



■ Part 1

# The Coming Commoditization of Distribution

How disruption is redefining the distribution industry

*This multipart series will explore the convergence of trends that is both drawing and enabling these new competitors and others into the distribution market.*

By Ian Heller

Long spared the intrusions of outside entrants armed with enormous capital and cutting-edge technology, the \$6-trillion distribution industry in the U.S. has benefited from limited competition, mostly between long-time incumbents. To those who've spent years or decades in distribution, that sort of competition seemed difficult enough to overcome.

After all, firms like Sonepar, Grainger, Arrow Electronics, McKesson Pharmaceuticals, Ferguson Enterprises and other large distributors earn billions of dollars in revenues each year and invest fortunes in technologies. Competing with companies like this is no small task and so the industry has always favored tough-minded operators who can provide great service, build an effective sales force and manage working capital smartly.

Besides, disruption hit specific segments of the distribution industry long ago: Retailers grabbed share from auto parts and office products wholesalers. And, of course, The Home Depot took a large chunk out of many established sectors, including building products, hardware co-ops, electrical and plumbing distributors and STAFDA houses.

## The New Disruptors

Even so, most distributors haven't seen a "wholesale revolution" in their competitive environments. If you sold fasteners, cutting tools or MRO supplies, for example, you woke up every day to fight with Fastenal,

MSC Industrial and HD Supply Facilities Maintenance. Amazon sold books. Walmart sold household retail. Berkshire Hathaway seemed like a grab bag of unrelated and non-threatening companies. Google was merely a search engine.

Today, all of these firms compete with distributors; many of them collaborate as well:

**Amazon Business:** In four years, this division of Amazon is now one of the largest distributors in the world.

**Walmart.com:** Carrying countless products from distributors, the retail behemoth now boasts a "Walmart for Business" section on its website. We know of industrial manufacturers that used to rely exclusively on distribution that are now selling through Walmart.com. Grainger's Zoro division sells through Walmart.com as do other distributors.

**Berkshire Hathaway:** Having acquired TTI — an electronic components distributor — back in 2007, the company subsequently bought Production Tool Supply in 2017 and renamed it Berkshire eSupply. Currently organized as a sort of sourcing marketplace and a provider of "white label" websites for distributors who need e-commerce capabilities, Berkshire eSupply offers more than a million products online.

**Google:** Unlike the players above, Google is not a merchant. But the company began piloting Google Express, an Amazon-like marketplace, in 2013 and now features products from major retailers (Target, Home Depot, Best Buy, etc.) as well as tens of thousands of products from distribu-

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## Digital Strategy: An Ongoing, Company-Wide Initiative

Justin King, owner of e-commerce consulting firm B2X Partners, had three pieces of advice for distributors attending this summer's MDM Digital Distributor Summit: "Improve the search on your website. Improve the search on your website. Improve the search on your website," he said. It's a simple premise, but anyone who's ever visited a website as a consumer knows the frustration that can quickly build when you can't find the product you're looking for with a simple search. What are you likely to do? I know what I would do — look elsewhere. And fast.

As King continued, in a series of more than 4,000 interviews with distributors' customers conducted by B2X Partners, poor search functionality was their consistent, top complaint about distributor websites. "We type hammers in and we don't get hammers. We type fasteners in and we don't get fasteners. Bolts and we don't get bolts. Water heaters, we don't get water heaters," he said. "Your search has to be effective." He also urged distributors to remember that search functionality — and the related product and content attribute work that goes into making it effective — must be viewed as an ongoing company program. Not as a project with a start date, end date and set budget.

The emphasis on search quality was just one of a series of key takeaways from the speakers at the Digital Distributor Summit. In this issue, you'll find more insight from King, as well as fellow presenters MDM President Ian Heller and Michael Wu, chief AI strategist at SaaS provider PROS, on why investing in a comprehensive digital strategy is an imperative for distributors.

The presenters didn't just spell out doom and gloom for those who are technology adverse or haven't started to make the investment. Instead, they provided real-life examples of distributors who have adopted successful strategies. They shared tips on how to make strategies stick in the real world of limited technology budgets, a sales and marketing landscape completely altered by the internet age and employee populations that are really resistant to change.

Not surprisingly, those factors were all top issues brought up by distributors and manufacturers in our annual Trends Survey. We'll be sharing the full results and digging deep into the stories behind them in the next issue of Premium. But a sneak-peek analysis shows respondents are concerned about the impact of tariffs, shrinking margins, finding talent and the stability of the economy. Changes they've made in the last year to combat some of those concerns include investing in new marketing efforts, training initiatives and, of course, technology.

These efforts are all to support their key business priorities in the next year. The top three survey responses were: revenue growth (71%), increasing profitability (61%) and customer retention (40%). Interestingly, one of the lowest reported priorities at just 8.4% was employee support. As Wu mentioned at the Digital Distributor Summit, as much as 84% of companies fail at digital transformation. I think a little more employee support, especially in times of dramatic change, will go a long way in reducing that failure rate.

