

The Outlook for Wholesale Distribution in 2014

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



Executive Summary

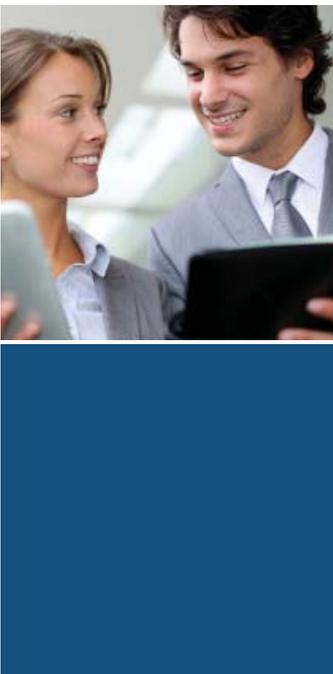
Concern about the U.S. government's impact on business, combined with persistently slow economic growth, has revived uncertainty, according to respondents in this survey for 2014 from NetSuite in partnership with Modern Distribution Management. The government shut-down, the rollout of the Affordable Care Act (also known as Obamacare) and distributors' concerns about new regulations and tax policies have many wondering how the actions or inactions of elected officials may affect their businesses.

Other external factors, such as a shortage of qualified workers, pricing pressures, nontraditional competition and consolidation are also making it more difficult for distributors to maintain margins this year.

Internal factors are also at play. Workers are resistant to change, lack motivation and are less productive than they could be, some respondents say. Overhead is too high, revenue is too low and sales structures are inefficient. This provides opportunity for companies that are willing to invest in technology and other tools that may improve efficiency and grow sales in better ways, giving them an edge in a tough market.

Many respondents are planning to explore CRM, e-commerce and pricing software in the coming year. In line with the prior year's results, many respondents continue to explore Software as a Service as an option, citing the benefits of reduced cost, ease of implementation and convenient access. At the same time, respondents are struggling with how to prioritize, fund and implement new technologies.

This report highlights these and other trends and reveals what distributors are planning to do in the new year to stay relevant in a rapidly changing environment.



Methodology

The survey results presented in this whitepaper are the result of an online survey of readers from Modern Distribution Management (www.mdm.com) and NetSuite in October and November 2013. 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.

More than 250 respondents in wholesale distribution and manufacturing responded to the survey, with most identifying as wholesaler-distributors. Nearly 80 percent identified as a manager or above in their companies, with more than 40 percent being the owner or the executive of their companies. Size distribution of respondents was diverse with 9 percent of respondents with less than \$2 million in annual revenues; 13 percent with \$2 million to \$10 million; 32 percent with \$10 million to \$50 million; 9 percent from \$50 million to \$100 million; 20 percent with \$100 million to \$500 million; and 16 percent over \$500 million in annual revenues.

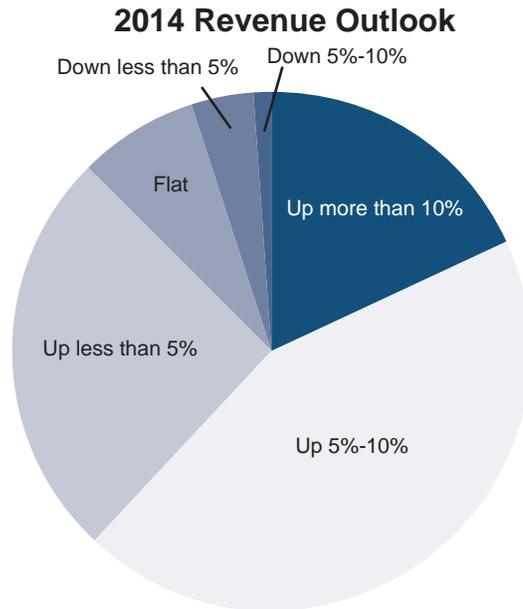
By employee count, about 35 percent had 0-49 employees; 12 percent had 50-99 employees; 33 percent had 100 to 999 employees; and 19 percent had more than 1,000 employees.

Sector representation was also diverse, with Industrial coming in as the largest with 60 percent of respondents. Respondents could name more than one sector, so totals will not equal 100 percent. Other sectors represented by respondents include Safety Products (25 percent); Electrical & Electronics (24 percent); Building Materials & Construction Products (25 percent); Chemicals and Plastics (15 percent); and HVACR/Plumbing Products (18 percent). Others included Pulp and Paper, Janitorial Supplies, Grocery and Foodservice, Oil and Gas Products, Pharmaceutical, Chemicals and Plastics, and Consumer Products.



