First Research

INDUSTRY PROFILE

Wholesale Sector

1.18.2016

NAICS CODES: 42

SIC CODES: 50 , 51

Industry Overview

Companies in this sector distribute nondurable or durable goods, typically specializing by product category. Major US distributors include Avnet (electronics), McKesson (drugs), and SYSCO (foods); top companies based outside the US include Brenntag (Germany, chemicals), Medipal (Japan, drug and household products), and WPG (Taiwan, electronic components).

China's wholesale industry is the world's largest, with RMB 2.6 trillion in sales in 2012, according to Euromonitor. More than 15 million people were employed by nearly 1.5 million wholesale companies in China in 2012, more than twice the number in 2006. India's fast-growing wholesale sector is valued at about $300 billion and is forecast to grow to $700 billion by 2020. The industry included more than 958,000 companies, mainly small establishments, employed about 10 million workers, and generated 6.3% of the nation's GDP in 2012, according to Euromonitor.

The wholesale distribution industry in the US includes about 400,000 establishments (single-location companies and units of multi-location companies) with combined annual sales of about $8 trillion.

Competitive Landscape

For most distributors, demand is closely linked to **local economic activity**. The profitability of individual companies depends on efficient **inventory management** and **order fulfillment** operations. Large companies can supply customers with a wider range of goods and in more markets, but smaller distributors can compete successfully by carrying specialty products or providing add-on services. In the US, the industry is highly fragmented: the 50 largest distributors generate about 25% of industry revenue.

Computer and communications technology have had a major effect on the industry by improving the efficiency of warehouse and distribution operations. Largely because of automation, industry **labor productivity** improved more than 15% between 2004 and 2014.

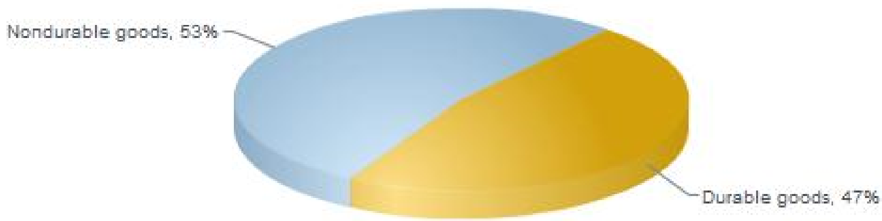
Supply chain efficiencies allow some manufacturers and retailers to **bypass independent distributors**. Large retailers like Wal-Mart operate their own distribution systems, often taking delivery of products directly from producers.

Imports have become a more important source of supply for distributors, as more US manufacturers have foreign factories, and as more foreign-produced goods have cost advantages over US-made products. **Foreign sources** of supply have become especially important for distributors of electronics, steel, car parts, textiles, electrical and plumbing products, and furniture.

Products, Operations & Technology

The major segments of the US wholesale sector are distribution of **nondurable goods** (about 55% of industry revenue) and **durable goods** (about 45%). Leading categories of nondurable goods are groceries, petroleum products, and drugs. The largest durable goods categories are electrical goods and electronics, professional and commercial equipment, machinery, and motor vehicles and parts.

Product Segmentation by Revenue - US Census Bureau (2014)



Operations typically consist of **merchandising** decisions, **purchasing** from manufacturers and other suppliers, warehouse **inventory management**, product transportation and **distribution**, and providing various types of **customer services**. Operations vary widely according to the type of product. For example, food distributors not only deliver products to individual customer stores, but also arrange them on store shelves; steel distributors often have fabrication operations to make semi-finished goods for their customers; some auto parts distributors also operate retail stores.

Deciding what **merchandise** to carry determines the types of customers a distributor can sell to. Many distributors carry a broad range of goods to satisfy all of their customers' needs. A distributor of fasteners may stock some 100,000 items (**stock-keeping** units, or SKUs) bought from 1,000 manufacturers. Customers often ask distributors to carry new products. **Trade shows** are a major source of new products.