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## Commoditization

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tors like Grainger's Zoro and Standard Electric Supply.

It won't end there. China's Alibaba and JD.com operate marketplaces and eBay for Business has offered distributors access to many B2B buyers as well.

Emboldened and threatened by the success of Amazon Business, marketplace operators see a growing opportunity to take B2B share. And they have to; as both consumers and business customers rely more on AI as a means of making their buying easier, more accurate and productive, large retailers, tech companies and other players view the B2B market as too big to ignore and consider it poorly defended by incumbents versus the firms they crushed in retail.

## Macro Trends in Technology and Demographics

It's essential for distributors to understand not only the capabilities these players will use to compete with them, but also the macro environment that is rapidly changing and tilting the playing field to favor tech-enabled marketplaces:

**Rise of the Millennials:** According to IPUMS USA (ipums.org), the University of Minnesota's census data center, by 2025, 73% of the U.S. workforce will be made up of millennials, Gen Z and younger people. These are the first generations of "digital natives" to become a majority of your customers and they have different expectations around technology, put less value in sales relationships and will often purchase from the company with the best e-commerce capabilities, which is rarely a distributor.

If your schtick is to bash millennials, you should stop. No matter your stereotypes of people you think spend too much time on their phones, use text instead of voicemail, wear "man buns," bring their dogs to work, drink fancy lattes or spend a lot of time worrying about the environment, these are your customers. You should treat them accordingly — instead of with dismissive statements about an entire generation, which just makes you look like a grouchy old person anyway. You should study them, understand their preferences and figure out how to delight them when they do business with you.

**Rise of Artificial Intelligence:** If you think "artificial intelligence" is just another term for "advanced technology," then you are every bit as wrong as the people who pessimistically

thought the internet was just the next stage of computer networking. The AI revolution will be just as disruptive, transformative and jarring as the internet revolution. Perhaps even more so. AI will fundamentally change nearly everything in our lives — including how your customers interact with and buy from you.

Google and Amazon have among the best artificial intelligence capabilities of any companies in the world. Tools like item recognition with cameras, voice ordering through smartphones and smart speakers and autonomous land and air vehicles are already in the marketplace. The next 10 years will see enormous leaps forward in the development and adoption of tools like these, which will play strongly to the advantages of new entrants to the distribution industry.

**Rise of Marketplaces:** Way back in 1990, I was a branch manager for Grainger in Billings, Montana. I designed my own ads for the local business journal. One of them showed a photo of the inside of our warehouse with the caption, "At Grainger, we believe in the power of those three little words: 'It's in Stock.'"

Earning a reputation for a broad, quickly available assortment has long been a highly compelling part of the value proposition for many distributors. Some, like Grainger, accumulated a couple of million SKUs and won the reputation of being the supplier most likely to have a product on-hand when you needed it. Customers prefer this because it's time-consuming and inefficient to shop around, so many of them simply shopped at Grainger first. This explains why so many distributors are shocked to see some of their best customers buy products from Grainger at relatively higher prices.

Marketplaces take this principle of a wide variety of quickly available inventory to vastly greater heights. Not only does this win them customers, market share and loyalty, but it also gives the marketplace owners the alternative of managing their profitability via sales growth or gross margin improvement. By changing the mix of third-party for direct sourcing, marketplaces can manage their earnings in ways traditional retailers and distributors cannot. Of course, this is enabled by their third-party partners, who hand over data that can lead to their own demise.

## Whole of the Trends is Greater than Sum of the Parts

Taken individually, any of these trends would be

difficult for distributors to overcome. In combination, it's a potentially lethal set of changes in the marketplace for many incumbent firms — particularly those who don't understand the challenges or how they can respond.

In this series, MDM will dig into each of these trends and offer not only a clear view of how they will affect you, but also what you can do about it. Distributors will need to respond by transforming their own value propositions as the market is transformed around them. That's a necessary but inefficient condition for success. Amazon attacks industries, not companies. That means only an industry-wide solution will have the scale to hold back Amazon as it overflows its

retail banks and spills into distribution.

Along the way, we hope you'll share your thoughts on MDM.com, on LinkedIn or by sending emails to us. MDM has been the thought leader in defining and interpreting this disruption as well as developing recommendations for how distributors can thrive in a more difficult competitive environment. With your help, we can refine our views, sharpen our recommendations and assist the industry in continuing to flourish.

*Look for The Coming Commoditization of Distribution, Part 2 in an upcoming edition of MDM Premium.*

## Key Strategies to Transform Your Value Proposition

### How to compete in the new age of digital distribution

*Distribution companies are increasingly hearing about the digital transformation imperative for a reason. Making the technology investment is no longer optional. As explained in presentations at MDM's 2019 Digital Distributor Summit, commoditization, competitive innovation and changing market dynamics are combining to forever alter the distributor's traditional value proposition.*

**By Elizabeth Galentine**

Many distributors struggle with redefining the core value propositions that don't resonate the way they used to with customers. In order to rise to this growing challenge, speakers at MDM's Digital Summit recommended distributors first familiarize themselves with factors contributing to the change. Then, by understanding how their company may be holding itself back, an executive team can move forward with a unified vision of what a commitment to digital distribution means for them and their customers.

