

AHTD Business Survey Article for June 22, 2020

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Based on conversations with more than a dozen distributors, I have the distinct feeling we are slowly returning to normal. I'm not saying the Corona situation is over. Instead, I am picking up positive signals we are moving in an upward direction.

For those who missed it, here is a quote from the US Federal Reserve dated June 16:

Total industrial production increased 1.4 percent in May, as many factories resumed at least partial operations following suspensions related to COVID-19. Even so, total industrial production in May was 15.4 percent below its pre-pandemic level in February. Manufacturing output—which fell sharply in March and April—rose 3.8 percent in May; most major industries posted increases, with the largest gain registered by motor vehicles and parts.

While 1.4 percent growth would be nothing to write home about, for those of us looking for positives, it is good news.

Anecdotal reports from the field indicate sales teams are beginning their shift from Zoom selling to real-world sales calls. Two of the questions I asked those interviewed included:

- What percentage of your sellers' time is devoted to "in-person" visits versus telephone-based selling? ***The answers ranged from 30 to 75 percent, but the average appeared to be in the 45-50 percent range.***
- Are you seeing any of your supplier's sales team out making sales calls? ***Reports are local supplier sales people have appeared, stopped by the branches, engaged in 1-on-1 planning sessions, and are making select customer calls.***

I believe for AHTD members, and knowledge-based distributors in general, problem-solving and solution-based selling works more effectively when the salespeople can see and identify issues. Further, many of our best sellers are neophytes in the world of phone selling. They lack the skills to float meaningful exploratory questions to their customers. We addressed this in a blog on The Distributor Channel. You might want to check it out here: <https://tinyurl.com/AHTD-New-Questions> .

With these comments out of the way, let's get to the survey information.

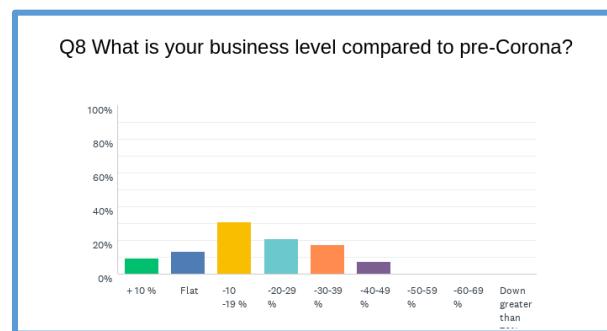
Business Levels

Based on feedback from the group, we added further granularity to our business-level tracking. This means previous data does not fully align with the new information. The chart below shows the details, but one point I am happy to make is this--the horror story of distributors performing in the "down 70 percent" range didn't appear (or at least it wasn't reported).

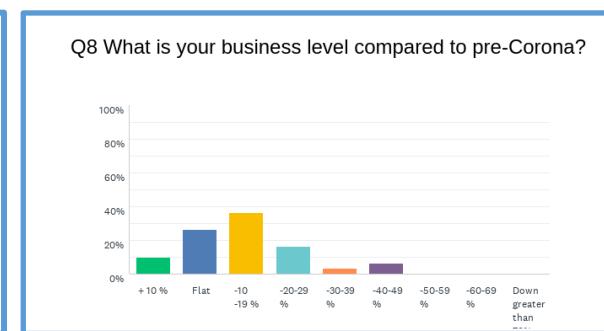
What is your business level compared to pre-Corona?		
Business Levels	ASP	Supplier
Up 10 % or more	9.6%	10.0%
About the same	13.5%	26.7%
Down 10 -19 %	30.8%	36.7%
Down 20-29 %	21.2%	16.7%
Down 30-39 %	17.3%	3.3%
Down 40-49 %	7.7%	6.7%
Down 50-59 %	0.0%	0.0%
Down 60-69 %	0.0%	0.0%
Down greater than 70%	0.0%	0.0%

Initially, I hesitated to put these graphs into the report; however, after greater review, we see a bit of a bell-curve developing so they are included.

ASP Data



Supplier Data



Based on my less than scientific observation, it appears the current “median” for our industry lies in the down 10-19 percent range.

Backlog

Backlog is defined as orders received which have not yet been shipped. Sometimes this is the result of customer release dates, times customers ask for the order to be shipped complete or created by manufacturer delays in product shipment. Nothing is more comforting than a nice healthy backlog of business. I once had a distributor smile and tell me, even if he fired the sales team and never received another order, he would be in business for the rest of the year. Happily, the example was never executed and certainly would not be recommended by me. But, you get the drift.

We asked both ASP/Distributors and Suppliers to provide us with comparisons of current backlog versus 1) before the Pandemic and 2) a month ago. Why a month? Many believe the month of April was in the middle of the COVID crisis. Further, March had leftover orders from better times before the full onset of the virus.

The chart to the right shows the results for ASPs for both comparisons. I believe the most important point from this data

ASP		
Condition of backlog compared to pre-Corona and compared to 30 days ago.		
	Current level of business compared to BEFORE THE PANDEMIC	Current level of business compared to A MONTH AGO
Up 10 % or more	15.6%	28.3%
Flat	17.8%	32.6%
Down 10 -19 %	22.2%	17.4%
Down 20-29 %	20.0%	10.9%
Down 30-39 %	13.3%	6.5%
Down 40-49 %	11.1%	4.3%
Down 50-59 %	0.0%	0.0%
Down 60-69 %	0.0%	0.0%
Down greater than 70%	0.0%	0.0%

is the recovery of orders since March 2020. Sixty percent of those surveyed report backlog holding steady or increasing.

