

# The Outlook for Wholesale Distribution in 2016

A Survey of Key Business Objectives and Challenges Facing Wholesale Distribution Companies



## Executive Summary

A soft economy and sagging sales have dampened expectations for 2016, although distributors and manufacturers still expect modest revenue growth this year, according to respondents in this industry outlook survey for 2016 from NetSuite in partnership with Modern Distribution Management.

Nearly 40 percent of respondents expect revenue growth of 5 percent to 10 percent for the year with a handful of sectors – Consumer Products, Chemicals and Plastics, Grocery and Foodservices, and Pharmaceutical – projecting especially strong growth.

However, companies have business- and industry-specific concerns ranging from uncertainty over the economy to worries that their customers will hold back on purchases even if economic conditions improve.

Talent acquisition and retention, as it has been for a few years, also remains a factor in how well distributors can weather the downturn and prepare for the rebound. Not only that, but collecting data, dealing with the rising cost of doing business and providing a robust e-commerce platform all remain front of mind for distributors.

This report highlights these and other trends, and it also reveals what distributors are planning to do in 2016 to build revenue and cut costs, while also improving their technological capabilities as the industry adapts to a new economy and evolving workforce.

Disruptive cycles, like this one, are not new phenomena in distribution. But what is different is the increased need to do more than just ride the good times up and the bad times down. Success going forward will require distributors to think differently about many aspects of their businesses as incremental changes have less of an impact on profitability.



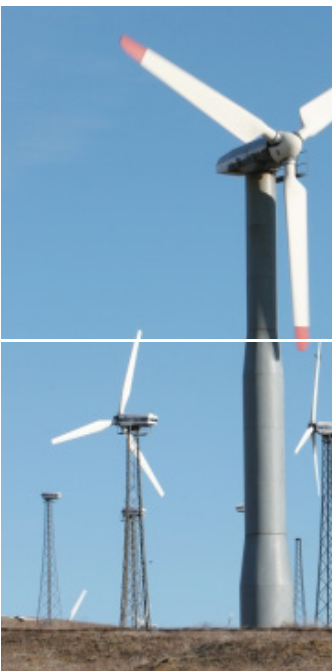
## Methodology

The survey results presented in this whitepaper are the result of an online survey of readers from Modern Distribution Management ([www.mdm.com](http://www.mdm.com)) and NetSuite in December 2015. 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. More than 90 percent identified as a manager or above in their companies, with 52 percent being the owner or the executive of their companies. Size distribution of respondents was diverse with 7 percent of respondents with less than \$2 million in annual revenues; 11 percent with \$2 million to \$10 million; 28 percent with \$10 million to \$50 million; 19 percent with \$50 million to \$100 million; 21 percent with \$100 million to \$500 million; and 14 percent with more than \$500 million in annual revenues.

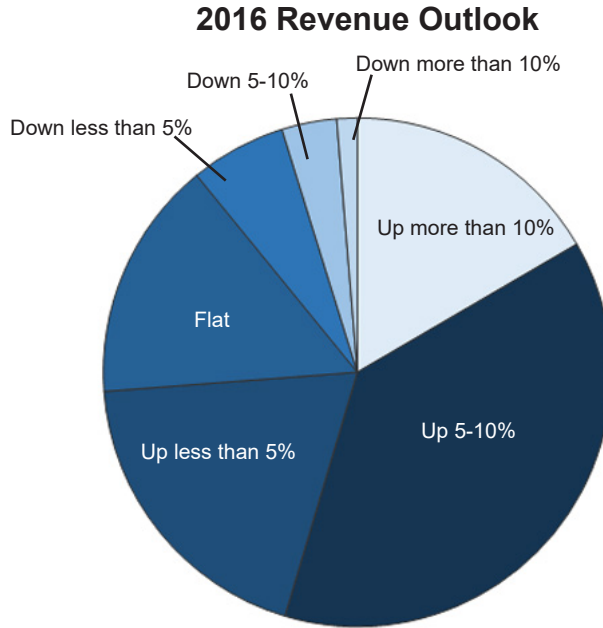
By employee count, 28 percent had 0-49 employees; 12 percent had 50-99 employees; 45 percent had 100 to 999 employees; and 16 percent had more than 1,000 employees.