Distributors may have contractual arrangements with manufacturers or may order products as needed. Large distributors frequently have annual **supply contracts** with manufacturers, under which they commit to taking a certain volume of product in exchange for a discounted price. In some segments - especially those with a few large manufacturers, such as beer - distributors may hold exclusive **sales territories** as long as they meet volume requirements. Distributors may also have "**authorized distributor**" agreements with manufacturers, which typically require that they maintain a certain level of service to customers. Some distributors receive some or all of their product as **imports**, and may have exclusive distribution rights.

Big distributors may operate a network of **warehouses**, but the majority operate a **single warehouse**. For many products, warehouse operations consist of receiving products at a loading dock, storing them on shelving systems, and assembling loads to be delivered to customers. Warehouses may cover hundreds of thousands of square feet. **Managing inventory** is a major activity. Incoming product is typically moved on **pallets** by forklift trucks.

The complexity of **warehouse** and **order fulfillment** operations depends greatly on the type of product. In general, the smaller and more numerous the product, the more complicated the operations. Distributors of farming machinery, for example, can park an inventory of tractors in a lot, see each item from the office window, and drive one off on a trailer when an order comes in. Distributors of electrical supplies, on the other hand, may stock tens of thousands of different items, of which a customer may need only a dozen; quickly finding those items requires a sophisticated location and retrieval system.

Another general rule about warehouse operations is that the faster the inventory must move, the fewer the items that can be stocked. Distributors of fresh foods, for example, typically specialize in just a limited line of goods, whereas distributors of canned or frozen foods carry a wider selection.

Distributors may own or lease a fleet of **delivery trucks**. In many cases, special trucks are required - such as for gas, beverages, or refrigerated foods. Some distributors contract with transportation companies to deliver their products. The operation and maintenance of a delivery fleet can be costly. Depending on the product, distributors may make deliveries to customers several times per day. **Fuel costs** are a major concern. Many distributors have a sales territory that extends several hundred miles from their warehouse.

The additional **services** that distributors most often provide are **spare parts**, **repairs**, maintenance, and training. Some distributors provide **logistics** to customers, including inventory management and just-in-time delivery. In many cases, customers rely heavily on distributors to advise them on how to use existing products and information about new products.

Technology

Most distributors operate **transaction-oriented systems** that maintain an **inventory database** as goods are received from suppliers and dispatched to customers. Small distributors may maintain an inventory database on a stand-alone PC and update it overnight using receiving and shipping data. Large distributors have fully automated supply chain systems tying together suppliers, shippers, **warehouse management systems (WMS)**, and customers. The goals of both types of systems are to minimize inventory of slow-moving items, increase inventory turns, reduce warehouse staff, and reduce inventory shrinkage.

A WMS tracks the physical location of inventory throughout the warehouse, typically by scanning **bar codes** on the merchandise. These systems may include automated **materials handling systems** used to convey the inventory and place it automatically in bins for later retrieval. The WMS also tracks inventory by age and, for certain perishables, by environmental conditions. WMS systems schedule dock personnel for loading and unloading according to anticipated traffic volumes. For distributors operating multiple warehouses, inventory systems are linked, allowing materials to be shipped between warehouses as demand requires.

Radio frequency identification (RFID) devices are coming into widespread use, replacing the bar codes on merchandise and pallets. Wal-Mart, Home Depot, the Department of Defense, the FDA, and others have implemented programs requiring RFIDs. These devices allow tracking of the location and movement of merchandise automatically. As the prices for these devices drop, and more vendors have experience with them, they'll eventually become the dominant method of merchandise tagging.

Some distributors have **online interfaces** with customers and suppliers. Customers may be able to place orders online, receive confirmations and shipping information, and track shipments. As orders are received and fulfilled, distributor systems automatically generate orders to suppliers to replenish inventory. Financial systems capture order information and automatically generate accounts receivable and payable entries. The customer systems include online catalogs, product configurators, order entry, and order tracking, all of which are available 24/7. Systems also allow customers to schedule delivery and access help desks to get support for orders.
E-commerce sales of US merchant wholesalers increased 74% between 2005 and 2013, to top $1 trillion.

Distributors that operate their own delivery fleets have logistics applications that optimize loading and delivery routes. Many distributors have **GPS** in their vehicles that allow them to track the vehicles and reroute them as required.

