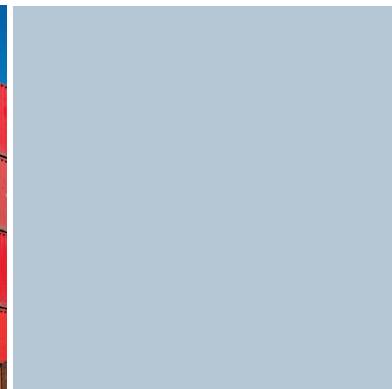
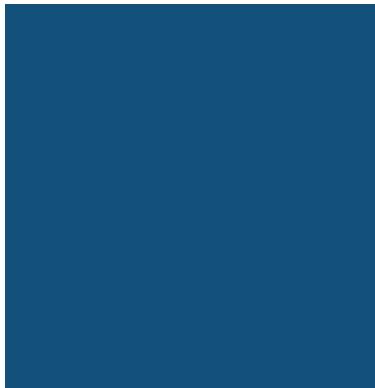


The Outlook for Wholesale Distribution in 2015

A Survey of Key Business Objectives and Challenges
Facing Wholesale Distribution Companies



Executive Summary

The talent gap and the technology divide are both widening, while global economic uncertainty and other supply chain disruptions are still looming, according to respondents in this industry outlook survey for 2015 from NetSuite in partnership with Modern Distribution Management.

But despite these and other issues facing the industry, business is good for wholesale distributors. Thanks to high company valuations and a healthy merger-and-acquisition market, optimism is the prevailing mood. Though distributors are, for the most part, bullish about 2015, with more than 90 percent of respondents expecting growth this year, up slightly from this time a year ago, they do have concerns heading into the new year.

They face a host of internal and external factors, and dozens of pain points, that threaten to derail industry gains made in 2014, including the continued inability to find qualified workers and concerns about keeping and developing the talent they have, uncertainty in the supply chain due to port disputes and volatile oil prices, and continued consolidation.

Respondents to the survey lament increased costs – from materials to shipping to technology investments – while others bemoan the continuing rise of online-only competitors such as Alibaba and Amazon – and still others worry that their e-commerce shortcomings could sink them.

This report highlights these and other trends, and it also reveals what distributors are planning to do in the year to adapt to a rapidly changing environment with hopes of flourishing instead of falling behind.



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Methodology

The survey results presented in this whitepaper are the result of an online survey of readers from Modern Distribution Management (www.mdm.com) and NetSuite in December 2014. Modern Distribution Management is the premier source of research on the wholesale distribution industry and offers news, blogs and premium newsletters to executives in wholesale distribution businesses or that sell through or to wholesale distribution businesses.

Nearly 200 respondents in wholesale distribution and manufacturing responded to the survey, with more than half identifying as wholesaler-distributors and about a third identifying as manufacturers. More than 90 percent identified as a manager or above in their companies, with 52 percent being the owner or the executive of their companies. Size distribution of respondents was diverse with 10 percent of respondents with less than \$2 million in annual revenues; 17 percent with \$2 million to \$10 million; 25 percent with \$10 million to \$50 million; 10 percent from \$50 million to \$100 million; 23 percent with \$100 million to \$500 million; and 15 percent over \$500 million in annual revenues.

By employee count, about 34 percent had 0-49 employees; 13 percent had 50-99 employees; 35 percent had 100 to 999 employees; and 18 percent had more than 1,000 employees.

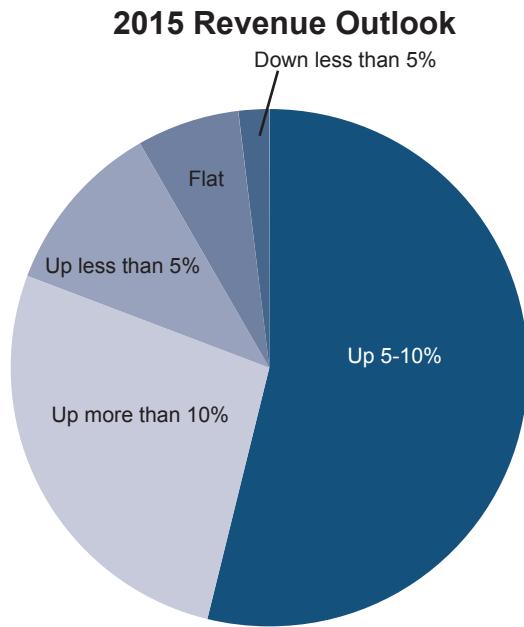
Sector representation was also diverse, with Industrial coming in as the largest with 62 percent of respondents. Respondents could name more than one sector, so totals will not equal 100 percent. Other sectors represented by respondents include Safety Products (34 percent); Building Materials & Construction Products (28 percent); Electrical & Electronics (27 percent); HVACR/Plumbing Products (23 percent) and Oil and Gas Products (20 percent). Others included Janitorial Supplies, Pulp and Paper, Chemicals and Plastics, Consumer Products, Pharmaceutical, and Grocery and Foodservice.



