

Executive Summary



2020

Economic Benchmarks for Wholesale Distribution

In partnership with

ORACLE®
NETSUITE

September 2020



September, 2020 – At the beginning of 2020, who would predict it to be one of the toughest years most wholesale distribution companies have faced? For more than 10 years, MDM has published an annual chartbook that benchmarks the U.S. wholesale distribution industry with a variety of financial metrics: historic and forecast revenues; average gross margin; employment change; segmentation by company size and industry sectors served.

This Executive Summary provides an overview of our 234-page 2020 Economic Benchmarks for Wholesale Distribution report, based on 2019 data. Given the fundamental upheaval to this \$6-trillion industry comprised of 19 sectors, these 2019 financial statistics will indeed be the benchmarks against which the recovery of the U.S. wholesale distribution industry will be measured over the next several years.

MDM is expanding our tracking of this recovery with the MDM Quarterly Markets Forecast, which includes a two-year quarterly and annual revenue forecast by distribution sector. Here are some snapshots from the latest report, and an overview from our annual report.

Current Trending Outlook for 2020

After a record economic expansion summing 10 years and 8 months, the United States officially entered recession in February 2020 due to the COVID-19 pandemic. At the onset of the pandemic, in March and April, wholesale trade sales decreased by 21.4%, though it increased by 5.4% in May. Seasonally adjusted May sales, however, remained down 16.2% compared to May 2019.

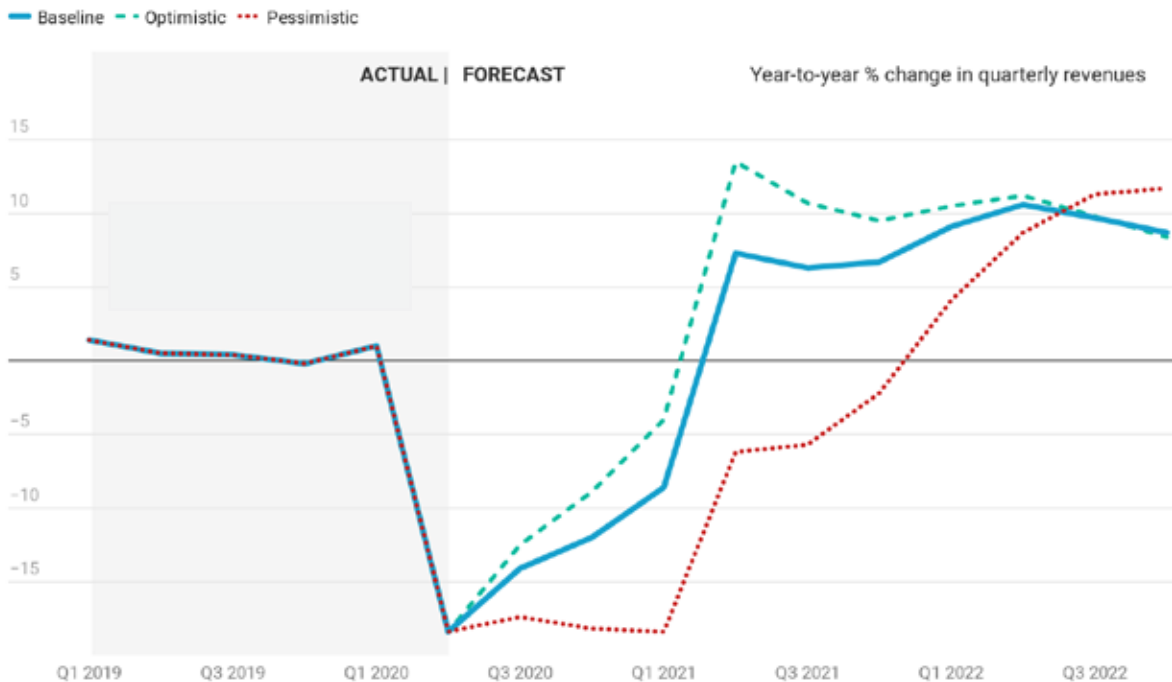
Wholesale distribution is projected to decline by 11.1% in 2020 compared to 2019. Distribution should return to modest growth in 2021 (2.6%) and strong growth in 2022 (9.5%), but the recovery will be a slow climb and industry-wide sales growth won't return until the second quarter of 2021.