Sector representation was also diverse, with Industrial the largest with 57 percent of respondents. Other sectors represented by respondents include Safety Products (28 percent); Electrical & Electronics (24 percent); Power Transmission/Bearings (21 percent); Oil and Gas Products (19 percent); Building Materials & Construction Products (18 percent) and HVACR/Plumbing Products (15 percent). Others included Chemicals and Plastics, Consumer Products, Pulp and Paper, Grocery and Foodservice, and Pharmaceutical. Respondents could name more than one sector, so totals exceed 100 percent.



## Growth Outlook

Most respondents still have a positive outlook for 2016, with 38 percent expecting sales growth of 5 percent to 10 percent; 19 percent expecting growth of up to 5 percent, and 17 percent expecting growth of more than 10 percent.

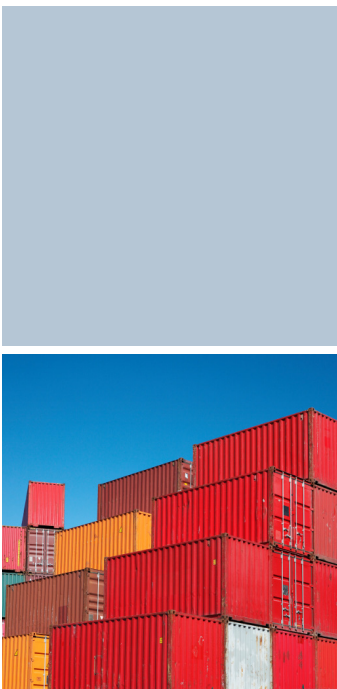


### Revenue Growth Expectations by Sector

Sector revenue projections mostly followed the overall growth forecast for 2016 with some sectors, such as Consumer Products, Chemicals and Plastics, Grocery and Foodservices, and Pharmaceutical expecting especially strong growth. Respondents could indicate all sectors they participated in, so responses may include some overlap between sectors.

	Up more than 10%	Up 5%-10%	Up less than 5%	Flat	Down less than 5%	Down 5%-10%
Building Materials	15.9%	38.6%	11.4%	22.7%	6.8%	4.6%
Chemicals & Plastics	17.9	35.7	17.9	14.3	10.7	3.6
Consumer Products	25	25	30	15	5	0
Electrical/Electronics	11.1	37	20.4	14.8	11.1	3.7
Grocery/Foodservice*	16.7	50	16.7	8.3	0	8.3
HVACR/Plumbing	15.2	51.5	9.1	12.1	3	9.1
Industrial	13.2	43.4	18.6	13.2	6.2	4.7
Janitorial Supplies	9.1	42.4	33.3	9.1	3	3
Oil & Gas Products	11.9	35.7	21.4	24.4	4.8	2.4
Pharmaceutical*	16.7	41.7	25	16.7	0	0
Pulp & Paper*	5.3	42.1	26.3	15.8	5.3	5.3
Safety Products	15.9	47.6	11.1	15.9	4.8	4.8

\* Small sample: fewer than 20 respondents



## Top Concerns for 2015

### Business-Specific

Respondents' business-specific concerns include factors both within and beyond their control. They cited the need to invest in technology and e-commerce capabilities that are critical to bridging the digital divide, as well as trepidation over how the presidential election – and the ensuing policies and consumer confidence levels – might shape the business climate.

- **External factors:** How distributors respond to sagging demand or unfavorable policy decisions is critical to their businesses, and this could be a differentiator in 2016. Survey respondents noted concerns about a host of factors they can't control, from oil prices to weather to geopolitical events.
- **Finding talent:** "Maintaining and attracting quality personnel" was how one respondent described a top business-specific concern, and numerous others echoed that sentiment. But while respondents continue to bemoan the lack of qualified candidates for open positions, many distributors are still waiting for the elusive "plug 'n' play" employee with traditional qualifications.
- **Creating – and maintaining – value:** As one survey respondent asked, "Will traditional distributors find a way to create value over the 'big box' catalog houses?" Consolidation, omnichannel and other threats have forced distributors to constantly and convincingly underscore their value to partners throughout the supply chain.

