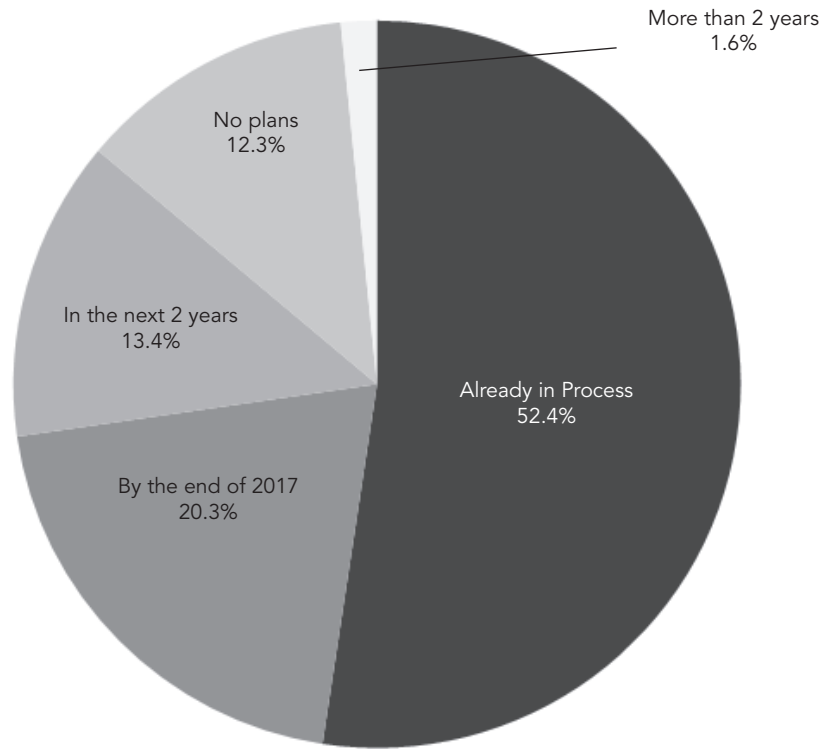
For the second year in a row, e-commerce was distributors' top priority for technology with 45.5 percent of respondents saying they anticipate exploring it in the next 12 months. CRM was again second at 36.1 percent.

Mobile for sales remained third but grew 4 percentage points (after falling 12 the year before).



