

AHTD Week Eight Survey Report

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When we launched this project, most of us felt we were entering into several weeks of social/pandemic experimentation. If I were a betting man, I would have guessed this thing would last three to four weeks, before returning to near normal conditions. This week marks the eighth survey and using the marker date of Friday the 13th (of March), the ninth week in social confinement of some sort.

We've previously mentioned the hardest hit areas in our industry have been in the Auto-Belt. Extending from and radiating out from Detroit into Canada to the north, and Ohio and Indiana in a southerly direction, business in the automotive world has been dismal. When reaching out to distributors in the area to talk about their current situation a couple of weeks ago, one distributor said this:

"70-plus percent of our customers are closed. They're not working from home or running a skeleton crew. They are closed. Do the math. Business is nearly nonexistent."

Happily, the automotive plants have announced they will be opening, at least in a limited way this week: May 18 for GM, Ford, and Fiat/Chrysler. The Canadian and Mexican plants have announced similar dates, and Elon Musk is pushing all kinds of buttons out in California. I see this as good news, but only time will tell.

Business Levels

Last week I noted what seemed like an upward trend in the Distributor/ASP category. While the percentages of companies producing at pre-COVID status or above dropped a bit, the number of companies performing in the down 10 percent and better (down 10 percent, normal or up) continues to show an upward tilt.

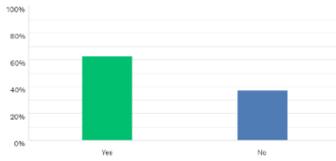
One salesperson, who serves mostly OEMs and Systems Integrators doing business in the automotive sectors, related that while his business was lagging by about 15 percent today, his customers' sales teams feel there is a pent-up demand for small projects. He remains confident in producing growth for the calendar year.

Business Levels this Week compared to Pre-Coronavirus Average Week													
Shown in Percentages													
	Comb	ASP Data						Supplier Data					
Week	3/23	3/30	4/6	4/13	4/20	4/27	5/4	3/30	4/6	4/13	4/20	4/27	5/4
Up 10 percent or more	9.8	7.8	5.4	3.5	1.5	2.1	5.6	18.4	10.3	10.0	5.4	8.3	6.5
About the same	35.3	21.9	14.3	22.8	14.9	27.7	20.4	36.8	25.6	22.5	37.8	20.8	29.0
Down 10 percent	19.5	20.3	19.6	17.5	13.4	12.8	18.5	13.2	20.5	15.0	18.9	20.8	9.7
Down 11-20 percent	16.5	17.2	23.3	14	29.9	23.4	16.7	13.2	15.4	22.5	16.2	25.0	22.6
Down 21-30 percent	9	15.6	19.6	22.8	17.9	17.0	24.1	13.2	20.5	15.0	10.8	16.7	19.4
Down >30 percent	9.8	17.2	17.9	19.3	22.4	17.0	14.8	5.3	7.7	15.0	10.8	8.3	13.0

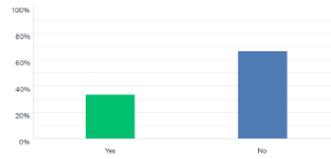
Easing of Travel Restrictions

To get a feel for localized conditions, we asked if survey respondents saw any kind of easing of travel restrictions in the next two weeks. Perhaps because of the types of travel, the views of the ASP and Suppliers are completely 180 degrees out of phase. The charts below demonstrate this difference in opinion (left is ASPs with 63 percent yes, right is Suppliers with 67 percent saying no).

Q8 Do you see your area loosening travel restrictions in the next two weeks?



Q15 Do you see your area loosening travel restrictions in the next two weeks?



For those ASPs responding yes, we asked what they felt the biggest impact on the loosening of travel restrictions. The top responses could best be paraphrased by these quotes from the open-ended question:

“The most important thing will be the boost in confidence in the overall economy by moving business forward.”

“We will have the ability to visit potential project sites and more effectively interact/collaborate with our clients.”

It should be noted there were many references made to safety, social distancing, and other points tied to our new COVID-based reality.

For the Supplier respondents, many noted they would limit travel for the coming months with mention of prime customer areas that will not be open for travel. The other comments centered around better support of their distributor partners and the ability to better support their customer base.

Business Plans for the Post-Coronavirus Environment

We asked if there would be changes in the business plan once the Coronavirus limitations had lifted. Overwhelmingly, distributors and their supply-partners have either decided to change or modify their existing business plan.

Change in Business Plan		
	ASP	Suppliers
Yes	48.1%	51.6%
No	23.1%	22.6%
Thinking about it	28.8%	22.6%
Don't know	0.00%	3.2%

Discounts Based on Growth or Goals

ASPs (only) were asked if they operated under supplier agreements/contracts where discount and margin producing opportunities were based on year-over-year growth or attaining some other sales volume goals. Just under 70 percent have some type of agreement or contract based on growth or goals.

