

Wholesale Sector



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Industry Overview

The US wholesale distribution industry includes approximately 300,000 companies with combined annual sales of \$4.8 trillion. Large distributors include SYSCO (foods); McKesson (drugs); and Avnet (electronics). Concentration in this sector is moderately high with around 3,000 accounting for 70 percent of industry revenue. Distributors specialize by segment and in many segments, the largest 50 distributors can maintain between 40 and 60 percent of the entire market.

Competitive Landscape

For a majority of distributors, demand is closely tied to local economy. The profitability of individual companies depends on efficient and effective inventory management and order fulfillment operations. Large companies typically supply customers with a wider range of goods and in more market segments, but smaller distributors can compete successfully by specializing in niche products or providing add-on ancillary services.

Computer and communications technology have had a major impact on the industry by improving the transparency of warehouse and distribution operations, resulting in labor productivity improvement more than 40 percent over the past decade.

Manufacturers account for 32 percent of the US wholesale trade sector, an 10 percent increase from a decade ago. Some large retailers, like Wal-Mart operate their own distribution systems, procuring products directly from producers.

Business Challenges

Inventory Carrying Costs Are Sensitive to Interest Rates

Because a majority of distributors finance their inventories, they are sensitive to interest rates fluctuations. Distributors, on average, hold inventory equal to 45 days worth of sales, but machinery distributors can hold up to 90 days, depending on the sales cycle for the specific segment. Grocery and petroleum product distributors hold the lowest inventories, around 20 days and 10 days sales primarily due to the high turnover rate (volume vs. value). Because industry profit margins are low, financing costs have a direct impact on profits.

Large Retailers By-Pass Distributors

Big retailers like Wal-Mart, Home Depot, and Costco buy much of their merchandise directly from manufacturers, bypassing wholesalers. Because they buy in large quantity and operate their own warehouse systems, these retailers don't utilize distributors. Superstores and warehouse clubs now account for 50 percent of sales of general merchandise stores.





Distribution Costs Sensitive to Energy Prices

Distributors that operate delivery fleets are impacted by changes in energy costs. Most vulnerable are distributors that are required to make multiple deliveries per day to multiple customers (eg. supermarkets or car repair shops). Energy costs can constitute almost 1 percent of revenue, which is significant in an industry that maintains profit margins of less than 5 percent.

Competition from Manufacturers

Direct manufacturer sales have increased from 22 percent in 1999 to around 32 percent of total wholesale trade in 2009. Consolidation in many manufacturing industries and the efficiency of logistics systems allows manufacturers to sell more goods directly to end-users, bypassing distributors.

Distributors Sensitive to Local Economic Conditions

Because a majority of distributors tend to serve a specific geographical market, they are sensitive to local market & economic conditions. Lumber and building supplies distributors are also vulnerable to local real estate markets, while distributors of consumer goods like electronics are affected by local employment level and income.

Trends

Slow Growth of Industry Revenue

Revenue growth for distributors, as compared to other industries, has been below average. Over the past decade, distributor revenue grew at around 50 percent, compared to 60 percent for retailers.

Increases in Labor Productivity

Even though worker productivity has increased by over 40 percent during the past decade, industry employment has been cyclical in response to the economic slowdown.

Industry Consolidation

Due to the increase in customers who need regional or nationwide service, and because of the greater purchasing power that large operations can produce, some distribution segments have had to consolidate. In the automotive, medical supplies, electrical goods, paper, drug and grocery segment, the largest 50 distributors hold more than 70 percent of the market.

Opportunities

Internet Sales

Due to the fact that distributors stock a large inventory of products, most are in a strong position to sell products beyond their traditional market. Although many distributors do maintain a website for marketing purposes, most present only limited capabilities for customers to place direct orders online. The greatest challenge faced by distributors when creating an eBusiness solution is in providing up-to-date catalogs that customers can easily navigate. Internet sales are more likely to benefit distributors of small items that can be shipped through regular parcel services.

Logistics Services for Customers

Distributors can provide warehousing & inventory management, just-in-time delivery, and order fulfillment services to customers as a value added service. Inventory management, is especially appealing to customers in retail or service businesses that require an inventory of many items. Just-in-time delivery service is considered to be most useful to industrial customers, while order fulfillment services are used by online retailers.

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. In the last five years, total US imports of manufactured goods increased by around 33 percent; imports from China increased the most significantly at 140 percent.