Sales & Marketing

Distributors sell to **retailers**, other **distributors**, and **industrial** and **commercial** customers. Depending on the product, sales are often handled through an internal sales force. **Trade shows** are an important source of new customers. Many distributors advertise in trade publications and Yellow Pages, and use direct mail. In some industry segments, distributors are directly involved in retail advertising or promotional programs, and may coordinate advertising with manufacturers.

Because of improving distribution methods, many distributors face **competition** both from manufacturers that operate their own distribution systems and from large retailers that buy directly from manufacturers. The Internet has made buying from distant distributors easier. Wholesalers and distributors have tapped into social media tools to better connect with customers and employees. Avnet and McKesson, for example, use Facebook to showcase community-facing programs, celebrate employee accomplishments, and share company news.

Prices are usually based on the manufacturer's price. Price markups tend to be relatively modest because of competition from other distributors.

Finance & Regulation

Most distributors have a large investment in their **inventory**, which turns between eight and nine times per year on average. Inventories tend to be higher for durable goods, lower for nondurable. Demand for working capital may vary greatly during the year as a result of inventory purchase patterns and seasonal demand. On average, the **working capital turnover ratio** for the industry in the US is about 12%. In many cases, inventories are financed by manufacturers (especially for expensive products like machinery) or third-party lenders. In segments with rapid demand changes, like electronics or clothing, inventory obsolescence can be a problem. For goods with seasonal demand, such as toys or farm products, inventories may vary significantly during the year.

The industry is **capital-intensive**: average annual revenue per worker in the US exceeds $1 million.

Receivables vary by industry segment, tending to be low for perishable goods like food, and high for expensive durable goods where the distributor essentially provides financing to retailers.

Distributors and their customers pay attention to how quickly an order gets filled (**fill-rate**), and how often an item is out of stock (**stock-outs**). The fill rate is the percent of items delivered to customers within an appropriate time period like 24 or 48 hours. For distributors of electrical products, a good 24-hour fill-rate might be 95%.

A common measure of the size of a distributor's inventory is the **inventory-sales ratio**. Calculated by dividing month-end inventory by sales during the latest month, the ratio shows how many months of sales would be required to use up the inventory. Typical inventory-sales ratios vary according to the type of product: for groceries, the ratio is often around 0.6; for machinery, around 2.5.

In addition to inventory, distributors may have large **capital investments** in delivery vehicles, automated inventory systems, and computer software. Many distributors periodically make big investments in computer systems.

Gross margins for the industry are about **20%** of net sales on average, but vary considerably according to the type of product. Margins are closer to 25% for durable goods like industrial machinery, 15% for food, and 10% for petroleum products.

Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.

Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at www.microbilt.com/firstresearch.

Regulation

Most distributor operations aren't subject to any special state and federal **regulations**, except for products like gas, cigarettes, alcohol, guns, and prescription drugs. Food and drug distributors may be subject to FDA, USDA, and state sanitation regulations. Distributors that operate their own fleet of trucks, petroleum distributors, and chemicals distributors may have **ground contamination** problems.

International Insights

Top companies outside the US include Taiwan-based components wholesaler WPG, Japan-based medical products distributor Mediceo, Brazil-based petroleum products wholesaler Petrobras, and Germany-based chemical distributor Brenntag.

Worldwide, emerging markets will only grow in importance to wholesalers. China's wholesale industry is the world's largest, with RMB 2.6 trillion in sales in 2012, according to Euromonitor. More than 15 million people were employed by nearly 1.5 million wholesale companies in China in 2012. The number of companies more than doubled between 2006 and 2012. India's fast-growing wholesale market is valued at about $300 billion and is forecast to grow to $700 billion by 2020. The industry included more than 958,000 companies in 2012, mainly micro-sized establishments, employed about 10 million workers, and generated 6.3% of the nation's GDP, according to Euromonitor.