"Distributors need to innovate or die," said Ian Heller, MDM president, "because disruption has truly reached the distribution industry. It's our turn. It's happened to a lot of other industries, and this is a call to arms to distributors to rise up and fight back."

#### **Growing Commoditization**

The value distributors have historically brought to the market is unquestionable. Manufactur-

ers gain geographic coverage for their products through the distribution channel, as well as sales, marketing and product availability they could not accomplish on their own. Customers gain assortment convenience, financing and technical support. It's a simple model that's worked for 150+ years.

But exclusive access to products is diminishing and "channel complexity is exploding," Heller said. He predicts Amazon Business, for example, will eventually carry nearly all the products a distributor sells. Amazon's growing delivery capabilities, and those of others such as Uber Freight, are also commoditizing delivery.

For some more perspective, Amazon since 2011 has gone up about 600% in enterprise valuation. Comparatively, Grainger has gone up by less than 10% in the same timeframe. A closer look at the growth of Amazon Business emphasizes the digital chasm that is spreading and strengthening Amazon's advantage. Most distributors have not started examining the way customers behave online. Meanwhile, Amazon — with its 'recommended for you' and 'related items,' among other features — is perhaps the best in the world at the practice.

"They're going to offer capabilities you can't match. They're going to do in B2B what they do in the consumer world, which has created an addictive process and experience," Heller said. "But Amazon Business is just one marketplace — there will be others."

### The Internal Threat

“The company that kills you will look nothing like you,” noted Justin King, owner of e-commerce consulting firm B2X Partners. Traditionally, distributors evaluate the threat posed by the competition in terms of the capabilities of other national, regional and local distributors in the same market.

But the digital age has brought about a new kind of competition, King said. “What we need to be worried about is the company that says, ‘We want to build something on behalf of the customer. Not for our people, not for the systems we have. On behalf of the customer.’”

In the pursuit of the digital innovation required to keep up with Amazon and other digital native businesses, the attributes that have made distributors successful are the same elements that will hinder their future progress, King said. To overcome this, distributors can start by analyzing and evaluating the processes they have built up over the years to run their business. For example, why charge for shipping at the time of shipment and not when the order is placed? Surely a customer would like to know how much they will be paying up front. There are many reasons for it, such as software that can’t calculate the dimensions of boxes. But the bottom line, King said, is processes like these will hold traditional distributors back.

### A New Market Dynamic

Aside from the fact that customers and employees alike are demanding digital transformation, the global market itself has changed to make it a requirement. Most companies today operate under what Michael Wu, chief AI strategist at SaaS provider PROS, calls the two-gears model. Every company has to acquire customers, and every company has to monetize them via marketing and sales. But a new wave of technology in the form of digital media is disrupting that model.

Digitization is changing the traditional notion of customer acquisition. Today, the goal is to acquire peoples’ attention. Before the advent of the internet, that attention span was about 30 seconds. Now, it is down to 8.25 seconds. What does that mean for distributors looking to capture customers’ attention? “You can monetize people as you capture their attention, but because their attention shifts away so quickly, that means you have to spend the money that you just earned from monetizing them to re-acquire them back,” Wu said. “This is a challenge.”

To meet that challenge, the two-gears model

has evolved into four gears, adding engagement and enlistment. Customer engagement helps distributors sustain monetization, building a stronger relationship as the customer becomes increasingly loyal. Enlistment scales the distributor’s acquisitions, leveraging the customer to do something normally done inside of the company. “Customer advocacy is a form of enlistment because customers are not obligated to advocate for you at all,” said Wu. “But if they are, then you’re going to acquire much more efficiently and much more effectively.”

The four-gear model is more scalable and more effective — as long as the gears are spinning in sync with the aid of digital technology.

### The Offensive Advantage

Digital technology allows distributors to do more, but they have to actively take advantage of it, Wu said. This is where the final two gears of the four-gear model will differentiate the companies that use them most effectively. Invest beyond simple sales and marketing to engage and enlist the customer through technology.

The defensive argument for investing in technology is companies that don’t digitally transform will no longer exist. But, Wu said, there is a strong offensive business advantage for those companies that do make the digital transformation journey.

As noted, market competitiveness is leading to mass commoditization in the industry. The best way to combat it, Wu said, is through differentiation. Traditionally, businesses persuaded their customers and prospects that their business was different through advertising. Today, digitally invested businesses are differentiating themselves through the experience their customers have in interacting with them, particularly online.

“What happens when you differentiate with customer experience? You don’t need to tell them anything. They will feel it for themselves,” Wu explained. “Not only is it more effective, it’s actually less replicable. It’s very hard to replicate a customer experience because every single touch point with a customer has to be replicated. People can copy your product, they will copy your service, but it’s very, very hard to copy the entire customer experience.”