### Industry-Wide

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

- **Economy:** Headwinds in the form of unfavorable currency exchange, a slumping oil & gas market and soft consumer demand hindered distributors throughout 2015, especially in the last two quarters. Survey respondents expect more of the same this year.
- **Rising costs:** From raw materials to wages to health care, distributors worry that the increasing cost of doing business won't match revenue growth – a valid concern considering the number of distributors that saw sales drop or stagnate in 3Q.
- **Consolidation:** Rampant M&A activity across distribution continues to cause concern, as larger competitors are created with additional scale for their sales and analytics teams, expanded geographic coverage and more robust e-commerce offerings.
- **Digital divide:** Companies that have invested heavily in e-commerce could leave other distributors in the rear-view, and the ones that get left behind won't be around for long if they don't keep pace with their competitors' capabilities and their customers' demands.
- **Channel disruption:** Not only is a digital divide separating distributors by how much they focus on technology, but other channel disrupters are splintering the industry, including, for example, manufacturers looking to sell direct.



## Pain Points

The top pain points distributors project for 2016 are similar to their business-specific and industry-wide concerns, starting with the struggling economy and sagging demand. Distributors also harbor concerns over collecting data, finding talented candidates to fill open positions and navigating a variety of logistics and transportation issues.

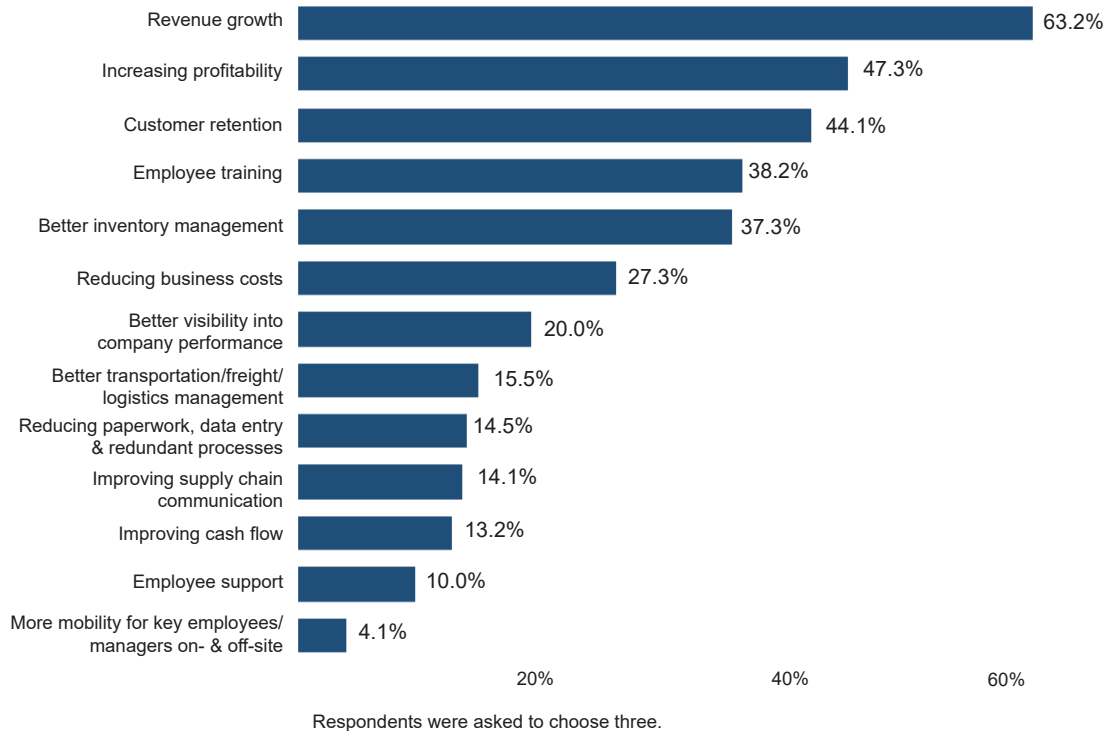
- **Economy:** An uncertain economy has distributors wary about their fortunes in 2016. Even with most analysts predicting a turnaround sometime during the second quarter, companies don't expect more than modest improvement.
- **Talent acquisition:** Second only to the economy, finding qualified candidates – especially in the sales ranks – was a top pain point for companies. Other HR issues causing pain for distributors include training and retaining those employees.
- **Customer demand:** Even if the economy rebounds, distributors see reluctance from customers on purchasing decisions, both when and from whom they purchase. More options for purchasing are also shifting customers' buying habits.
- **Data:** Collecting and analyzing data remains a pain point for distributors who don't think they are getting the right information to accurately forecast and increase sales.
- **Logistics:** A growing driver shortage is raising shipping costs, and disruptions seem to occur more frequently along supply chains, causing frequent stress for distributors.