Many wholesalers approach new markets through partnerships or acquisitions. Walgreens Boots Alliance, for example, has expanded in China through buying stakes and partnering with some of China's largest drug wholesalers and in Latin America through buying a stake in a drug wholesaler in Brazil. US online giant Amazon entered the wholesale e-commerce business in India in 2015 with the establishment of Amazon India. China's Alibaba is also eyeing the Indian wholesale market.

Some wholesalers see opportunity in cross-border partnerships and acquisitions in established markets. McKesson, for example, acquired Germany-based drug distributor Celesio in 2014.

Challenges for international growth include the logistics of managing multiple locations across countries, especially if the growth was achieved through acquisition. A company must integrate the acquired firm's records, orders, inventory, and other operations in a seamless and timely manner or risk losing customers.

Companies operating in multiple countries must be aware of varying customs regulations. The threat of terrorism has caused many countries to toughen their security measures. Companies may need to give advance notification of cargo contents to customs officials and port authorities, who want the information to identify possible security breaches or illegally imported goods.

Wholesalers also need to prepare for possible product safety issues, because they may be liable for products even if they were not involved in the manufacturing of the products. Certain countries require that the manufacturer or any wholesale distributor of a product provide the public with notice of defects. Some companies manage their risk by acquiring product recall insurance in case such an incident occurs.

Change in Dollar Value of US Trade - US International Trade Commission

Imports to the US come primarily from China, Canada, Mexico, Japan, and Germany.

Major markets for US exports include Canada, Mexico, China, Japan, and UK.

Total Imports & Exports

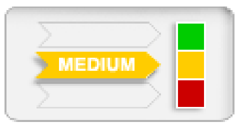
Human Resources

About 20% of distributor jobs involve selling, while most of the rest are clerical, customer service, or involve warehouse operations. Because of the special knowledge that many workers must have about company products, average hourly **wages** are **slightly higher** than the average wage for all US workers. Overall, the industry **injury rate** is close to the US average rate, although there are more lifting and transportation injuries. Injuries in **warehouse operations** often are serious.

Industry Employment Growth
Bureau of Labor Statistics

Average Hourly Earnings & Annual Wage Increase
Bureau of Labor Statistics

Industry Growth Rating



Demand: Tied to local economic activity
Need efficient inventory management
Risk: Large retailers buy directly from producers

Quarterly Industry Update

1.18.2016

Challenge: Distribution Deal Bypasses Drug Wholesaler - An unconventional 20-year distribution agreement between Valeant Pharmaceuticals and Walgreens Boots Alliance threatens wholesalers that act as middlemen between drug makers and retail pharmacies. Typically a drug company sells its products to a wholesaler, which then sells the medicines to pharmacies. However, under the terms of the new agreement, Valeant will ship drugs directly to Walgreens, which will dispense them but never take ownership of them. Valeant, which has come under fire for steep price hikes, said the savings realized by eliminating the wholesaler will be used to reduce prices of its signature eye and skin drugs by 10% and of more than 30 medications facing generic competition by an average of 50%. The drugmaker said it would offer the same distribution model to some independent pharmacies, but apparently not other big pharmacy chains.

Industry Impact - Direct distribution deals, such as the newly signed agreement between Valeant Pharmaceuticals and Walgreens, threaten to remove drug wholesalers from the pharmaceutical supply chain.

10.12.2015

Opportunity: Distributor Teams With Peer-to-Peer Lender - To make it easier to market and sell technology to businesses of all sizes, Ingram Micro is partnering with peer-to-peer lender Lending Club to provide small and medium-sized US businesses with affordable credit. The computer and office equipment wholesaler is looking to accelerate technology leases and purchases by providing its channel customers with access to unsecured lines of credit with flexible payment terms, which are offered through Lending Club's online marketplace for connecting borrowers with investors. The partnership is one of three turnkey financial services programs launched in September 2015 by Ingram Micro to help customers obtain the products and services they need without having to worry about insufficient cash flow or access to bank financing.

Industry Impact - Wholesalers looking to do more business with small and medium-sized channel partners may want to explore innovative financing options, such as partnering with peer-to-peer lenders.