### The Personalization Challenge

What’s the best avenue to optimizing customer experience? Personalization. But there are two

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challenges to achieving it, Wu noted. First, understanding the customer. And second, actually delivering that unique experience for them. Ultimately, it is a data challenge — distributors need to have enough information on their customers to understand their preferences before they can deliver on them.

Historically, marketers have done look-alike analyses to understand their audience, but this is a limited approach in that the less data you have on a person, the more they appear to be similar to others. “If you only look at one demographic, like gender, I actually look like half of the world’s population,” Wu said. “But if you have more data, if you have education, income level, their political orientation, their religious background, all this demographic information, then people look more and more unique.”

Big data allows for the tracking of thousands of behavior dimensions as well. Does the customer like to shop in the morning, or the evening? Do they prefer to be alone, or with others? “When we have big data, there’s no excuse. Every one of us should be treated uniquely,” Wu added. “The digital advantage helps you to personalize your customer experience.”

The good news is that it’s much easier to collect a great deal of customer behavior data in the digital space: How many times they visit your website. How long they remain on a page. How often they revisit. All of these behaviors and much more can easily be monitored with the right technology.

### Own the Product Data

Of course, in order to track data, distributors must have access to and ownership of it. It wouldn’t surprise most distributors to know that Amazon has become particularly adept at data tracking and management. Amazon Business surpassed \$10 billion in annualized sales last year and is projected to reach \$25 billion within a few years. As Heller noted, this level of sales growth could not be reached without partnering with outside distributors. But what is that relationship with Amazon costing those distributors in terms of data ownership?

Initially, Amazon allowed outside distributors to connect their own e-procurement systems to the Amazon platform. But now, Heller said, the company is positioning Amazon Business as a substitute for other procurement platforms entirely, using its leverage to gain product data from participating distributors.

“Amazon Business knows everything that’s coming through the system. They can figure out

whether or not they want to carry it. They’re using the customer’s leverage to force distributors to give Amazon the data,” he said. “It’s a hugely powerful value proposition to the customer because it ends the ‘this item not found’ problem. They can still get rebates. They don’t have to buy any e-procurement platform. They don’t have to reconcile the data to a common taxonomy. Amazon Business does all of that.”

### Struggling with Change Management

Amazon may have a significant head start, but the company does not own the entire \$6 trillion-plus U.S. market. Distributors who make the commitment to change their business to be more competitive should first understand that revolutionizing their digital and e-commerce capabilities is not a one-time project, but rather investing in a new ecosystem, said King.

That longer-term change starts with a commitment to effective change management organization-wide. “My business would be a piece of cake if I didn’t have employees and if I didn’t have customers,” King joked. “The people in our organizations are the problem, and change management is about changing behavior. It’s about changing people. It’s about changing perceptions, and it is incredibly difficult.”

Distributors that have been successful with weaving digital into the DNA of their companies know that any new initiative is not about problem solving, he said, but rather proper change management. The first step is to get the executive team on board so that the company’s e-commerce strategy is a company-wide strategic initiative.

Often, it’s a daunting task because the executives don’t know where to start and what questions to ask along the way. Therefore, King said, they don’t know how to evaluate how well things are going. “To understand it as a company, we have to develop a semantic language around e-commerce where we can all talk about e-commerce in the same terms,” he said. “First as an executive team, and then throughout the whole organization.”

### Benchmarking Terms

What would a language look like? There are two parts of e-commerce, according to King. One, how distributors acquire customers (customer acquisition). And two, how current customers are using the website (customer adoption). By breaking these two elements down as a whole company, distributors can develop an internal language to talk about e-commerce, King said.

First, acquisition. When acquiring new customers digitally, distributors need to drive relevant traffic to their website. This requires understanding the key words that people are using to search on Google or other search engines, social media – any source that will drive traffic to the distributor’s website. Then, once they are on the site, they need to be converted into customers. The executive team should know the language of the metrics required to achieve this action, King said. “If part of your strategy is to acquire customers, then your executive team should know that we’re driving traffic, we’re tracking our conversions, and we’re tracking how we expand our average order value, our AOV,” he explained.

Second, adoption. Executives should understand that adoption is not looking for a new customer, but rather serving an existing customer, King added. This includes getting customers registered on the website so that their login can be integrated with the distributor’s ERP in order to show them their unique pricing, contract, location-based products — all of the ways to create the unique buying experiences discussed by Wu as necessary to meet the personalization challenge in the digital age.

A registered customer is a trackable customer. “This type of framework gives you the ability to brainstorm at the micro level instead of the macro level. At a high resolution versus a low resolution. So instead of asking questions like, ‘How do we go from 5% of revenue to 20% of revenue?’ — which is a really generic question — we can say, ‘To go from 5% to 20%, we need to either drive traffic or do better in conversions or need to increase average order value,’” said King. “Those are easy brainstorming sessions to have within your company.”