## Key Business Priorities

Revenue growth topped the list of business priorities for companies again this year, with 63.2 percent of respondents including it among their responses, up slightly from last year. This was followed by increasing profitability (47.3 percent), customer retention (44.1 percent), employee training (38.2 percent) and better inventory management (37.3 percent). Reducing business costs and better visibility into company performance were also top priorities for many of this year's respondents.

### What are your top business priorities for the next 12 months?



## Plans for Building Revenue

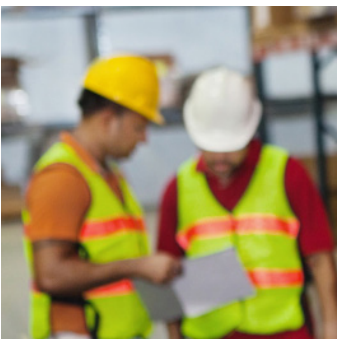
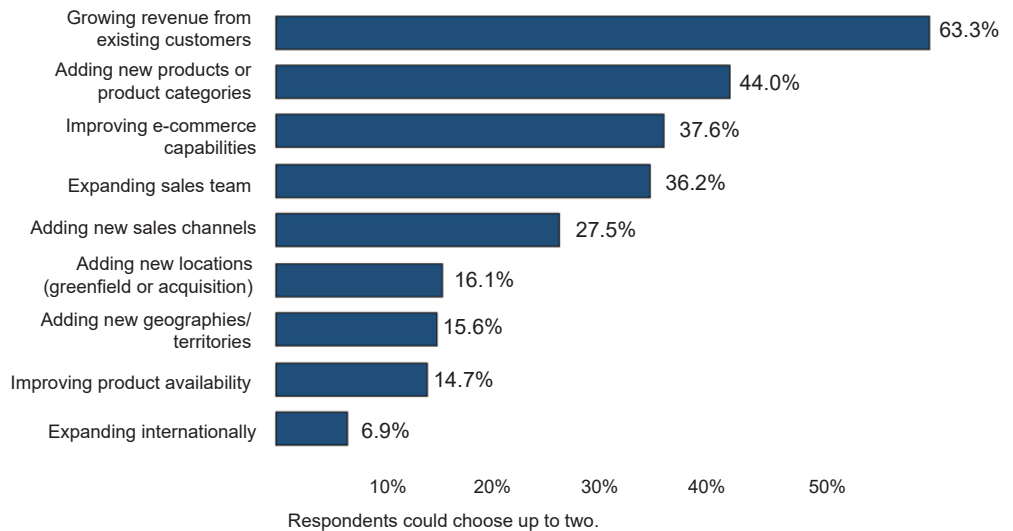
The most common way survey respondents are planning to grow revenue in the next 12 months is from existing customers (63.3 percent), up 13.6 percent from a year ago, when it ranked No. 2. Last year's top answer, adding new products or product categories, dropped to second place with 44 percent of respondents hoping to grow revenue this way.

The shift at the top isn't surprising with comments from respondents such as "It's easier to sell to people who know you, your company and capabilities," "We have a lot of room for growth with existing customers and there are verticals across the country that are under-served at present," and "The most sure footing is with your known product/markets and customer base."

The No. 3 plan for building revenue in 2016 is improving e-commerce (37.6 percent), which dropped slightly in percentage but overtook expanding sales team (36.2 percent).

Despite the lower percentage of respondents listing e-commerce as a way to grow revenue, its rise in the ranking bolsters what one distributor said: "E-commerce will target those younger industry folks who like to be electronic 24 hours per day."