7.13.2015

Trend: Hospitals Turning to Just-in-Time Inventory Management - Drug and medical equipment wholesalers are helping health care providers contain costs by exploring creative inventory techniques. For example, pharmaceutical wholesaler Cardinal Health is exploring just-in-time (JIT) inventory management routines and processes that help hospitals keep supplies lean and costs low. (JIT is a supply chain model characterized by smaller, more frequent deliveries by distributors that allow customers to carry less stock on site.) JIT and other stockless inventory models are gaining in popularity as hospitals face increasing pressure to reduce costs --

including expenses associated with carrying inventory -- amid declining reimbursement rates. However, there are risks associated with the JIT model, including not having a drug or implant on hand when needed. Successful JIT inventory management requires skillful coordination across the supply chain to ensure product availability while minimizing excess inventory.

Industry Impact - Drug and medical equipment wholesalers are partnering with hospitals to evaluate and implement creative inventory techniques that reduce inventory-related costs.

4.13.2015

Challenge: FTC Seeks to Block SYSCO-US Foods Merger - To prevent the creation of a dominant national broadline foodservice distributor, the Federal Trade Commission has filed a complaint to halt the proposed merger of SYSCO and US Foods. The $3.5 billion merger of the nation's #1 and #2 broadline foodservice distributors, proposed in 2013, has been repeatedly delayed and now blocked by the FTC over concerns that it will raise prices for customers and reduce competition nationwide and in 32 local markets. According to the FTC complaint, a combined SYSCO and US Foods would account for 75 percent of the national market for broadline distribution services.

Industry Impact - A merged SYSCO and US Foods would create a dominant national broadline foodservice distributor and would likely lead to increased prices across the food distribution industry.

Industry Indicators

The average US retail price for diesel and regular gas, a major operating cost for distributor fleets in the wholesale sector, fell 28.7% and 21.1%, respectively, in the week ending March 14, 2016, compared to the same week in 2015.

Total US manufacturers' shipments, an indicator of demand for industries in the wholesale sector, fell 4.0% year-to-date in January 2016 compared to the same period in 2015.

US tourism spending on all tourism goods and services, which impacts the wholesale sector revenues, increased 1.5% in the fourth quarter of 2015 compared to the same period in 2014.

Total US wholesale sales, a measure of the wholesale sector, fell 6.4% in January 2016 compared to the same month in 2015.

Industry Forecast

Revenue (in current dollars) for the US wholesale industry is forecast to grow at an annual compounded rate of 5% between 2016 and 2020. Data Published: February 2016

First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. Forecast FAQs

Companies

Company	Country	Sales
E D F TRADING LTD	England	$212,612.55M
MITSUBISHI ELECTRIC LIVING ENVIRONMENT SYSTEMS CORPORATION	Japan	$36,131.98M
H & M Hennes & Mauritz Gbc AB	Sweden	$20,396.14M
Jiangsu Suning Appliance Group Co., Ltd.	China	$17,700.36M
THE BIDVEST GROUP LTD	South Africa	$14,817.26M
TRANSINVEST, OOO	Russia	$13,629.09M
Core-Mark Holding Company, Inc.	United States	$11,069.40M
BUNZL PUBLIC LIMITED COMPANY	England	$9,562.28M

Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually

Energy Prices Change in crude oil and related energy prices

Interest Rates Change in prime and related interest rates

Consumer Spending Change in overall level of consumer spending on goods and services

Commodity Prices Changes in prices for commodities, such as crops, metals, and other raw materials

Critical Issues

Inventory Carrying Costs - Because many distributors finance their inventories, they're sensitive to interest rates. On average, distributors hold inventory equal to about 60 days sales. Inventories typically are larger for industrial equipment distributors, smaller for distributors of food and petroleum products. Because industry profit margins are low, financing costs have a large impact on profits. Inventory financing is often tied to the prime lending rate.

Large Retailers Bypass Distributors - Big retailers like Wal-Mart, Home Depot, and Costco buy much of their merchandise directly from manufacturers, bypassing distributors. Because they buy in large quantity and operate their own warehouse systems, these retailers don't need distributors. Superstores and warehouse clubs now account for more than two-thirds of sales of general merchandise stores, up from just 35% 10 years ago.