With a common lexicon, executive teams can work together to answer critical e-commerce questions within the company, King added: “Have a common language and talk about these different things with your executive team,” he said. “Get on the same page, understand what the words and the terms mean.”

With the right language defined among the executive team, Wu recommended creating a clear vision of what digital transformation means for the entire organization. At its core, digital transformation is a buzzword that simply means leveraging digital technology to help a business transform the way it operates. It’s up to the individual company to define what that means.

There are a multitude of digital technolo-

## Key Questions to Build Powerful Web Metrics

| Customer Acquisition   | Customer Adoption  |
|--|--|
| How do we get more people registered?  | How do we get customers that are registered to use the site more?                            |
| How do we get customers using the site to create their first order?          | How do we get customers placing their first order to place their second order?               |
| How much traffic did we drive to the site this month versus last month/year? | What is our conversion rate?   |
| What’s our average order value?  | What’s our number of order lines?  |
| How many registrations did we have this month? Why did it change?            | Why are there so many or so few this month? Did we have a campaign running during that time? |
| How many first orders?   | How many logged-in sessions?   |

Source: Justin King

gies out there, all designed to transform many different parts of a business. As a result, digital transformation for one company may mean using social media to engage with customers, while another may see it as leveraging big data to make sales predictions. Another may bring in computer tablets to onboard new employees and consider itself digitally transformed.

### Digital Evangelist

With the vision in place, someone within the organization needs to own the digital strategy. Be it a digital branch manager, head of e-commerce, head of customer experience, there should be a point person within the organization who evangelizes the digital transformation effort, said King. Perhaps counterintuitively, the leader does not necessarily need to be technologically savvy, but they must be the No. 1 change agent within the organization. Don’t be afraid to look outside the industry for this position, he added — “It’s a lot easier to hire someone with some e-commerce skills and teach them your business than it is to teach e-commerce to someone inside of your business.”

Next, King recommended finding the top company advocates within the organization — the people respected by everyone — and turning them into change agents as well. This is important because with any change effort employees can become fearful of losing their jobs to technology. A distributor’s internal tech advocates can reinforce the message that technology is there as a tool to help the sales team sell, for example, not automate them out of a job.

Identify these concerns within the workforce and commit to addressing them. This

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process can take a year or longer, King noted. He recommended monthly meetings to discuss the transition, both group gatherings and one-on-one conversations. There will be people within the organization who are staunchly against a digital initiative. For example, employees who are within a couple of years of retirement may not have the drive to learn new technology.

“Those people exist. We’ve got to find them, we’ve got to address those workforce concerns head on, and address them consistently,” King said. “Know this is not a few-weeks project, it’s months or even a couple of years of addressing these workforce concerns.”

King drew on his experience working at Oracle, an organization he said excelled at implementing change within the business. How did they do it? Through adjusting their compensation structure to align with the new initiative and misalign everything that was counter to it. King has personally worked with other companies where the executive team, all the way up to the CEO, will base their bonus off of how well their e-commerce and digital efforts are going.

### A Lasting Strategy

Moving forward, said Wu, the digital strategy has to be customer-centric to prevent the problem of cross-departmental misalignment that arises because most departments have differing key performance indicators and operating constraints. “Each department is trying to maximize the KPI under their constraints, regardless of other departments,” he said. “When you actually have a customer-centric strategy, that unites the whole company together.”

King agreed: the customer must come first. Distributors can ensure that happens, he said, by using tools for customer journey mapping — creating a visual representation of every interaction customers have with the organization.

In the digital age, people want efficiency and speed, but the pursuit of these abilities should not come at the expense of creating an exceptional e-commerce customer journey. When do customers want to spend time with distributors? The answer, said Wu, is before they buy. They want answers: Do you have the product? How much does it cost? When will it arrive? “That’s why search is so important,” he said. “They need to explore, so you need to engage them in that process.”

Indeed, there are three factors distributors need to keep in mind to ensure their e-commerce

abilities are up to par, said King: “Improve the search on your website. Improve the search on your website. Improve the search on your website.”

King has conducted more than 4,000 interviews of distribution end customers and the first thing they say is, “We type in hammers and we don’t get hammers. We type in fasteners and we don’t get fasteners. Bolts and we don’t get bolts. Water heaters, we don’t get water heaters.” The search function must be effective and keeping it updated is an ongoing program, King added, not a project with an end date.

After this pre-purchase journey comes the purchase and ultimately, the post-purchase journey. Referring back to the four-gear model of business operations, this is the part where engagement and enlistment come in to sync up and spin harmoniously with sales and marketing, Wu said. “After they buy, you can actually enlist them, ask them, ‘How do you like the product? What was your experience like?’ These are the two gears where people do actually want to spend time with you,” he said.

### More Than a Project

Finally, to achieve lasting digital transformation, distributors should keep in mind that the process starts out small, often within one siloed department, Wu said. The majority of the business will still be operating within the company’s legacy technology system. For this reason, he said, it’s critical that new technology be able to integrate with the old. “If you don’t integrate with your legacy system, you’re going to remain siloed,” Wu said. “You’re not going to be able to transform the entire company.”