Growth Outlook

Respondents expect growth in 2014, with 18 percent expecting sales to grow more than 10 percent in 2014 and 44 percent expecting growth of 5 percent to 10 percent. Another 25 percent forecast growth of less than 5 percent in 2014.



Sector Growth Expectations

Individual sector trends followed the overall growth trend; some sectors, such as building materials, are expecting stronger growth, and others are expecting more moderate growth, including industrial. But very few in any sector expect a decline in sales in 2014. Respondents could indicate all sectors they participated in, so responses below 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	23.1%	34.6%	28.8%	11.5%	1.9%	0%
Chemicals & Plastics	33.3	42.4	15.2	6.1	3.0	0
Consumer Products	20.0	40.0	20.0	16.0	4.0	0
Electrical/Electronics	22.4	38.8	26.5	6.1	6.1	0
Grocery/Foodservice*	66.7	11.1	11.1	0.0	11.1	0
HVACR/Plumbing	20.5	51.3	15.4	10.3	2.6	0
Industrial	19.4	42.7	25.8	9.7	2.4	0
Janitorial Supplies	23.1	38.5	23.1	11.5	3.8	0
Oil & Gas Products	27.8	38.9	22.2	8.3	2.8	0
Pharmaceutical*	36.4	63.6	0.0	0.0	0.0	0
Pulp & Paper	30.4	43.5	17.4	4.3	4.3	0
Safety Products	24.5	36.7	24.5	10.2	4.1	0

* Small sample: fewer than 20 respondents



Top Concerns for 2014

Business-Specific

Respondents to this year's survey were predominantly concerned with external factors such as the economy and the political climate, and their frustration was evident in their answers. The following issues seem to be front-of-mind when it comes to respondents' current business-specific concerns.

- **The economy.** More than three dozen respondents referenced concerns about the local and/or global economy and its health. A related concern, materials cost inflation, was noted by several.
- **Government.** Concerns ranged from government spending to the government's "inability to function." Many were also disturbed by increasing government regulations, including those regarding conflict minerals.
- **Rising healthcare costs.** More than a dozen listed rising healthcare costs as a concern, with many calling out the Affordable Care Act.
- **People.** Finding, motivating and retaining qualified workers was a major concern this year. Especially for those planning succession, knowledge transfer was mentioned often.
- **Margin compression.** Myriad factors including pricing erosion and rising healthcare and other costs are threatening the bottom line for many respondents.

Industry-Wide

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

- **Online competition.** From disintermediation to B-to-C players' encroachment on the B-to-B space, online competition is making life more difficult for many respondents.
- **Vending.** Respondents are reporting difficulty effectively implementing vending, from the initial investment to mature program profitability. The initial investment is keeping many from participating in this trend, and one respondent said sales reps are "spending more time on filling vending machines than selling product."
- **Sales operations.** Many had concerns about the sales component of operations, with reported factors including channel development, execution, sales force expansion and talent shortages.
- **Consolidation.** Supplier and competitor consolidation are making life more difficult for companies this year.
- **Pricing.** Respondents are reporting price pressure from customers, which is eating into margins.



Pain Points

Top pain points in most cases mirrored respondents' top industry and business concerns, but several other pain points emerged, including:

- **Customer & employee pessimism.** Even those respondents who were cautiously optimistic about the current business environment expressed concerns about “customers’ lack of confidence” and employees’ reportedly negative attitudes. One respondent reported having a hard time “getting people to look forward, not back.”
- **Worker productivity.** Both new and tenured workers aren’t as productive as many respondents would like. One reported difficulty improving productivity among “an aging workforce.” Another complained that “new salespeople have a slow ramp-up to productivity.”
- **Change management.** “Legacy employees are ill-prepared to succeed as our business model changes,” one wrote. Another wrote that it has been difficult to convince employees inherited through an acquisition to embrace change. Many customers, respondents say, are also resistant to change.
- **Global positioning.** The “weakness of the dollar” and “lack of GDP growth” have many respondents questioning the strength of the U.S. among other global players.