Timeframe for Upgrading Technology

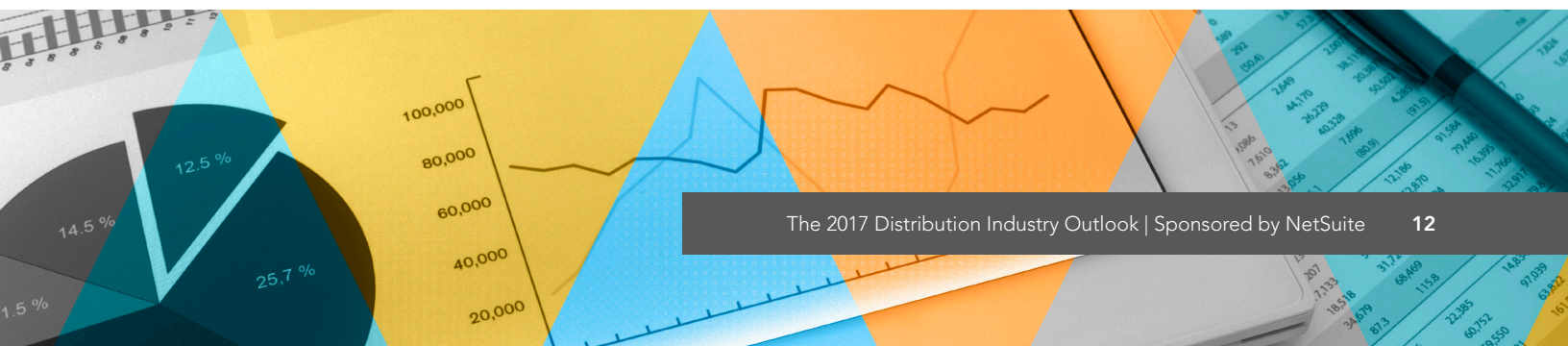
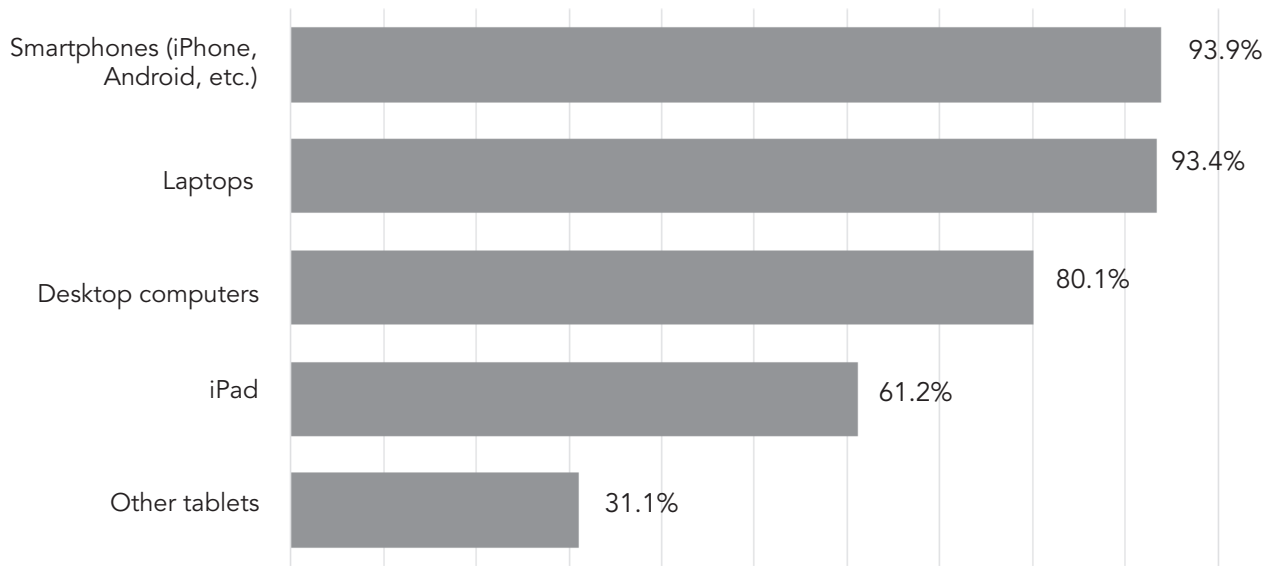
More than half (52.4 percent) of survey respondents said their technology upgrade plans are already in process, with another 20.3 percent saying they plan to upgrade by the end of 2017. Rounding out the results, 13.4 percent said they plan to upgrade technology in the next two years, 1.6 percent said more than two years and 12.3 percent said they had no plans to update any business technology.



Business Devices

Smartphones repeated as the most-used business device among survey respondents, with 93.9 percent of respondents saying they use it, up slightly from 92.2 percent. Laptops (93.4 percent) was second, followed by desktops, flat at 80.1 percent. The increase in smartphone usage by employees underscores that creating a mobile-friendly website and having mobile-accessible business applications is important for more than just your customers.

More respondents are also using iPads – up to 61.2 percent from 57.8 percent last year – while the “other tablets” category grew slightly, to 31.1 percent from 28.6 percent a year ago.



About the Survey Sponsor

NetSuite Global Business Unit, a wholly-owned subsidiary of Oracle, empowers tens of thousands of fast-growing wholesale distributors with software to transform and accelerate their businesses. Using NetSuite, distributors can run their businesses on a single, unified platform reducing IT costs and gaining comprehensive, real-time visibility across their organizations.

NetSuite gives your company customer-facing sales force automation and B2B e-commerce, as well as marketing and customer service capabilities that link seamlessly with back-office inventory management, fulfillment and accounting. In delivering NetSuite for Wholesale Distributors, NetSuite has leveraged experience and lessons learned from thousands of wholesale distribution customers, complemented with a best practice professional services implementation methodology and customization services.

NetSuite for Wholesale Distribution

NetSuite's Wholesale Distribution Edition is designed specifically for wholesale distributors. NetSuite offers distribution businesses a complete, web-based solution, allowing them to:

- Engage their customers everywhere with omnichannel commerce, reaching them online, by phone, over email, in person and exceeding the evolving expectations of 21st century consumers.
- Monitor and manage their businesses with the ultimate customizable business dashboard, featuring built-in best practices for wholesale distribution.
- Convert leads to orders, orders to shipments and shipments to revenue with NetSuite's advanced warehouse management, inventory management and order fulfillment capabilities.
- Gain a real-time, 360-degree view of customers and provide better customer service through NetSuite's seamless integration of CRM with financials and other back-office systems.
- Grow revenues, enter new markets and improve channel partner engagements with tools for partner relationship management (PRM).
- Leverage demand planning to manage inventory optimally and seamlessly.

For more information, please visit netsuite.com/wd

