The 6 Biggest Lessons Distributors Learned in 2022

Executive Summary

As was the case in 2020 and 2021, wholesale distributors faced an uphill battle in 2022. In addition to the lingering COVID-19 pandemic, the highest inflation in 40 years persisted in the U.S. and globally — with whispers of a looming economic downturn getting louder as we approach 2023. While supply chain backlogs loosened incrementally throughout the year, hiring and retaining staff remains a major issue for many businesses.

And yet, distributors have seemingly made the most of a less-than-ideal situation throughout the year. Distributors across numerous industries have posted strong financials that accelerated sequentially through the second quarter and remained robust at the end of 3Q. Projections for 4Q and the first half of 2023 weren't as rosy, but distributors that were financially sound during the first nine months of this year are in a good position moving forward.

As 2022 comes to a close, this MDM report takes a look at the biggest lessons distributors learned this year — and how they apply moving forward.

The Ability to Recruit and Retain is Critical

Arguably the greatest struggle for businesses since the end of 2020 has been a historically difficult labor situation. Data from the U.S. Bureau of Labor Statistics has shown slow and steady employment gains for wholesale distributors throughout 2022, but the number of new job vacancies has nearly matched that pace, indicating that employee retention remains an issue. Distributors are struggling to acquire new talent and to get them to stay.

One of our questions in the 2022 3Q Baird-MDM Industrial Distribution Survey — which collected data from about 500 manufacturers and distributors in October — asked respondents the open-ended question of, "Besides salary increases, what tactics are you using to recruit and retain talent?" We heard from over 350 executives, and responses were a mixed bag. Some shared successful strategies while others vented frustration regarding their hiring struggles. Here are some of the more colorful replies:

- "Providing more opportunity to work remotely, increasing opportunity for skills development, and making mentoring available to employees that are interested in that type of relationship."
- "No strategy is working for us. Retaining employees is more attainable through compensation. But any hiring is nearly impossible."
- "Continue to focus on strong management, transparency and culture building. Recruiting has required additional signing bonus, and location flexibility. Relocating for a career seems to be a trend of the past."
- "Recruiting has been impossible. Nobody applies to advertised jobs. Our company pays well and bumped for inflation, but it's just a great place to work and employees generally don't leave to jump jobs."

Based on the responses to our survey, the consensus seems to be that workplace culture is vital amid the pandemic-afflicted economy. With employees likely to jump ship when a job with increased compensation becomes available, accommodations such as allowing for remote work and location flexibility can result in stronger staff retention. This October MDM piece explores more results and commentary from that survey about distributors' recruiting and retention efforts.

Ignore the Noise, Trust Your Data and Listen to Your Customers

With burgeoning inflation and major interest rate hikes from the U.S. Federal Reserve leading many to believe an economic downturn is on the horizon, "economic noise" was rampant throughout the second half of 2022. While buzzwords like "inflation" and "recession" often leave distributors feeling they need to brace for impact, disruptions shouldn't always be viewed in a negative light. In recent MDM Quicktake Podcasts, MDM CEO Tom Gale and Indian River Consulting Group founding partner Mike Marks have discussed at length how disruptions breed opportunity and can strengthen the bond between distributor and customer.

"With as much transition and chaos that have defined the last couple of years, I think there's an opportunity to miss the boat if you don't start paying attention and being intentional around having additional conversations with customers, or see some specific sectors starting to grow that you hadn't been serving so much before," Gale said during MDM's Nov. 18 Quicktake podcast on tailwinds and macrotrends for distributors.

Distributors that can fill a customer's need or solve a problem for them during the new normal of volatility, uncertainty, chaos and ambiguity are likely to earn trust and stickiness in that relationship.

> "I would want to be one of those distributors that, if my key suppliers want to pilot something or experiment, I want them to come to me. Because they trust me and they know that I work with them. We can both work together and collaborate"

> "I think the wake-up call to distributors should be that there's a lot more investment happening against you than for you"

"I would want to be one of those distributors that, if my key suppliers want to pilot something or experiment, I want them to come to me. Because they trust me and they know that I work with them. We can both work together and collaborate," Marks said during an MDM Quicktake podcast in early November. "So I need to reach out in advance so I'm the one in their mind. I'm on their list of people they can pilot stuff with."

Amazon Business Remains the Biggest Elephant in the Room, but it's Not Alone

One of the most significant disruptions to the wholesale distribution industry in recent years has been Amazon Business, which has experienced explosive growth since it launched in 2015. Its continued growth was evident in MDM's 2022 Top Distributor lists, where the B2B products marketplace ranked as the No. 2 Industrial Distributor and No. 2 MRO Distributor.