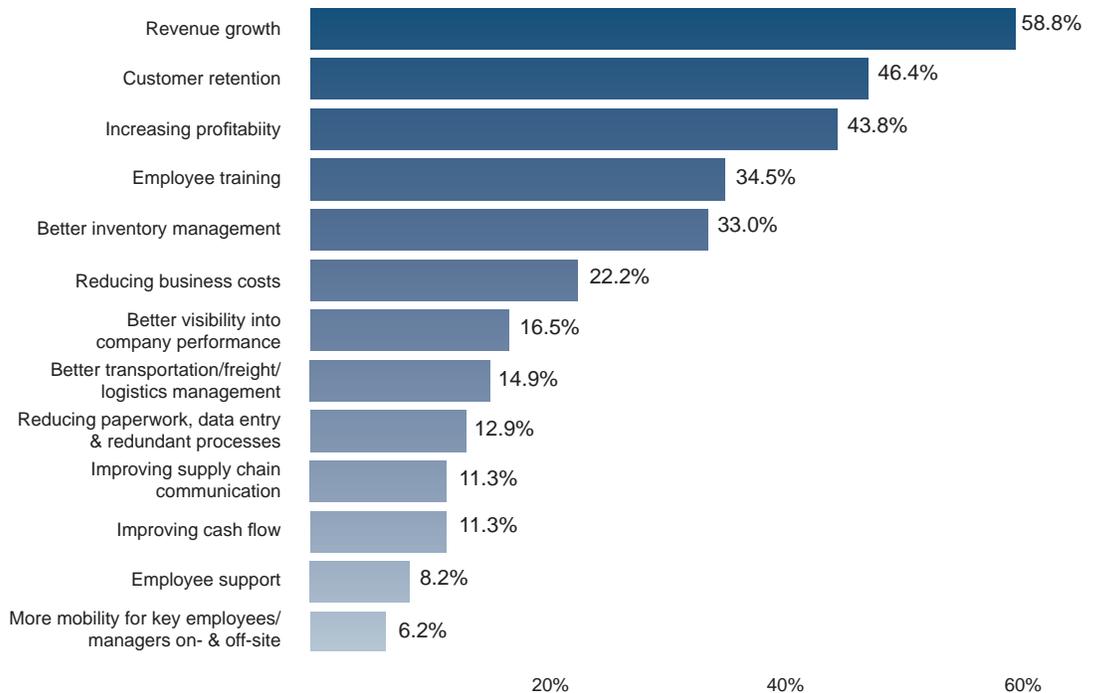


Key Business Priorities

Revenue growth topped the list of business priorities for companies again this year, with 58.8 percent of respondents including it among their responses. This was followed by customer retention (46.4 percent) and increasing profitability (43.8 percent). Employee training and better inventory management were also top priorities for many of this year’s respondents.

Customer retention was more important to respondents this year than last year. It moved up from a No. 3 position in last year’s survey to a No. 2 position this year, pushing increasing profitability down to the No. 3 slot. Better visibility into company performance moved up into the No. 7 slot this year, perhaps reflecting respondents’ increased awareness of the benefits of analytics.

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



Respondents were asked to choose three.



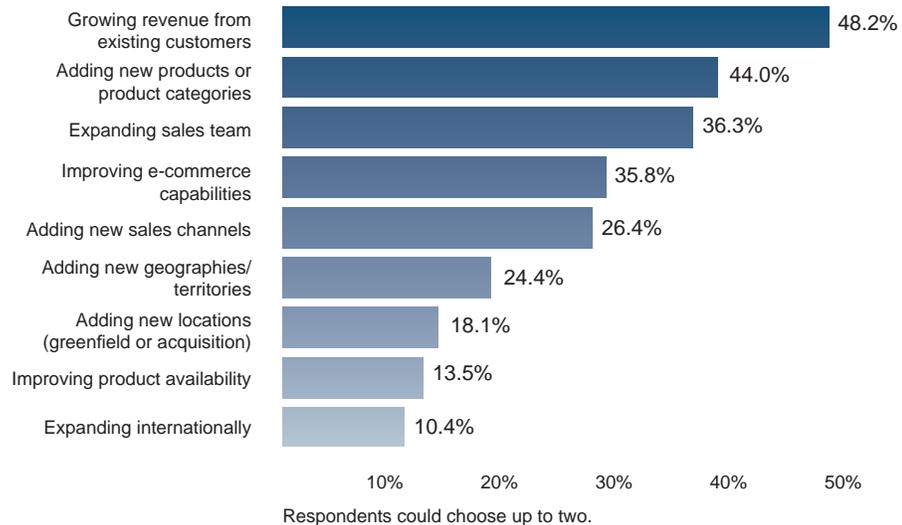
Plans for Building Revenue

The most common way survey respondents are planning to grow revenue in the next 12 months is through existing customers (48.2 percent), also respondents' No. 1 choice last year. However, the percentage of respondents including it among their selections was almost 8 percentage points lower than last year.