4Q 2020: The baseline scenario for wholesale distribution revenue is -12%, while the optimistic scenario is -8.9% and the pessimistic scenario is -18.2%.

FY 2020: The baseline scenario for wholesale distribution revenue is -11.1%, while the optimistic scenario is -9.9% and the pessimistic scenario is -13.5%.

MDM Quarterly WD Markets Forecast

After a flat 2019 and Q1 2020, the U.S. wholesale distribution sector posted an 18.4% decrease in YTY revenues in the 2020 second quarter. Here are three scenarios (baseline, optimistic and pessimistic) for MDM's forecasted quarterly revenue change through 2022.



Source: MDM Quarterly Markets Forecast, www.mdm.com

FY 2021: This marks the first full year of industry-wide growth, at least for the baseline and optimistic scenarios. The baseline scenario for wholesale distribution revenue is 2.6%, while the optimistic scenario is 7.1% and the pessimistic scenario is -8.5%.

2019: Overview of a Critical Benchmark Year

Wholesale distributors recorded strong growth of 6.3% in 2017 and 7% in 2018, followed by muted, 0.5% growth in 2019, to total nearly \$6 trillion. Due to the pandemic-induced recession, the 2020 wholesale distribution industry will record a decline of an estimated 9%, followed by 6.4% growth in 2021.

After a record economic expansion summing 10 years and 8 months, the United States officially entered recession in February 2020 due to the COVID-19 pandemic. Gross domestic product (GDP) decreased 5% in Q1 2020, and the most severe contraction in modern U.S. history is projected in the second quarter. The labor market was quickly disrupted, marked by a record increase in initial jobless claims, summing to record levels. The lagging

indicators of employment and unemployment revealed record job losses in March and April (22 million) and record unemployment and labor utilization rates (14.7% and 22.8% in April). The impact of federal and state restrictions on commerce, as well as the impact on the consumer were notable through the record 22% decrease in retail sales activity in March and April, combined. The wholesale distribution industry eked out 1% growth in the first quarter of 2020, with January and February growth acting as a buoy to the March decline.

Wholesale distributors recorded strong growth of 6.3% in 2017 and 7% in 2018, followed by muted, 0.5% growth in 2019, to total nearly \$6 trillion. Due to the pandemic-induced recession, the 2020 wholesale distribution industry will record a decline of an estimated 9%, followed by 6.4% growth in 2021.

Overall, industry inflation for the 19 wholesale trade sectors was lower than the Consumer Price Index and the Producer Price Index in 2019. Real (inflation-adjusted) revenue increased 1.3% in 2019, and correcting for price