On average, it takes up to a year to train employees on the internal operations of an ERP, both Wu and King noted. In choosing a new technology vendor to partner with, keep ease of use top of mind, they said. “With very limited digital talent, digital maturity, your people have to be able to use that technology right away,” said Wu. “They have to realize efficiency — with very little training — right away. It often starts with a technology department project. But eventually, it must permeate the entire company, and actually change the people, the process and the culture as well, in order to change your company and for this transformation to last. If it doesn’t last, it’s not a transformation. It’s a project.”

## HARDI Distributors Report 14.9% Revenue Increase in July

Sales for HARDI distributor members increased by 14.9% in July 2019, according to its monthly TRENDS report. The average annualized sales growth for the 12 months through July 2019 was 8.7%.

"It is nice to see mid-teens growth after two soft months," said HARDI Market Research & Benchmarking Analyst Brian Loftus. "Distributors were busy during July of 2018, so it was not an easy comparison. Demand this month got a boost from 10% to 20% more cooling degree days in four of our seven regions, and an extra billing day versus last year."

The Days Sales Outstanding (DSO), a measure of how quickly customers pay their bills, is now 44.6 days. "The DSO is about equal to this time last year," said Loftus. "There is no hint of fiscal stress in the marketplace with this metric."

"The duration of our economic expansion is historic, but economic cycles are not extinct," said Loftus. "The inverted yield curve and other indicators have inspired the Fed to change course with their tightening program. That stimulus takes time, so with more difficult comparisons ahead we expect the TRENDS annual growth rate will remain under pressure."

HARDI members do not receive financial compensation in exchange for their monthly sales data and can discontinue their participation without prior notice or penalty. Participation is voluntary, and the depth of market coverage varies from region to region. An independent entity collects and compiles the data that can include products not directly associated with the HVACR industry.

## News Digest

**Kaman Corporation** has completed the previously announced sale of its distribution segment to affiliates of **Littlejohn & Co., LLC** for \$700 million. The transaction value represents a multiple of 10.4 times trailing 12-month Segment Adjusted EBITDA for the distribution segment. Following completion of the transaction, Kaman Distribution will continue to service customers under its three platforms: Automation, Fluid Power and Industrial Technologies.

**SRS Distribution Inc.** has acquired **Travis Roofing Supply**, an independently owned distributor of residential and commercial roofing products and accessories. Austin, Texas-based Travis has 21 branches across the United States, servicing professional contractors, local homebuilders, home improvement contractors, and remodelers.

**Curbell Plastics Inc.**, Orchard Park, New York, No. 6 on MDM's 2019 Top Plastics Distributors List, has acquired **Nationwide Plastics, Inc.**, a full-service distributor with extensive plastic part fabrication and precision machining capabilities.

**Descartes Systems Group**, Waterloo, Ontario, has acquired **BestTransport.com, Inc.**, Columbus, Ohio, a cloud-based transportation management system provider focused on flatbed-intensive manufacturers and distributors. Descartes acquired the company for \$11.2 million.

Manufacturer **Regal Beloit Corp.**, Beloit, Wisconsin, said it will close a bearings manufacturing plant in Valparaiso, Indiana.

Workers at the 109-year-old manufacturing operation that makes bearings for helicopters and planes, including Apaches and Air Force One, have been on strike since June 30.

**Amazon** this year will invest more than \$15 billion in infrastructure, tools, services, people and programs designed to assist its third-party sellers, the company announced at the end of August.

More than half (58%) of all physical gross merchandise sold in Amazon's stores in 2018 came from independent third-party sellers, according to the company.

Power management company **Eaton** recently named Brian Brickhouse president of the Electrical Sector, Americas region and Scott Hearn president of the global Crouse-Hinds and B-Line organization. Brickhouse is responsible for Eaton's electrical business across North, South and Central America, overseeing sales, manufacturing operations, marketing, innovation and product development. He most recently was president of Eaton's Electrical Systems and Services Group.

**The Chicago Fed National Activity Index** was -0.36, down from 0.03 the month before. The Federal Reserve Bank of Chicago said all four broad categories that comprise the index contributed negatively in July. Production-related indicators contributed -0.25 in July, down from 0.09 in June.

## My Little Black Book of Go-To Digital Services

By Jason Capshaw

Over the years, I've built a short list of companies that I turn to when embarking on a fresh project. They've come through again and again, so I'm happy to recommend them to you.

### BigCommerce

BigCommerce isn't just a B2C platform. They are making major strides in the custom, B2B market. Full disclosure: They are an MDM sponsor. But I've used BigCommerce for several years (before I was at MDM) and have found the way they combine Software as a Service and customization to be second to none.

