

## AHTD Week Four Survey Report

By Frank Hurtte / River Heights Consulting



Once more, we demonstrate the power of association, more specifically, the might of AHTD. Before we launch into this week's report, allow me to relate a story about the name of our organization. Back in the 1980s, a small group of distributors met in the conference room of one of the founders to benchmark and discuss the many issues of being a distributor in the fledgling electronic automation business. Many in the group were also members of other distributor associations, but they recognized fundamental differences between selling high tech products and the core products of their legacy associations.

Hence the formation of a distributor association, originally monikered The Association *of* High Technology Distributors.

By the 90s, manufacturers were playing a major role in supporting and promoting the organization. Some individuals held important committee positions. Others were de facto leaders in other ways, providing valuable insights and key data on market trends and technology. A new name was selected to note their involvement and commitment. The Association *for* High Technology Distribution shows this is not just a distributor organization with a few manufacturers attending. Instead we are a group of equals dedicated to furthering the important role of the automation channel.

This week again demonstrates how supply-partners commit to strengthening the channel to market. Thirty-nine (39) manufacturing oriented members joined their fellow automation solution provider/distributor members in reporting.

### ***Continued Decline in Sales Volume***

Incoming business levels continue to drift in the wrong direction. Over the past three weeks, we have seen the number of AHTD members operating at or above pre-COVID levels decline from nearly 45 percent of our members to about half that number. Looking at those reporting, the supply-partners fared just a better than ASP/distributors.

The chart below shows historical data gathered in previous surveys in the shaded areas.

Business Level Compared to Previous Weeks	Percent Reporting 2- Wks Ago	Percent Reporting Last Week ASP	Percent Reporting This Week ASP	Percent Reporting Last Week Supplier	Percent Reporting This Week Supplier
Up 10 percent or more	9.8 %	7.8 %	5.4 %	18.4 %	10.3 %
About the same	35.3 %	21.9 %	14.3 %	36.8 %	25.6 %
Down 10 percent	19.5 %	20.3 %	19.6 %	13.2 %	20.5 %
Down 11-20 percent	16.5 %	17.2 %	23.3 %	13.2 %	15.4 %
Down 21-30 percent	9.0 %	15.6 %	19.6 %	13.2 %	20.5 %
Down >30 percent	9.8 %	17.2 %	17.9 %	5.3 %	7.7 %

### **Paycheck Protection Program (PPP)**

Last week's big news came via the US government's plan to assist businesses with fewer than 500 employees. This program covers a very high percentage of AHTD's US members. A super-majority of our members decided to take advantage of the program. This makes great sense because the interest rates were very low and will be completely forgiven if the company maintains its workforce (in numbers, not necessarily the same people) through the next three months.

With our kind of skilled workers in very short supply, maintaining workers is a good idea, especially if the automation market takes an upward jump soon after the coronavirus subsidies. If the workforce must be downsized, the interest rates and available cash would position AHTD members to pick up quality employees later in the cycle.

<b>Paycheck Protection Program</b>		
Participating	ASP	Supply Partner
Yes	63.6 %	20.5 %
No	18.2 %	48.7 %
Don't know	18.2 %	30.8 %

Dealing with the government, or a governmental agency can be tough. Candid conversations over the years indicate many AHTD members have made the strategic decision to avoid selling into governmental contracts because of the paperwork and red tape. We wanted to determine just how difficult or easy the process was for small companies applying. The chart below shows most found the process easy.

<b>PPP: How Difficult Was it to Apply?</b>	
Easy	65.1 %
Hard	32.6 %
Impossible	2.3 %

AHTD members use a variety of lending institutions in their business. The chart below indicates not only the type of lending institution, but also the level of ease associated with processing the PPP application. Interestingly, the only members classifying the process as "impossible" used national banks.

<b>PPP: What Kind of Lending Institution Did You Use?</b>				
Lending Institution	Percent Used	Easy	Hard	Impossible
Local Bank	34.1 %	60.0 %	40.0 %	0.0 %
State Bank	9.1 %	75.0 %	25.0 %	0.0 %
National Bank	43.2 %	60.1 %	33.3 %	5.6 %
Other*	13.6 %	88.3%	16.7 %	0.0 %

\*Other included Credit Union, Payroll Company and a Canadian Institution

### **Which Industry Sectors are Still Performing Well in Your Business?**

Last week, one of the suggestions for better cooperation between ASPs and their supply-partners could best be paraphrased like this:

"We need to understand which sectors and companies are still out there buying products so we can better focus our selling efforts. Understanding sector performance on a national level and applying pressure locally makes even more sense now."

Taking the risk of stepping on an emotional land mine, allow me to make a statement. This type of information would flow better and more accurately if distributors were a little more open to providing point of sale data. Conversely, if manufacturers had a robust reverse point of sale program, this

information would flow quickly and normally. Perhaps today's crisis will drive the AHTD reverse point of sale initiative forward in the post-corona future.