Major Sectors Summary

Major Sector (Largest to Smallest Sector Revenues)	2019 Revenues (\$B)	% of Industry Revenues	No. of Companies	Avg. Gross Margin (2018)
Pharmaceutical Wholesalers	\$717.1	12.0%	5,902	9%
Oil and Gas Products Wholesale Distributors	\$698.8	11.7%	3,965	4%
Grocery and Foodservice Wholesale Distributors	\$695.4	11.6%	23,927	15%
Electrical and Electronics Wholesalers	\$586.7	9.8%	17,370	25%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	\$474.7	8.0%	14,693	21%
Industrial Distributors	\$450.5	7.5%	37,894	31%
Other Consumer Products Wholesale Distributors	\$268.5	4.5%	19,307	19%
Computer Equipment and Software Wholesale Distributors	\$265.4	4.4%	5,433	18%
Commercial Equipment and Supplies Wholesale Distributors	\$262.5	4.4%	14,894	53%
Miscellaneous Durable Goods Wholesale Distributors	\$235.6	3.9%	25,859	26%
Agricultural Products Wholesale Distributors	\$194.2	4.0%	3,128	12%
Metal Service Centers	\$176.1	2.9%	6,606	19%
Beer, Wine and Liquor Wholesalers	\$161.1	2.7%	3,188	28%
Apparel and Piece Goods Wholesale Distributors	\$156.3	2.6%	12,476	33%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	\$155.5	2.6%	9,580	29%
Building Material and Construction Wholesale Distributors	\$151.1	2.5%	9,253	26%
Chemicals and Plastics Wholesale Distributors	\$131.8	2.2%	7,491	23%
Furniture and Home Furnishing Wholesale Distributors	\$97.4	1.6%	9,138	32%
Office Product Wholesalers and Paper Merchants	\$91.6	1.5%	6,782	22%
Total	\$5,970.4	100.0%	236,886	19%

Source: MDM 2020 Economic Benchmarks for Wholesale Distribution, www.mdm.com/store

changes, real industry output for the year grew in 11 of the 19 sectors. Eight sectors recorded price declines in 2019 — the largest amount and percentage price decline was in the Oil and Gas Products Wholesale Distributors.

Other Potential Pathways

Two alternative economic scenarios — one where the economy outperforms the baseline expectations, and one where the economy underperforms the baseline scenario — provide some sensitivity analysis to the wholesale trade outlook. Under the optimistic scenario, nominal industry revenue declines 7.1% in 2020 and grows 10.4% in 2021. However, under the pessimistic scenario, industry sales decline 11.9% in 2020 and 3.7% in 2021.

After price adjustments, the wholesale distribution industry grew slower than the overall U.S. economy in 2019 by 1.8 percentage points (0.5% for wholesale distributors versus 2.3% for U.S. gross domestic product [GDP]). The industry is highly correlated to annual GDP growth (0.76) from 2006 through 2019. Comparing industry growth to GDP growth,

the industry outperformed GDP growth in just over half of the years since 2004, but also recorded greater volatility. Hence, it is important to understand the outlook for national economic growth.

The fastest pace of nominal sales growth in 2019 came from Furniture and Home Furnishing Wholesale Distributors, Commercial Equipment and Supplies Wholesale Distributors, and Beer, Wine and Liquor Wholesalers. Growth in two of these sectors illustrates the health of consumer segments of the U.S. economy leading up to the COVID-19 pandemic. The fastest pace of real (inflation-adjusted) growth was recorded in Oil and Gas Products Wholesale Distributors, Commercial Equipment and Supplies Wholesale Distributors, and Computer Equipment and Software Wholesale Distributors. The industry to register the largest percentage decline in 2019 was Office Product Wholesalers and Paper Merchants.

The economy is forecasted to decline by 5.4% in 2020, followed by growth of 4.3% in 2021 (Consensus Forecasts,