Distributor Contracts based on Growth or Goals	
Yes	69.8%
No	28.3%
Don't know	1.9%

Previous surveys indicated distributors/ASPs were experiencing a strong year up until March 13, when the Corona-inspired conditions hit. It might be assumed any goals in place were set aggressively. We all expected 2020 to be a good year. Loss of more than two months of growth (based on our current 60+ days into this thing) will certainly impact any ASP's ability to generate the once expected growth.

To measure supplier response to the situation, we asked the question: Have any of these (growth or goals) been renegotiated based on the current crisis? As of now, the answer is NO.

Have Growth or Goals been Renegotiated?	
Yes	10.8%
No	86.5%
Don't know	2.7%

Hopefully, the answer will change as we move out of the crisis and into more normal operating situations. On a personal note, I believe now is the right time for suppliers to review their distributor contracts and agreements. These are, in the words of one person we interviewed, "once in a lifetime conditions, and I certainly hope that doesn't mean we are all going to die sometime soon."

I have posted some thoughts on the topic of distributor contracts on The Distributor Channel Blog in an article names "Distributor Agreements – Time for Change." Check them out here:

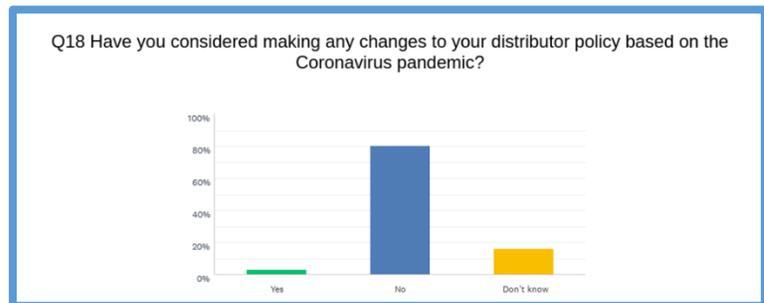
<http://thedistributorchannel.blogspot.com/2020/05/distributor-agreements-time-for-change.html>

Changes in Distributor Policy by Suppliers

We asked suppliers if they were considering changes to distributor policy based on the Coronavirus pandemic. The answer was no. I feel strongly that changes are in order. However, conditions have been every bit as trying for suppliers as for distributors. Conversations with supply-side contacts indicate they are in scramble mode balancing a need to maintain safety within their facilities, keep products flowing, support distributors, and continue to build sales presence. Changes to policies may be slow to come, but they are needed.

One of the few suppliers planning on changing their policy described these changes this way:

"We are developing a priority distributor program with better on-line access for quoting/purchasing and better margins."



Distributors will welcome the greater margin piece. However, the online access for purchasing and quoting could have a big impact on overall efficiencies in the supplier to distributor and onto the customer supply chain. My ASP friends may hate me for saying this, but it's not all about margins. As an industry, we must remove the friction from our supplier to customer supply chain. The right efficiencies could produce better results than a few basis points of margin improvement.

Suppliers Extending Terms

Last week we covered the current situation with customers unilaterally extending terms with the distributors. The median days outstanding for distributors has extended by 5-8 days, with a few stretched much further. This puts a financial squeeze on distributors. So we asked whether any suppliers have negotiated extended terms.

Have any Suppliers Extended Terms	
Yes	17.3%
No	73.1%
We are currently exploring the options with them.	9.6%

Thinking the Unthinkable

We asked the suppliers to use their broader view of the market to answer a very difficult question: “Based on your view of the market, do you feel you may lose distributors to the Coronavirus pandemic?” Here are their thoughts:

Lose Distributors to the Coronavirus Pandemic?	
Yes	16.1%
No	77.4%
Haven't given it much thought	6.5%

Those responding yes were asked to select the reasons for the loss. Understanding this question allowed suppliers to select all the answers which applied and not all the answers were tied directly to distributors ceasing operations (and the sampling was small).

Reasons for the loss of Distributors	
Financial viability	100%
Merger/acquisition activity	80%
Distributor will refocus business into other areas	0%
Distributor will downsize and not fill our needs in the market	40%
Other (please specify)	0%

I believe this question reinforces the need for continued two-sided dialog tied to the future direction of both ASP/Distributor and Supply partners alike. Now is a great time to pick up the phone and talk to your partners. The power of AHTD is networking. We all have a void in our lives based on the cancelation of the last meeting. Perhaps we missed talking to our counterparts in other regions of the country. Many indicated they definitely missed the opportunity to spend time with partners in the supply chain. While not as fun as a face-to-face meeting over beer, wine, or cocktail, a 30-minute phone call with your partners in this business will create value.



Next Week's Survey: [Click Here](#)

Our next survey will cover not only business levels but dive a bit deeper into gathering voice of the customer information. Also, we will once again look for better ways to make this weekly exercise more valuable to AHTD members.

Stay safe and remember the Power of AHTD.