### How are you planning to build revenue over the next 12 months?





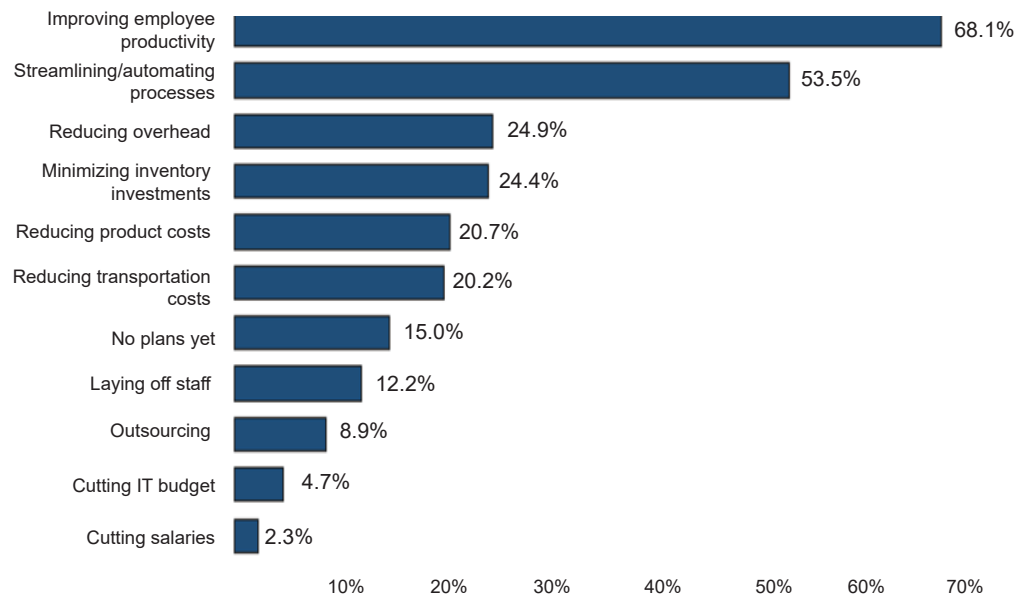
## Plans for Cutting Costs

Improving employee productivity was again the method of choice for cutting costs this year, with an even higher response rate – 68.1 percent – than last year. Streamlining or automating processes came in at No. 2 for the fourth consecutive year, at 53.5 percent.

Reducing overhead moved up two spots to No. 3 this year, with 24.9 percent of respondents listing it as a plan to cut costs. Minimizing inventory investments (24.4 percent) also moved up, to No. 4 from No. 6. Rounding out the top six were reducing product costs, at 20.7 percent, and reducing transportation costs, at 20.2 percent.

The balance among answers isn't surprising, as distributors will look for multiple ways to cut costs, and one respondent's answer summarized the ideal of most company executives: "Other than laying off staff, these are things that should be done all of the time."

### How are you planning to cut costs over the next 12 months?



Respondents could choose all that applied.



## Technology Plans

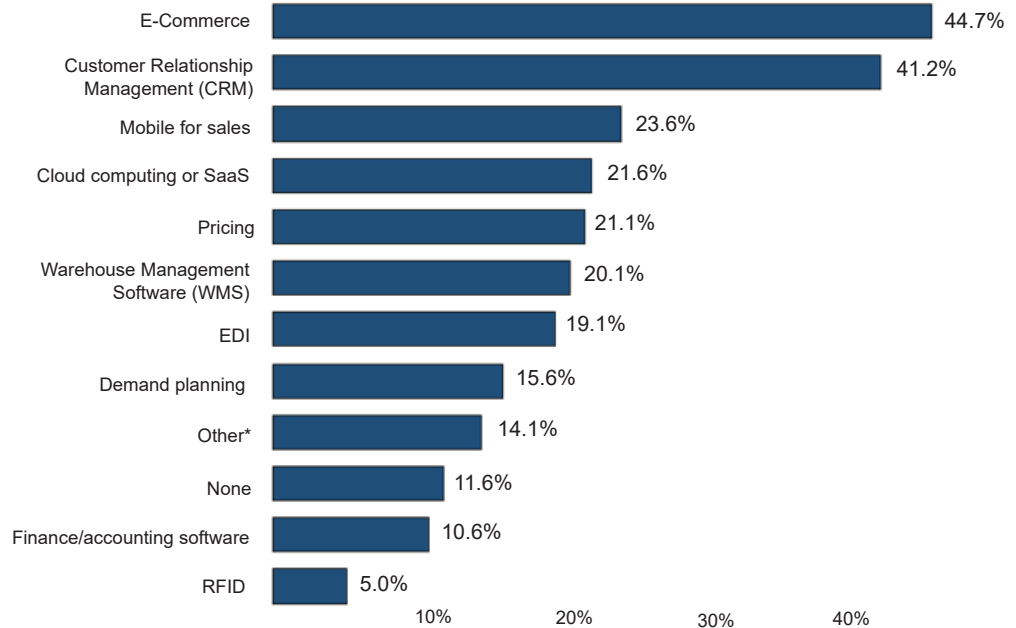
Respondents' top technology challenges in this year's survey, in order of the frequency with which they were mentioned, were:

- Developing e-commerce platforms
- Cost of implementing new technologies
- Streamlining ERP systems
- Training staff on new technologies
- Implementing business intelligence
- Maintaining user-friendliness
- Coordinating technology vendors
- Updating product data
- Having customers understand systems
- Taking full advantage of capabilities

E-commerce is a priority, topping the list of technology plans with 44.7 percent of respondents saying they anticipate exploring it in the next 12 months. E-commerce overcame CRM (customer relationship management), the No. 1 for the past two years but second for 2016 at 40.4 percent.

Mobile for sales remained third but fell nearly 12 percentage points to 23.6 percent among respondents. Cloud computing was flat while pricing also fell drastically, to just 21.1 percent from 27.2 percent last year.

### Which new technologies, if any, do you anticipate exploring in the next 12 months?

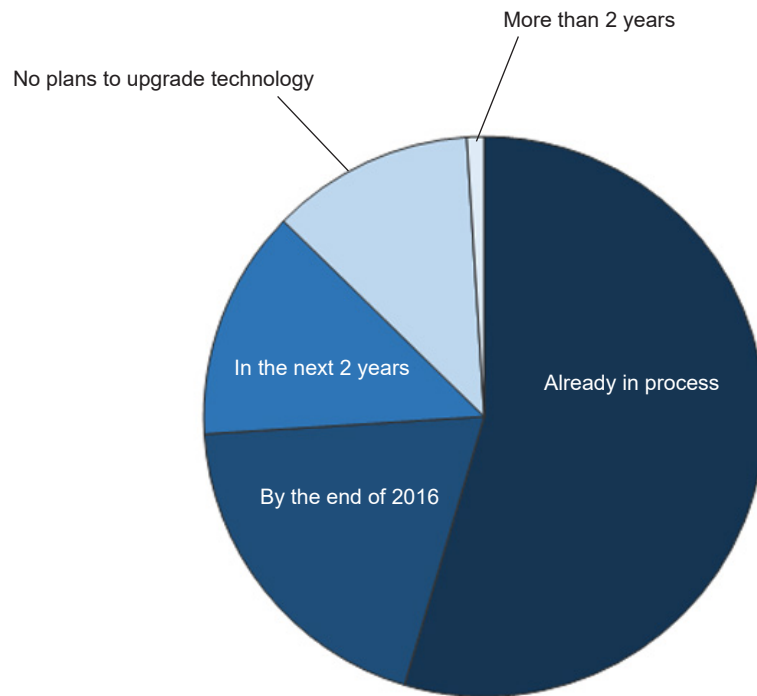


Respondents could choose all that applied.

\*Other: Business analytics, new ERP system, transportation management, social media, hand-held tools for outside salespeople, VMI software

### What is your timeframe for upgrading technology in your business?

While most distributors have a positive growth outlook, last year ended on a sour note, dampening enthusiasm and tempering expectations for 2016. A slow start to the new year – many analysts project the economy to turn around in second quarter – is a wise time for technology investments, which can be in place when the climate improves. And survey respondents appear to be embracing this philosophy. Most respondents in the survey plan to upgrade their technology capabilities in the next two years, with the majority already in the process of doing so.