Major Sectors Summary Trend Data

Major Sector (Largest to Smallest Sector Revenues)	% change vs. previous year			
	Actual Revenues (2019)	Real Revenues* (2019)	Revenue Gap (Actual - Real)	Employment (2020:Q1)
Pharmaceutical Wholesalers	3.7%	1.2%	2.5%	2.6%
Oil and Gas Products Wholesale Distributors	-2.0%	8.8%	-10.9%	-1.4%
Grocery and Foodservice Wholesale Distributors	4.3%	2.1%	2.2%	1.1%
Electrical and Electronics Wholesalers	-4.9%	-6.1%	1.2%	0.6%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	2.1%	1.8%	0.3%	1.0%
Industrial Distributors	1.3%	-0.9%	2.2%	1.1%
Other Consumer Products Wholesale Distributors	0.6%	-3.9%	4.5%	1.3%
Computer Equipment and Software Wholesale Distributors	1.1%	8.3%	-7.2%	1.9%
Commercial Equipment and Supplies Wholesale Distributors	6.0%	8.7%	-2.7%	2.2%
Miscellaneous Durable Goods Wholesale Distributors	-4.7%	-1.4%	-3.3%	-2.0%
Agricultural Products Wholesale Distributors	-1.6%	-0.8%	-0.9%	1.1%
Metal Service Centers	-3.8%	0.6%	-4.4%	-0.2%
Beer, Wine and Liquor Wholesalers	4.3%	4.3%	0.0%	1.4%
Apparel and Piece Goods Wholesale Distributors	-2.7%	-3.1%	0.4%	0.9%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	3.4%	-0.1%	3.5%	3.4%
Building Material and Construction Wholesale Distributors	1.1%	4.1%	-3.0%	2.1%
Chemicals and Plastics Wholesale Distributors	-1.0%	2.6%	-3.6%	-0.2%
Furniture and Home Furnishing Wholesale Distributors	6.2%	3.9%	2.2%	-1.6%
Office Product Wholesalers and Paper Merchants	-5.3%	-5.5%	0.2%	-3.1%
Total	0.5%	1.3%	-0.8%	0.9%

Source: MDM 2020 Economic Benchmarks for Wholesale Distribution, www.mdm.com/store

* Real revenues equal actual revenues adjusted for product inflation using sector-specific price deflators

May 2020). With a record fall in employment and wages, a decrease in corporate profits and investment, the outlook for consumption and investment sectors are set to pull back in 2020.

Major Sector Forecasts

Of the 19 major wholesale sectors, only 5 are projected to record revenue growth in 2020 and 12 in 2021 (in nominal terms). The fastest growth in 2020 is anticipated in Grocery and Foodservice Wholesale Distributors and in Agricultural Products Wholesale Distributors. The largest decline is expected in the Oil and Gas Products Wholesale Distributors sector and in Metal Service Centers. Revenue forecasts for the wholesale distribution industry and its major sectors for 2020 and 2021 appear in the Revenue Forecast Summary table. The individual sector reports available for purchase describe the sector-specific economic conditions and factors behind these forecasts.

To gauge the sensitivity of various sectors to overall economic activity, this report statistically correlates year-over-year growth in components of U.S. GDP with growth

in each of the 19 sectors. Industrial sectors are most closely tied to the overall economic cycle, while staples such as food and drugs have a weaker relationship to U.S. GDP due to their inelasticity of demand and price. Oil and gas and agricultural products saw major price impacts over the past two years, resulting in weak (or negative) correlations.

Industry employment increased 1.4% in 2019 to average 5,372,200 for the year. Employment increased 0.9% in Q1 2020 year-over-year to total 5,901,133 for the quarter—nearly 1 out of 25 private sector U.S. nonfarm workers. The largest year-over-year gains in employment were recorded in Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers (3.4%) and in Pharmaceutical Wholesalers (2.6%). Job losses were recorded in 6 of the 19 sectors in Q1 2020, with the largest percentage declines in Office Product Wholesalers and Paper Merchants (-3.1%). Average revenue per employee pulled back to just over \$1 million in 2019. Average annual pay in wholesale distribution increased 2.6% in 2019 and continues to be above average earnings in all private U.S. industries.