Business Challenges

Distribution Costs Sensitive to Energy Prices - Distributors that operate delivery fleets are sensitive to energy costs. Most vulnerable are distributors that make multiple deliveries per day to many customers, such as supermarkets or car repair shops. Diesel fuel prices rose some 80% between 2004 and 2013 but have declined significantly since then.

Competition from Manufacturers - The increasing efficiency of logistics systems allows manufacturers to sell more goods directly to end-users, bypassing distributors. Consolidation in many manufacturing industries has produced large manufacturers with national distribution systems. Manufacturers have a large direct distribution presence in drugs, petroleum products, and chemicals, a small one in groceries and clothing.

Distributors Sensitive to Local Economic Conditions - Because most distributors serve a limited geographical market, they're sensitive to local economic conditions. Distributors of lumber and other building supplies are vulnerable to local real estate markets, while distributors of consumer goods like electronics are affected by local income and employment. Even distributors of basic goods like groceries are vulnerable to local economic slowdowns.

Business Trends

Strong Growth of Industry Revenue - Compared to other industries, revenue growth for distributors has been above average. Between 2003 and 2013, distributor revenue grew 79%, compared to 45% for retailers. Computers, electrical goods, and machinery have been among the leading revenue categories for the wholesale sector.

Increases in Labor Productivity - Industry employment has been cyclical in response to economic slowdowns, but worker productivity has steadily increased in the past 10 years as efficient logistics methods and sophisticated computer systems have become widespread. During the late 2000s recession, industry jobs fell about 10%, but productivity held steady. Between 2003 and 2013, industrywide labor productivity increased 20%.

Industry Consolidation - In response to the growth of customers who need regional or nationwide service, and because of the greater purchasing power and transportation economies that large operations can produce, some segments of the industry have consolidated. In tires, medical supplies, wine and spirits, and drugs, the largest 50 distributors hold more than 70% of the market. About 5,000 distributors have annual revenue over $100 million.

More International Suppliers - Low international freight costs and prices for some foreign goods have encouraged distributors to buy a greater volume of goods from foreign manufacturers. US imports dropped to abnormally low levels in 2009 due to the global economic slowdown, but between 2006 and 2011 total US imports of manufactured goods increased about 15%. Imports from China increased 35%. As the economy improves, import levels have started to normalize. Large distributors may have buying offices in Hong Kong or other foreign cities; smaller distributors buy through sales offices that foreign companies have set up in the US.

Industry Opportunities

Internet Sales - Because they already stock a large inventory of products, distributors are in a strong position to sell products beyond their traditional market. Although many distributors use a website for marketing, most present only a limited ability for customers to order online. The greatest difficulty is often in providing an up-to-date catalog that customers can easily navigate. Internet sales are easiest for distributors of small items that can be shipped through regular parcel services like UPS.

Logistics Services for Customers - Distributors can provide inventory management, just-in-time delivery, and order fulfillment services to customers. Inventory management, using dedicated space in their or their customer's warehouse, especially appeals to customers in retail or service businesses that require an inventory of many items. Just-in-time delivery service is most useful to industrial customers, while order fulfillment services are used by retailers with Internet sites that don't want to maintain an inventory. Some distributors provide delivery services to other distributors that sell to the same customers, such as grocery stores.

Product Processing Services for Customers - In some industry segments, processing services have become common. Many steel distributors, for example, process standard steel into semi-finished goods for customers by cutting, welding, or coating. Distributors of electrical products may assemble kits of components that customers use to make products. Food distributors may assemble meats, for example, into sales-ready portions that are packaged and priced according to customer specifications.

Spin-offs of Fee-based Services - Some distributors are spinning off certain services into their own segments or separate companies. Health and safety training, once provided as an in-house service, is one area distributors have found profitable as companies have needed more training to meet stiffer government regulations. Distributors have also found success with offering staffing and consulting services to clients. Distributors can diversify revenues by branching out into other related services as well as better integrate themselves with customers.