BigCommerce relies on both a template system and application programming interfaces (APIs) to keep their stores running and provide flexibility for their B2B customers. Early on, the APIs were not as stable as I would've liked, but in the last year they have made serious improvements. You can now confidently access 95% of the BigCommerce features through an API.

Ways you can leverage BigCommerce as a distributor include:

- Test e-commerce with your customers without much up-front investment
- Build custom applications for your customers and sales team and leverage BigCommerce for checkout and PCI compliance
- Build custom checkout experiences for your bigger customers
- Leverage BigCommerce's order API to automatically push ecommerce transactions into your ERP

### CallRail

CallRail is a call tracking program that is flexible enough to use for several different applications. With the ability to tie offline conversions to a specific online campaign is invaluable to marketers. Especially when dealing with the complexities of B2B wholesale distribution.

Ways you can leverage CallRail as a distributor:

- Track all calls from your offline marketing materials
- Track calls generated from email, PPC and organic traffic. You can get a pool of numbers and track all the way down to the keyword or ad clicked. It's very easy to install on your site.

### Feedonomics

Feedonomics is a full-service feed management software. They take product feeds, clean them up, optimize them and send them to Google, Facebook and anywhere else you want them.

What I love about Feedonomics is the way Brian Roizen and his team are willing to go the extra mile to get your data ready to go. In one case, IT was unable to get our data out of the ERP and over to Feedonomics. The data was on our website, so they scraped it from there and built the feed for us.

What makes Feedonomics different from other feed managers is their willingness to tackle customer problems. Their platform is really a solid ETL (extract, transform, load).

They also do a great job optimizing data for Google's shopping feeds. I've seen definite improvements when they got involved.

Ways you can leverage Feedonomics as a distributor:

- Push your shopping feeds to them and let them optimize for Google and Facebook
- Turn bad data into something usable for your feeds
- Leverage as a connection point for internal and external systems when you don't have the resources to build custom integrations

### Unbounce

Unbounce is a landing page builder for marketers that removes the need for IT to build really great promotional pages. They leverage conversion centered design techniques in their templates. I find the Unbounce templates to be more professional than many of their competitor's pages.

Ways you can leverage Unbounce as a distributor:

- Build lead generation campaigns for your sales people. Funnel folks from your own site or other advertising platforms. Figure out what works before committing to making major changes to your main site.
- Build pages for product launches or special offers.
- Build your email list with a highly engaging landing page. Instead of just having a form in your footer with "get weekly emails" push them to a page and provide more value to inspire the signup.

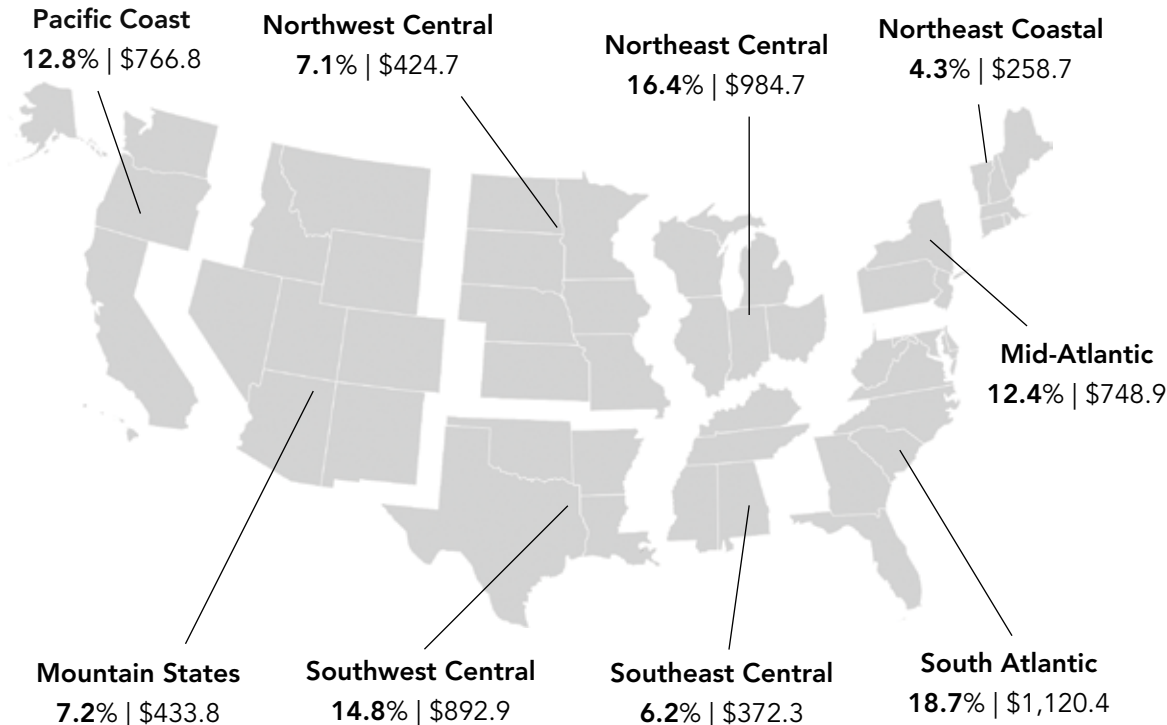
*Jason Capshaw is MDM's Director of Technology and may be reached at [jason@mdm.com](mailto:jason@mdm.com).*

## Safety Products Market Demand in the U.S.

Market demand for Safety Products in the U.S. was \$6 billion in 2018, according to data from MDM Analytics. All estimates are 2018 end-user demand, in U.S. dollars, including distributor margin.