Major Sectors Revenue Forecast Summary: 2020-2021

% change in revenues vs. previous year

Major Sector (Largest to Smallest Sector Revenues)	2019 Actual	2020 Forecast	2021 Forecast	2020 vs. 2019
Pharmaceutical Wholesalers	3.7%	3.6%	-1.6%	-0.1%
Oil and Gas Products Wholesale Distributors	-2.0%	-32.6%	21.7%	-30.5%
Grocery and Foodservice Wholesale Distributors	4.3%	10.8%	11.8%	+6.6%
Electrical and Electronics Wholesalers	-4.9%	-10.1%	0.0%	-5.2%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	2.1%	-14.1%	22.5%	-16.2%
Industrial Distributors	1.3%	-27.9%	11.4%	-29.3%
Other Consumer Products Wholesale Distributors	0.6%	-0.7%	1.3%	-1.3%
Computer Equipment and Software Wholesale Distributors	1.1%	-9.3%	8.6%	-10.4%
Commercial Equipment and Supplies Wholesale Distributors	6.0%	-5.7%	-0.9%	-11.7%
Miscellaneous Durable Goods Wholesale Distributors	-4.7%	-5.0%	5.9%	-0.3%
Agricultural Products Wholesale Distributors	-1.6%	7.4%	1.5%	+9.0%
Metal Service Centers	-3.8%	-28.0%	-3.0%	-24.3%
Beer, Wine and Liquor Wholesalers	4.3%	3.5%	0.9%	-0.8%
Apparel and Piece Goods Wholesale Distributors	-2.7%	-19.2%	2.2%	-16.5%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	3.4%	-4.1%	-4.3%	-7.5%
Building Material and Construction Wholesale Distributors	1.1%	-10.4%	-0.9%	-11.5%
Chemicals and Plastics Wholesale Distributors	-1.0%	-7.4%	7.0%	-6.4%
Furniture and Home Furnishing Wholesale Distributors	6.2%	-14.3%	-7.9%	-20.5%
Office Product Wholesalers and Paper Merchants	-5.3%	1.1%	3.4%	+6.4%
Total	0.5%	-9.0%	6.4%	-9.5%

Source: MDM 2020 Economic Benchmarks for Wholesale Distribution, www.mdm.com/store

Sector Data Available for Purchase

- Pharmaceutical Wholesalers
- Oil and Gas Products Wholesale Distributors
- Grocery and Foodservice Wholesale Distributors
- Electrical and Electronics Wholesalers
- Motor Vehicles and Motor Vehicle Parts Wholesale Distributors
- Industrial Distributors
- Other Consumer Products Wholesale Distributors
- Computer Equipment and Software Wholesale Distributors
- Commercial Equipment and Supplies Wholesale Distributors
- Miscellaneous Durable Goods Wholesale Distributors
- Agricultural Products Wholesale Distributors
- Metal Service Centers
- Beer, Wine and Liquor Wholesalers
- Apparel and Piece Goods Wholesale Distributors
- Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers
- Building Material and Construction Wholesale Distributors
- Chemicals and Plastics Wholesale Distributors
- Furniture and Home Furnishing Wholesale Distributors
- Office Product Wholesalers and Paper Merchants

For questions regarding the Economic Benchmarks for Wholesale Distribution or to purchase the complete report or individual sector data, call 888-742-5060 or visit mdm.com/product/2020-economic-benchmarks-for-wholesale-distribution/.

About the Authors

Data analysis in this edition of the Economic Benchmarks for Wholesale Distribution was produced by Modern Distribution Management (mdm.com) in collaboration with researchers at the Business Research Division of the Leeds School of Business at the University of Colorado Boulder.



Serving Colorado since 1915, the Business Research Division (BRD) of the Leeds School of Business, University of Colorado Boulder, provides economic and demographic information needed by businesses, governments and nonprofit organizations. Specializing in economic and fiscal analysis, market research, and customized research projects, the division also produces the longest-running annual forecast of the state's economy.

To learn more about the Business Research Division of the Leeds School of Business:

Brian Lewandowski, Associate Director
colorado.edu/business/brd
brdinfo@colorado.edu

MDM Analytics is a market analytics firm for industrial and construction products in North America. For more than 25 years, MDM Analytics has increased top-line revenues, lowered cost of customer acquisition and shortened the selling cycle for industrial product marketers. Founded as Industrial Market Information in 1987, MDM Analytics has helped clients target high-potential customers and markets with industrial products market size analysis, data services, dashboards and sales force management tools.

MDM Analytics is a division of Gale Media, Inc.

Thomas P. Gale, CEO
MDM Analytics/Modern Distribution Management
tom@mdm.com