Digital Signage - Seeking to provide US workers with pertinent real-time data on the warehouse floor, more companies are turning to digital signage. Information provided on the signs include progress toward company or team goals, safety reminders, and company and community announcements. The idea behind the signage is to improve employee motivation and production. A study of warehouses with digital signage systems found a 20% increase in manufacturing productivity and a decrease in defects, according to *Manufacturing Plant*. The boards can help create a game-type atmosphere for workers who are motivated to improve their progress toward goals.

Executive Insight

Chief Executive Officer - CEO

Planning for Demand Changes
Demand for distributors depends highly on changes in manufacturing activity and consumer spending. Distributors must anticipate economic downturns to avoid being caught with excess inventory. They also seek to broaden product offerings to reduce dependence on demand for any particular product category. To counter the risk of imports replacing domestic manufacturing, distributors may also cultivate relationships with foreign manufacturers.

Developing Services Strategy
To differentiate from competitors and grow revenues, many distributors are expanding beyond traditional distribution services. Some are adding logistics services, such as inventory management, just-in-time delivery, and order fulfillment for customers. Others are performing product packaging or assembly services to customer specifications, such as packaging individual food portions or assembling kits of electronic components. Companies must ensure that they have the necessary skills and systems to profitably deliver new services

Chief Financial Officer - CFO

Negotiating Supplier Contracts
Distributors seek to negotiate favorable contract terms with suppliers to improve margins and minimize inventory carrying costs. Low growth in many product segments and increased competition from manufacturers and large retailers can disadvantage distributors in negotiations. Contracts may contain incentives tied to fill-rates or stock-outs to reward distributors for performing well.

Managing Foreign Exchange Risk
Large distributors typically operate internationally, and for many product segments, imports comprise a significant share of the US market. Distributors with foreign operations or that buy products from foreign sources must manage the risk of changes in currency exchange rates. Increased volatility of global financial markets has heightened the need for foreign exchange management. Using forward currency purchases is a common strategy to mitigate currency risk.

Chief Information Officer - CIO

Improving Operational Systems
Distributors have used IT to automate business processes and improve productivity. Between 2003 and 2013, industrywide labor productivity increased 20%. Advances in technology promise further gains in productivity and improved customer service. RFID improves inventory tracking from suppliers to customers, while GPS in delivery vehicles improves fleet management. IT departments are also improving the integration of information among inventory, warehouse management, order fulfillment, and financial systems.

Expanding Online Capabilities
The Internet gives distributors the opportunity to expand beyond traditional markets. However, although many distributors use a website for marketing, most present only a limited ability for customers to order online. Distributors that develop electronic product catalogs linked to inventory management systems that can be easily accessed online expand their reach to new customers and enhance the services offered to existing customers.

Human Resources - HR

Training Employees on Products
Distributors selling more complex products or products that change frequently, such as medical devices or electronics, must invest in product training to keep employees abreast of the latest innovations. As competition increases, the product knowledge of sales and support personnel becomes critical for customer satisfaction and retention. Distributors typically leverage training provided by suppliers, but many are establishing their own training certification levels and tying them to compensation.

Improving Safety Training
Distributors can improve the safety record of warehouse operations and trucking operations. Although overall injury rates for distributors are just average, injuries in their warehouses are about 50% higher than for the average US worker. Improving safe practices by drivers is particularly important for distributors of hazardous materials, such as chemicals or petroleum products. To improve safety, companies are implementing additional safety training programs and making safety part of the performance evaluation process for workers and managers.

VP Sales/Marketing - Sales

Retaining Customers
As competition increases and more customers buy directly from manufacturers, distributors have to work harder to retain their existing customer base. Distributors are tailoring services to the needs of large customers and becoming more solution-oriented. Many firms are implementing formal measurements of delivery performance and customer satisfaction through surveys and customer councils.

Selling New Services
As distributors introduce logistics or product packaging services to address customer needs, the sales team needs training on how to position and price these new capabilities. Training needs may include the features and benefits of the new services, as well as more solution-oriented selling skills. Sales reps used to competing primarily on price may need training on how to sell the value of a more complex solution.

Financial Information

COMPANY BENCHMARK TRENDS

Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.

Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at www.microbilt.com/firstresearch.

Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.