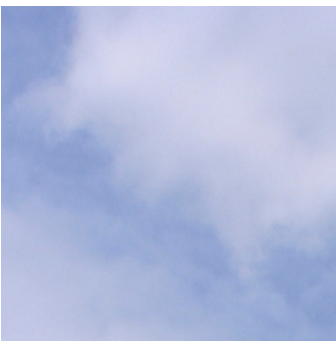


## Cloud Computing

Software as a service, or cloud computing, was mentioned by more than a few respondents as a potential fit for their businesses, although many remain unsure of the benefits of cloud computing, similar to the past three years.

Respondents most frequently noted the following benefits of using cloud-based solutions for their businesses:

- Ease of access to information
- Software, hardware and personnel cost savings
- Data security
- Accessibility for remote employees
- Reduction of local IT staff
- Ability to stay current on software
- Mobility
- Ease of sharing data across all business units
- Disaster recovery
- Reduced maintenance issues



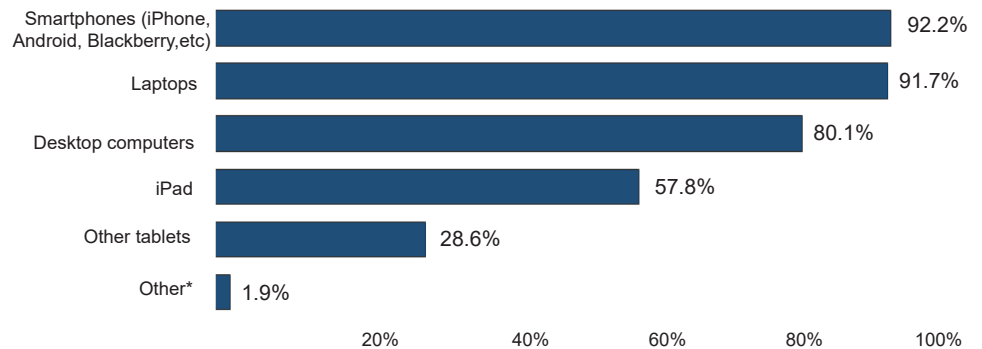
## Business Devices

For the first time, smartphones – whether iPhone, Android or Blackberry – took the top spot for most-used business device with 92.2 percent of respondents saying they use it. That number is down slightly from last year’s 94.3 percent, but it surpassed laptops (91.7 percent), which had been the No. 1 choice.

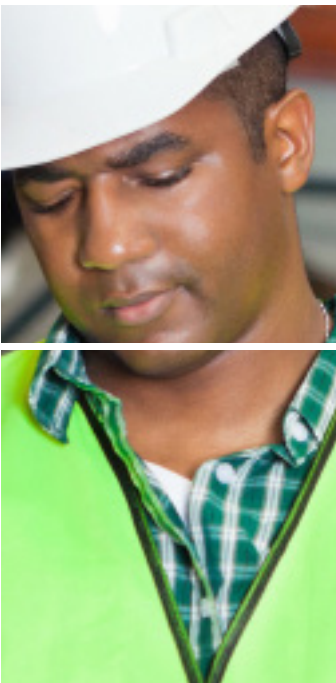
Fewer respondents are using iPads – 57.8 percent vs. 58.6 percent last year and 63.5 percent two years ago – while the “other tablets” category also fell, to 28.6 percent from 32.9 percent a year ago. Desktop usage decreased to 80.1 percent from 86.4 percent.

These numbers underscore the need to create a mobile-friendly website and mobile-accessible business applications throughout your organization.

### Which of these devices do you use in your business?



Respondents could choose all that applied.



## About the Survey Sponsor

NetSuite is the #1 cloud ERP solution for wholesale distributors, empowering tens of thousands of fast-growing companies 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.

Recognized in 2015 with a Frost and Sullivan Customer Value Leadership Award, NetSuite leverages its 17 years of experience serving wholesale distributors to drive rapid deployment and leading practices.

## NetSuite for Wholesale Distribution

NetSuite's Wholesale Distribution Edition is the only cloud-based, integrated business suite 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.