But Amazon Business isn't the only online marketplace making a name for itself in the wholesale distribution sector, as Gale and MDM Executive Editor Mike Hockett discussed with two guest panelists from Applico — Founder & CEO Alex Moazed and Managing Director Nick Johnson — during an MDM webcast in late June. Here, Hockett recaps the webcast discussion that emphasized the recent crowding of the B2B marketplace field and why distributors should carry a sense of caution when considering getting involved.

"I think the wake-up call to distributors should be that there's a lot more investment happening against you than for you," Johnson advised. "And if you're going to try to fill that gap, that means distributors need to invest a lot more in tech that is going to help them rather than hurt them, whether that's investing in marketplace models that are more distributor-friendly, or investing in enabling tech around your core business. The balance of disrupt vs. help is not in your favor right now, and distributors need to do more to fill that gap."

Self-Service Tools are the Name of the Game in Today's Commerce

Among the changes the pandemic has thrust upon distributors is how they interact with the customers. Recent buying behavior trends accelerated by the pandemic have made it clear that there are three distinct categories of customers:

- Customers who prefer to buy from a salesperson.
- Customers who prefer to utilize both a salesperson and digital self-service in the buying process.
- Customers who prefer to buy via an entirely digital experience (no salesperson involved).

Strange as it may seem, distributors can lose business if they don't offer a "self-serve" option for customers to complete their purchases. It's similar to customers at a grocery store who prefer the self-checkout aisle. This contributed MDM piece from Dorn Group's James Dorn and J Schneider analyzed how distributors can meet the needs of the new "self-serve customer."

Customers are Understanding of Price Increases, but Communication is Key

Distributors were able to routinely increase prices throughout 2021 and 2022, as customers were not only understanding of higher input prices (costs of production and procurement), but actually anticipated and expected those increases. Still, this required constant communication from distributors to their customers as to why they were raising prices, and when. Distributors would be wise to continue prioritizing that transparency moving forward.

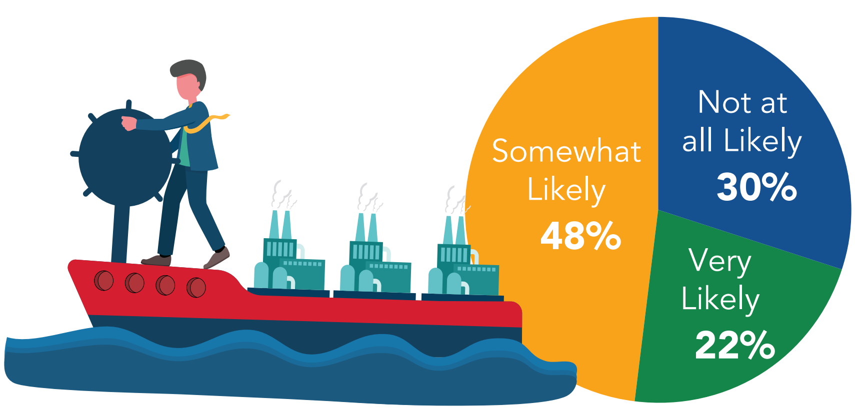
The 3Q Baird-MDM survey found that 64% of respondents expect prices to continue increasing in 2023, but at a slower rate than in 2022. Executive commentary with that question had mentions of pricing that was starting to "slide back" or "soften" as of early October.

Supplier Diversification, Reshoring Pays Off During Volatile Times

The globalization of supply chains previously led many distributors to a race-to-the-bottom model of product sourcing, where sellers of commodity products would find the cheapest sources to buy products from, often located in southeast Asia due to lower labor costs. Due to persistent product shortages during the pandemic, however, distributors will likely look to alternative sources. The 3Q Baird-MDM survey showed that 70% of respondents (mostly distributors) are either somewhat likely or very likely to shift their sourcing to domestic partners within the next three years.

Additionally, a report from Baird released in late August estimated industrial distributors could see an incremental $15 billion windfall over the next decade from increased MRO demand driven by the domestication of manufacturing production and foreign investment.

How likely is your company to shift more of its sourcing to domestic suppliers over the next 3 years?



mdm research

We Help Distributors Innovate

Modern Distribution Management (www.mdm.com) has been a trusted resource for market intelligence, analytics and industry insight for wholesale distribution executives since 1967. As a market research and media company, we have nurtured the industry's premier thought-leadership community to help leaders make better decisions and build stronger, more profitable businesses. We provide comprehensive coverage of trends, management best practices, technology and innovation through multiple platforms – research reports, media channels, conferences and market analytics services and software.

6309 Monarch Park Pl #201,
Niwot, CO 80503
Phone (303) 443-5060
Toll free (888) 742-5060

mdm.com