Like the readers who suggested tracking backlogs, I believe this number is worth monitoring in the future.

Supplier		
Condition of backlog compared to pre-Corona and compared to 30 days ago.		
	Current level of business compared to BEFORE THE PANDEMIC	Current level of business compared to A MONTH AGO
Up 10 % or more	15.4%	16.0%
Flat	23.1%	32.0%
Down 10 -19 %	30.8%	36.0%
Down 20-29 %	19.2%	8.0%
Down 30-39 %	11.5%	4.0%
Down 40-49 %	0.0%	0.0%
Down 50-59 %	0.0%	4.0%
Down 60-69 %	0.0%	0.0%
Down greater than 70%	0.0%	0.0%

The chart to the left shows data gathered from Suppliers. The backlog comparison from March does not look quite as optimistic as for ASPs. This could well be based on the nature of the business.

Distributors accumulate and amalgamate orders from many suppliers; some conduct value-add

work and other tasks which delay the shipment of products to customers. Most manufacturers simply ship to the distributor.

The ASP Gross Margin Question

Starting with the understatement that Gross Margin (GM) is the lifeblood of distribution, we set out to determine the impact of the Coronavirus Pandemic on GM percentage. We asked ASPs to provide their company's average GM percentage for 2019 and April-May of 2020. While I wondered how many people would skip over this question, the results were amazing. Most willingly provided what we consider to be extremely sensitive data. I thank you and AHTD thanks you for your generous contribution.

Here's what we discovered:

GM Percentage	Responses
Increase	25.6%
Unchanged	33.4%
Decrease	41.0%

The ASPs were also asked to comment on what they were doing to maintain their GM percentage. The ASP reporting the greatest GM percentage gains (two points) made this comment: ***"We are managing the margins through a weekly margin reported that is shared and discussed with all team members***

that manage and control pricing. We also just revamped our pricing model and went live within the last week to make it more scalable." We also heard this from the ASP reporting the second-highest overall GM percentage (36 percent), ***"Our pricing model comes from Strategic Pricing Associates and we sell many value-added products which allow higher margins."***

Several ASPs also tied GM percentage to customer visits. Their feeling could best be paraphrased as, "When we aren't making personal calls, it is hard to demonstrate our value. The result is lower margins."

GM for Suppliers

Understanding the GM issue is different for manufacturers than distributors, we did not ask about GM percentage. Instead, we asked suppliers the following: What is your strategy for maintaining margin through the remainder of 2020? Here is a sampling of their (unedited) comments:

We are rejecting price concession letters, suspension of marketing.
We will be sell to more OEMs.
Find new business, markets, retain current business without increase to pricing. Costs down with reduced travel and expenses so margin will maintain fairly well.
Not seeing any downturn in networking products.
Targeting COVID-19 Related Projects.
We see automation coming back to the US from China. This will improve our position.
Target key markets with higher margin products, partner with forward thinking customers who are developing post-pandemic solutions.
There are some good government contracts we plan to attack.
We are continuing to price at our pre-covid levels.
Control expenses and some furlough.
Increase production efficiency through ongoing training; reduce supply chain costs.
Value add services that we charge for; cost cutting.
We are not cutting price. We are not authorizing longer payment terms. We will probably reduce employees for the period of July – December.
Reduced costs through continuous improvement and potentially raising prices.
Maintain higher stock and service levels than competitors while continuing development of new products and markets with higher margins.
We have taken cost cutting measures to reduce expenses and we have had numerous demands from customers (usually OEMs) to lower prices, but we are not. Our costs have not changed since COVID started and with sales greatly down, profit is shrinking to a very small number.
Take care of the current customers! Working to understand supply chain and customer behavior.
Reduced travel and entertainment costs, some reduction in force.
Rolling staff reductions/furloughs.
Reducing expenditures.
Careful pricing strategies and volume discount adjustments.
Reducing trade show participation.

These comments indicate the unvarnished truth, our entire industry is suffering—it's not just distributors experiencing some tough times. Now is the time for candid conversations between distributors and suppliers. Here is a short list of things I believe we should be exploring together:

- How can ASPs and Suppliers eliminate duplication of efforts?
- What processes and procedures currently done create no value for the customer?
- Are dropship rules (within the distributors territory) still relevant?
- How can information flow be streamlined?
- Could marketing plans be developed jointly to drive cost out of the effort?

Summing all of this up

First, an apology. We fully intended to provide some business level breakdowns by geographic area. Unfortunately, we discovered one of the bugs in the survey software. I am sorting out the data in hopes of providing more information when we release the new survey next week.



Most importantly, I would like to thank everyone for providing their valuable feedback. The information provided is being guarded closely; we understand the need for confidentiality. In my mind this illustrates to things, the trust members have in AHTD and The Power of AHTD.

Finally and as always, if you have questions or would like to discuss the results of this survey, please feel free to reach out.