Also parallel to last year's survey, adding new products ranked No. 2 for revenue-building strategies. This isn't surprising considering respondents' continued focus on increasing wallet share. Expanding sales teams was a more popular strategy in this year's survey, jumping up to the No. 3 spot (36.3 percent) from No. 5. "Expanding the sales team brings new opportunities with customers and products," explained one respondent.

Improving e-commerce capabilities was also more important this year, moving up to the No. 4 slot. A related response, adding new sales channels, followed at No. 5. "Online sales have to increase as they are more cost-effective," wrote one respondent. Another wrote that distribution is under attack by nontraditional competitors: "We must react by finding our niche in the e-commerce world."

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



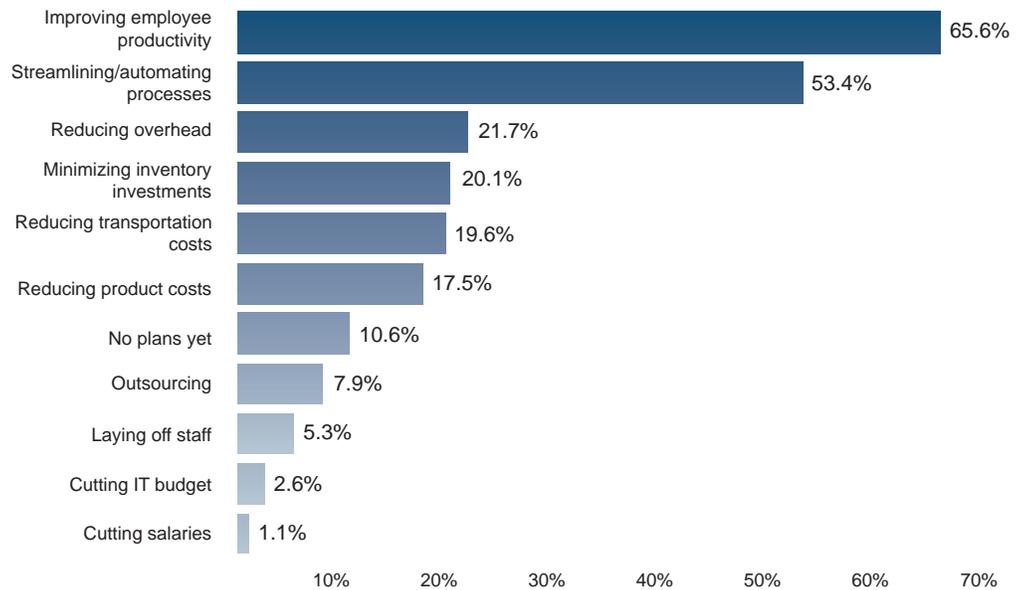
Plans for Cutting Costs

Improving employee productivity was again the method of choice for cutting costs this year, with 65.6 percent of respondents naming it among strategies they plan to employ. Streamlining or automating processes was again No. 2, at 53.4 percent.

Reducing overhead moved to the No. 3 slot this year from No. 4, included among the choices of 21.7 percent of respondents. It displaced reducing product costs, which moved down to No. 6, suggesting respondents' preference to reduce cost in places where they have more control.

Other cost reduction strategies becoming more popular in this year's survey include minimizing inventory investments and reducing transportation costs, both of which moved into the top five.