The answers to this survey question revealed several obvious examples.

Medical and related was the number one response. These included medical equipment, medical construction, life tech sciences, ventilators, and a variety of pharma-related topics.

Food and related came in second. Grocery, food packaging, food process, and agriculture were mentioned.

There were several sectors that initially came as a surprise to me. Most notably, automated material handling applications, which tie to the need to keep products flowing in our supply chain with fewer people and the inherent COVID-19 exposure risks.

Here is a complete listing:

Cyber related	HVAC-R applications	Paper	Utility and Power Gen
Construction	Consumer Packaging	Plastics	Renewable Energy
Solar Panels	IIoT	Water	Firearms
Household Products	Telcom	Non-Woven Fiber (for wipes)	Security

We should all review our customer lists for these types of applications and refocus our sales efforts towards customers in these sectors.

### ***What Happens if the Shutdown Extends Into the Long-Range Future?***

The exact wording of the question was: ***"If the current situation persists through the summer or longer, how will you change your approach to business?"***

This is scary, but a potential reality. We are all on a news-driven emotional rollercoaster. One minute I read the Harvard study exclaiming social distancing will continue into 2022, the next article featured news of Gilead Sciences' breakthrough antiviral drug. However, I do believe we must create contingency plans for worst-case scenarios.

### ***Downsizing is a Potential Strategy***

About half of those surveyed indicated they would look at downsizing (in one form or another) as an option. Based on previous AHTD PAR reports, people represent about 60 percent of the typical AHTD distributor members' overall costs, so this strategy, however painful, makes sense.

Several of our members see furloughs as an option. This is reasonable if handled properly. In this strategy, employees would technically remain employed, but they would be asked to use vacation time or personal leave during several weeks of the crisis. A couple mentioned strategies that put employees on layoff status so they might collect unemployment benefits during their time off.

Three companies report plans to make cuts in departments that have no direct contact with customers. Their plans call for use of modernization to streamline aspects of back-office functions.

During our conversations with ASP/distributor members, several reported cuts made in the field sales team by key suppliers. In one instance, the sales team was instructed to take alternating weeks off without pay for the next two months. I see this as a good news/bad news scenario. The good news is

distributors become more important, the bad news is distributors are burdening more of the sales and support effort—without extra compensation.

#### ***401K and Other Profit-Sharing Plans Could be Suspended***

Most of our members has at least some level of profit-sharing or retirement benefit built into their compensation package. Several members see these as being “temporarily suspended” during 2020 if conditions persist. Again, this is a painful but necessary decision when the health of the company is an issue.

#### ***Additional Remote Tools to be Added***

Whether mentioned in the survey or not, nearly everyone sees remote tools as an important strategy. During our interviews, one distributor quipped, “Even when this thing is finally over, remote tools will be an important part of our strategy. We see this as especially important with our product specialists. It costs us megabucks to have specialists driving around visiting customers. This could change their roles from being outside 80 percent of the time to a new norm of perhaps half that.”

Online presentations are growing. Face-to-face video conferencing has already grown dramatically, and distributors are focusing on training their people to do a better job. Technical support teams have been equipped with webcams capable of guiding a customer through troubleshooting. Many point to this as a tool for further development.

#### ***Innovation is Critical for Sales***

Members are looking for new plans to drive sales. Most didn’t provide details and I believe this is, in part, because they have yet to determine what that innovation might be. However, I believe it will happen.

E-Commerce was mentioned and certainly will be a factor in the future. According to AHTD Strategic Business Partner, Remi Ducrocq of KYKLO, traffic to KYKLO-managed sites in North America is up over 40 percent during the early weeks of the COVID shutdown. Traffic and sales from online retailers are up dramatically. Amazon is up 80 percent; online furniture sales are up 250 percent. This will spill over into our world.

#### ***Cashflow Management is Critical***

Decades of experience in our industry indicate, most company leaders don’t generally put cashflow front and center in their daily thoughts. Several respondents indicated they are now monitoring the situation closely. Some have asked their suppliers for extensions of terms. Only time will tell as to whether our supply-partners will be able to make this happen.

#### ***I Realize This was a Long Report, But...***

This was certainly a long report, but as we approach an uncertain future, it is important to cover as much as possible. Feedback indicates, many readers are sharing this report with others; one person shared their leadership team reviews the report together each week. This is the power of AHTD.

If you are looking for some added thoughts and not already doing so, I suggest you visit my blog at [www.thedistributorchannel.com](http://www.thedistributorchannel.com). I just posted a new article about thinking forward.

#### ***Next Week’s Survey***

**Take the survey**. This survey took the average member just over 4 minutes and the information was amazing. Next week we will cover, current sales trends, important tools, and the power of networking with industry peers.