**U.S. Total: \$6 billion**

**U.S. End-User Market Demand for Safety Products by Region, \$ millions (2018 est.)**



### U.S. End-User Market Demand for Safety Products: Top 10 End Markets

Top 10 end markets in \$ volume, by NAICS code, consuming Safety Products (2018 est.)

| End User   | Estimated Consumption |
|--|-----------------------|
| 236220 Commercial and Institutional Building Construction                | \$448,191,742         |
| 237310 Highway, Street, and Bridge Construction                          | \$399,492,039         |
| 238110 Poured Concrete Foundation and Structure Contractors              | \$267,264,216         |
| 238220 Plumbing, Heating, and Air-Conditioning Contractors               | \$219,184,755         |
| 238210 Electrical Contractors and Other Wiring Installation Contractors  | \$201,842,886         |
| 237110 Water and Sewer Line and Related Structures Construction          | \$193,779,229         |
| 238990 All Other Specialty Trade Contractors                             | \$157,596,542         |
| 238910 Site Preparation Contractors                                      | \$155,246,828         |
| 237990 Other Heavy and Civil Engineering Construction                    | \$141,381,326         |
| 236115 New Single-Family Housing Construction (except For-Sale Builders) | \$124,697,681         |

This market size estimate was compiled by MDM Analytics, Niwot, CO.  
Learn more about MDM Analytics at [www.mdm.com/analytics](http://www.mdm.com/analytics).

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## 2019 Top Distributors List: Part 2

We are including in this issue additional sector lists of top distributors across 15 industrial and construction product sectors – see the first part of these listings in our August 25 issue. This is

the 10th year MDM has published a list of the Top 40 industrial and construction products distributors in North America.

See all of the Top Distributor Lists at [www.mdm.com/marketleaders](http://www.mdm.com/marketleaders)

### Corrections & Additions

Please contact us at [editor@mdm.com](mailto:editor@mdm.com) with additions, revisions or corrections; we will promptly update our online and PDF listings when received.

### Top Gases/Welding Distributors

|   |  |
|---|--|
| 1. Airgas, An Air Liquide Company . . . . . \$6B* | 6. Arc3 . . . . . NA                   |
| 2. Praxair . . . . . NA                           | 7. Gas and Supply . . . . . NA         |
| 3. Matheson . . . . . NA                          | 8. American Welding & Gas . . . . . NA |
| 4. Norco . . . . . NA                             | 9. Roberts Oxygen . . . . . NA         |
| 5. nexAir . . . . . NA                            | 10. General Air . . . . . NA           |

### Top HVACR Distributors

|  |
|--|
| 1. Ferguson Enterprises . . . . . \$16,670,000,000 |
| 2. Watsco . . . . . \$4,546,653,000                |
| 3. Winsupply . . . . . \$3,660,000,000             |
| 4. F.W. Webb . . . . . \$1,250,000,000             |
| 5. Johnstone Supply . . . . . NA                   |

• Estimate removes other product category sales to more accurately reflect cylinder and hardgoods product sales, and is not total annual corporate revenues.

The HVACR/Plumbing/PVF revenues listed in these sectors represent the total company revenues and are not split out by discrete product category.

### Top Plumbing Distributors

|  |
|--|
| 1. Ferguson Enterprises . . . . . \$16,670,000,000 |
| 2. Winsupply . . . . . \$3,660,000,000             |
| 3. Hajoca . . . . . \$2,398,160,000                |
| 4. F.W. Webb . . . . . \$1,250,000,000             |
| 5. MORSCO . . . . . N/A                            |

### Top PFV Distributors

|   |
|---|
| 1. MRC Global Corp. . . . . \$4,172,000,000       |
| 2. Core & Main . . . . . \$3,200,000,000          |
| 3. DistributionNOW . . . . . \$3,127,000,000      |
| 4. Ferguson Enterprises . . . . . \$2,800,000,000 |
| 5. Edgen Murray . . . . . N/A                     |

### Methodology

Data for MDM's lists of top distributors were based on 2018 revenues, either reported or estimated by MDM's researchers. In most cases, we used fiscal 2018 revenues, but in some cases, MDM uses calendar-year revenues for a more accurate comparison. Companies were asked to provide data about revenues, with information supplemented by SEC filings and publicly available information. For companies that don't share revenue data, MDM estimates their relative position in its list based on best available industry resources and public information.

### Modern Distribution Management

Founded in 1967  
by J. Van Ness Philip

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