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, roughly in order of the frequency with which they were mentioned, were:

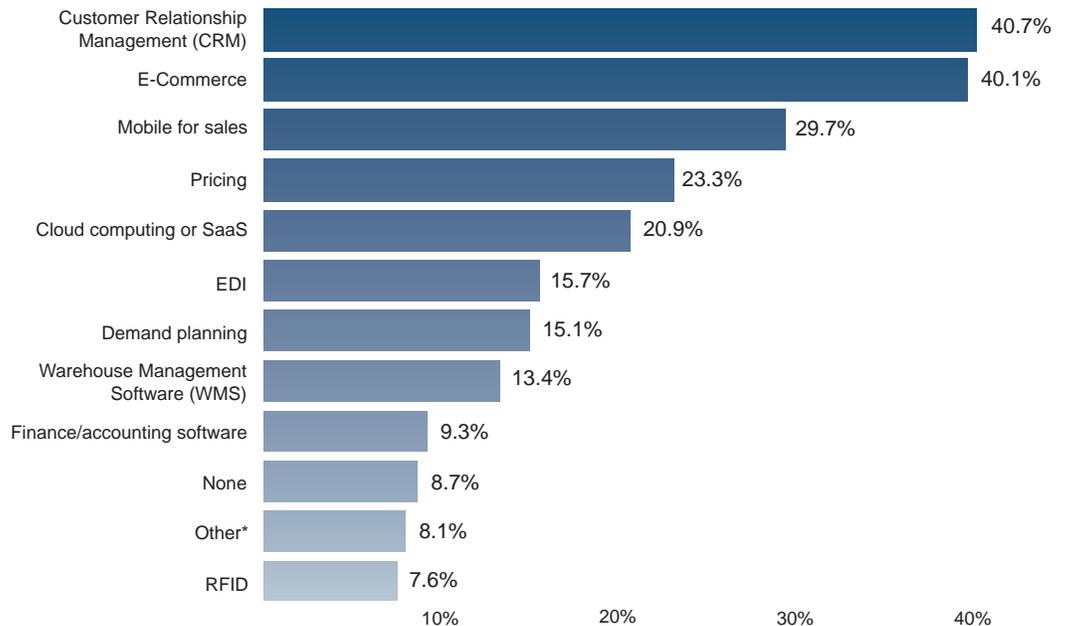
- Prioritizing investments
- E-commerce improvement
- ERP improvement and implementation
- Website improvement
- Software integration
- Obtaining actionable analytics
- CRM upgrade and selection
- Succeeding in online marketing/content development
- Pushing change throughout company
- The successful utilization of mobile

Despite these challenges, distributors are pushing forward on implementing technology solutions in response to a new competitive landscape that requires an online presence and the robust use of data to help salespeople develop new markets, as well as sell more to existing customers.

To that end, CRM edged out e-commerce at the No. 1 spot in this year's survey, with 40.7 percent of respondents including it among technologies they plan to explore in the next 12 months. Respondents frequently mentioned a desire to improve customer service and access customer information more quickly. "I want our sales staff inside and out to be one linked driving force," said another respondent.

E-commerce was a close second at 40.1 percent. One respondent said: "E-commerce will open an entirely new market." Like last year, mobile for sales (29.7 percent) was the next most popular choice.

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



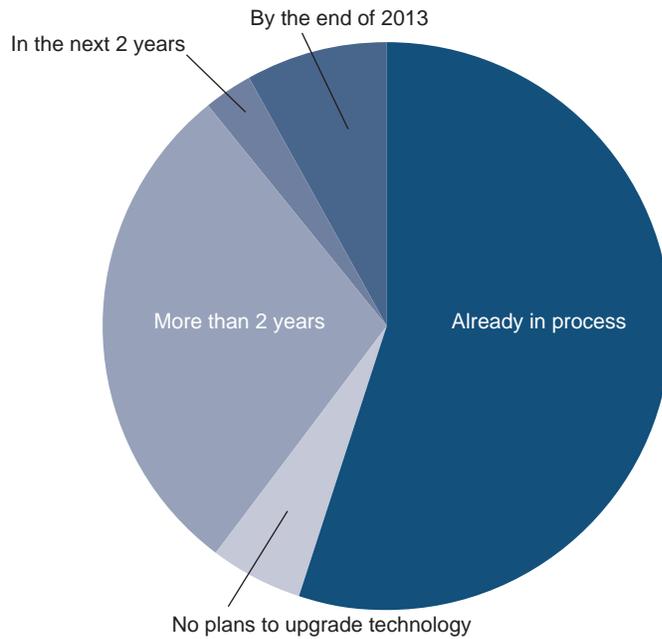
Respondents could choose all that applied.

*Other: Business analytics, new ERP system, transportation management, social media, hand-held tools for outside sales-



What is your timeframe for upgrading technology in your business?