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COMPANY BENCHMARK INFORMATION

NAICS: 42

Data Period: 2014	Last Update January 2016
Table Data Format	Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over $50M	$5M - $50M	Under $5M
Company Count	344511	3246	36480	304785

Income Statement				
Net Sales	100%	100%	100%	100%
Gross Margin	18.8%	18.0%	19.4%	21.2%
Officer Compensation	1.9%	1.6%	2.0%	2.9%
Advertising & Sales	0.5%	0.5%	0.5%	0.5%
Other Operating Expenses	15.8%	15.4%	16.1%	16.8%
Operating Expenses	18.1%	17.4%	18.6%	20.3%
Operating Income	0.7%	0.6%	0.8%	0.9%
Net Income	0.2%	0.2%	0.3%	0.4%

Balance Sheet				
Cash	10.4%	10.2%	10.7%	10.8%
Accounts Receivable	28.7%	28.8%	28.4%	28.7%
Inventory	28.1%	26.4%	30.1%	30.9%
Total Current Assets	73.4%	71.6%	75.5%	76.6%

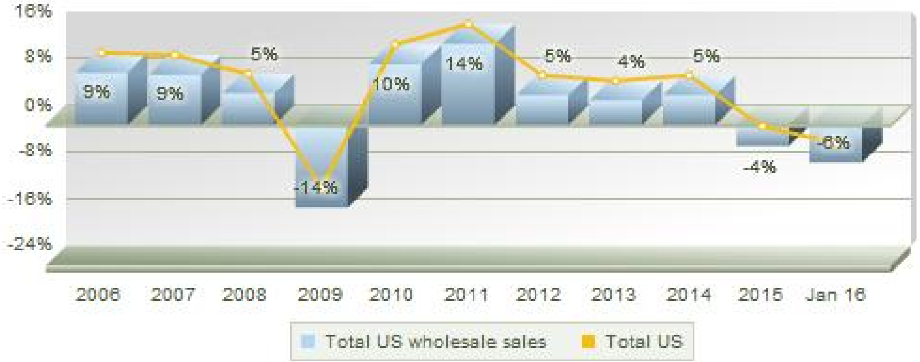
Property, Plant & Equipment	12.3%	12.5%	12.0%	11.9%
Other Non-Current Assets	14.3%	15.9%	12.5%	11.4%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	20.8%	20.1%	21.6%	21.8%
Total Current Liabilities	36.1%	34.4%	38.3%	38.5%
Total Long Term Liabilities	15.3%	13.2%	17.4%	19.3%
Net Worth	48.6%	52.4%	44.4%	42.2%

Financial Ratios				
Quick Ratio	1.12	1.18	1.06	1.06
Current Ratio	2.03	2.08	1.97	1.99
Current Liabilities to Net Worth	74.3%	65.6%	86.2%	91.4%
Current Liabilities to Inventory	x1.28	x1.30	x1.27	x1.25
Total Debt to Net Worth	x1.06	x0.91	x1.25	x1.37
Fixed Assets to Net Worth	x0.25	x0.24	x0.27	x0.28
Days Accounts Receivable	32	30	34	36
Inventory Turnover	x9.51	x10.97	x8.09	x7.41
Total Assets to Sales	30.7%	28.6%	33.5%	34.6%
Working Capital to Sales	11.5%	10.6%	12.5%	13.2%
Accounts Payable to Sales	6.3%	5.7%	7.2%	7.5%
Pre-Tax Return on Sales	0.4%	0.3%	0.5%	0.6%
Pre-Tax Return on Assets	1.3%	1.1%	1.4%	1.7%
Pre-Tax Return on Net Worth	2.6%	2.1%	3.2%	4.0%
Interest Coverage	x1.77	x1.65	x1.83	x2.09
EBITDA to Sales	1.6%	1.5%	1.7%	1.9%
Capital Expenditures to Sales	1.0%	1.0%	1.1%	1.0%

Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at www.microbilt.com/firstresearch.

ECONOMIC STATISTICS AND INFORMATION

Wholesale Annual Sales Growth - Census Bureau



VALUATION MULTIPLES

No valuation multiples available for this industry.