Since the economy has bounced back from the recession, distributors have worked to meet their challenges head-on using technology. Most respondents in the survey are planning to upgrade their technology capabilities in the next two years, with the majority already in the process of doing so.



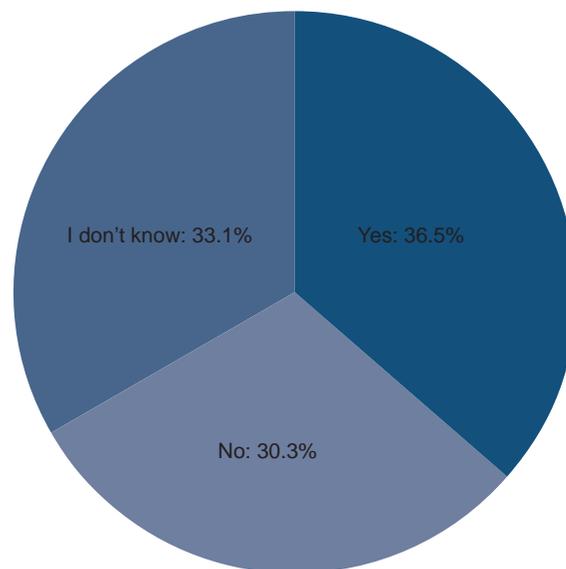
Cloud Computing

More than 36 percent of respondents view Software as a Service, or cloud computing, as a potential fit for their businesses. About a third are unsure of the benefits of cloud computing, similar to last year.

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

- Reduced costs
- Speed of implementation
- Remote access
- Ease of maintenance / internal IT staff reduction
- Disaster recovery / maintained availability

Are you interested in cloud computing as an option for your business?



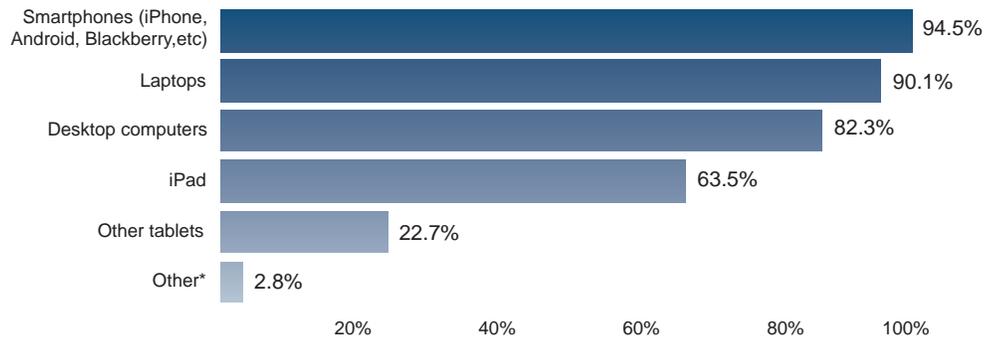
Business Devices

This year's survey saw some interesting changes to the devices respondents are using in their businesses. While laptop computers again outnumbered desktop computers this year, smartphones (94.5 percent) pushed laptops (90.1 percent) out of the No. 1 spot.

Tablets jumped more than 15 percentage points in popularity, with 86.2 percent of respondents saying they use either an iPad (63.5 percent) or other brand of tablet (22.7 percent) for business. In 2012, less than 70 percent of respondents reported using tablets.

The growth in the use of mobile devices is the result of more distributors wanting to implement mobile-specific solutions for sales. Nearly a third of respondents said they were planning to explore the use of mobile for sales in the next 12 months.

Which of these devices do you use in your business?



Respondents could choose all that applied.

*Other: thin clients, field sales hand-held technology



About the Survey Sponsor

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

NetSuite's single, flexible business application enables you to grow your wholesale distribution business and provide new services while increasing customer service and reducing costs.

The NetSuite Wholesale Distribution Edition

The NetSuite Wholesale Distribution Edition is the only cloud-based integrated business suite designed expressly for wholesale distribution. It gives WD businesses a complete, web-based suite that allows them to:

- Get complete information by monitoring and managing 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, 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 engagement with tools for partner relationship management (PRM) to expand their sales presence.
- Manage webstores and online business with NetSuite's e-commerce solution, tightly integrated with accounting, fulfillment, inventory, CRM, PRM and more.
- Leverage demand planning to optimally manage inventory seamlessly.

For more information, please visit www.netsuite.com/wholesale.