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Growth Outlook

Respondents expect growth in 2015, with 27 percent expecting sales to grow more than 10 percent in 2015 and 54 percent expecting growth of 5 percent to 10 percent. Another 11 percent forecast growth of less than 5 percent in 2015.



Sector Growth Expectations

Individual sector trends followed the overall growth trend with a vast majority expecting growth of at least 5 percent, and many forecasting 10 percent or better growth. Some sectors, such as consumer products, safety products, HVACR and electrical, are expecting strong growth. Respondents could indicate all sectors they participated in, so responses may include some overlap between sectors.

	Up more than 10%	Up 5%-10%	Up less than 5%	Flat	Down less than 5%	Down 5%-10%
Building Materials	29.8%	46.8%	19.2%	4.3%	0%	0%
Chemicals & Plastics	23.8	71.4	4.8	0	0	0
Consumer Products	33.3	61.2	0	4.8	0	0
Electrical/Electronics	30.8	56.4	10.3	2.3	0	0
Grocery/Foodservice*	55.6	44.4	0	0	0	0
HVACR/Plumbing	33.3	54.6	12.1	0	0	0
Industrial	26	58.3	6.3	7.3	2.1	0
Janitorial Supplies	25	58.3	12.5	0	4.2	0
Oil & Gas Products	29.6	63	3.8	3.8	0	0
Pharmaceutical*	0	100	0	0	0	0
Pulp & Paper	26.1	73.9	0	0	0	0
Safety Products	33.3	47.1	9.8	7.8	1.2	0

* Small sample: fewer than 20 respondents

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Top Concerns for 2015

Business-Specific

Respondents to this year's survey were concerned with a wide range of factors, including external ones, such as the economy and rising costs, and internal ones, such as a frustrating inability to find talented workers and falling further behind in e-commerce. These issues seem to be front-of-mind when it comes to respondents' current business-specific concerns.

- **The economy:** Even though most distributors are optimistic and business conditions are generally healthy, the economy will always keep C-suite level executives awake at night, with many of them worried about continued growth both domestically and abroad.
- **Personnel:** Numerous respondents cited trouble finding good employees, a problem that will intensify as older executives retire without a succession plan. Recruiting isn't distributors' only concern; retaining talented workers and training them for changing roles is becoming increasingly difficult.
- **E-commerce:** Studies show that when customers can't find what they want on a company's website, they'll quickly move on to a competitor's. Building a user-friendly, comprehensive site is a must for any distributor that wants to remain relevant.
- **Rising costs:** With price increases for everything from health care to materials to shipping, distributors are being squeezed on many fronts, and those that survive will be the ones that adjusted their budgets wisely.

Industry-Wide

Respondents' answers here varied greatly, but common concerns included:

- **Consolidation:** M&A activity is rampant, and distributors worry how the consolidation story will impact them. Companies looking to buy need to be aggressive and those looking to sell must have an exit strategy when the right bidder calls.
- **Training:** Distributors are challenged by preparing the next generation of sales and management leaders.
- **Unexpected disruptions:** Although a national driver shortage has been on everyone's radar for years, who knew the current labor dispute at West Coast ports would so drastically delay cargo containers arriving from Asia? An agreement could come anytime, but the slowdown is a reminder of how disruptive forces beyond a company's control can wreak havoc on the supply chain.
- **Technology:** There are more technology options available seemingly every day to help with every aspect of business. But so many options can be a barrier in and of itself. As one distributor noted in the survey: "We need new software. Which one?" The need to have systems that can communicate with each other adds an additional challenge.
- **Nontraditional competition:** Readers expressed anxiety over this on a variety of survey questions, claiming their top industry concerns for 2015 included "losing manufacturing lines," "competition from outside the normal distribution channel" and "shifting channels by manufacturing from classic distribution."



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Pain Points

The top pain points for distributors in 2015 are similar to their business-specific and industry-wide concerns. They range from improving margins to fully embracing technology to acquiring talented workers to managing inventory.

- **Technology:** From deciding which platforms to implement to budgeting for such investments, technology remains a major pain in distribution, which will soon see a tipping point where falling behind technologically becomes a severe business disadvantage.
- **Talent acquisition:** “Not enough skilled workers.” “Low quality/quantity of applicants for job openings.” “Can’t find qualified employees.” Without a doubt recruiting – and also retaining – workers is becoming one of the industry’s most pressing issues.
- **Supply chain disruptions:** Whether they are relying on manufacturers, third-party logistics companies or port workers caught in a labor dispute, distributors are feeling pain from a variety of factors that disrupt their costs and inventory management.
- **Margins:** Many respondents fret over the increased pressure on margins, with one respondent referring to “pricing and gross margin pressure from customers in a time of minimal product price inflation” as a top pain point.



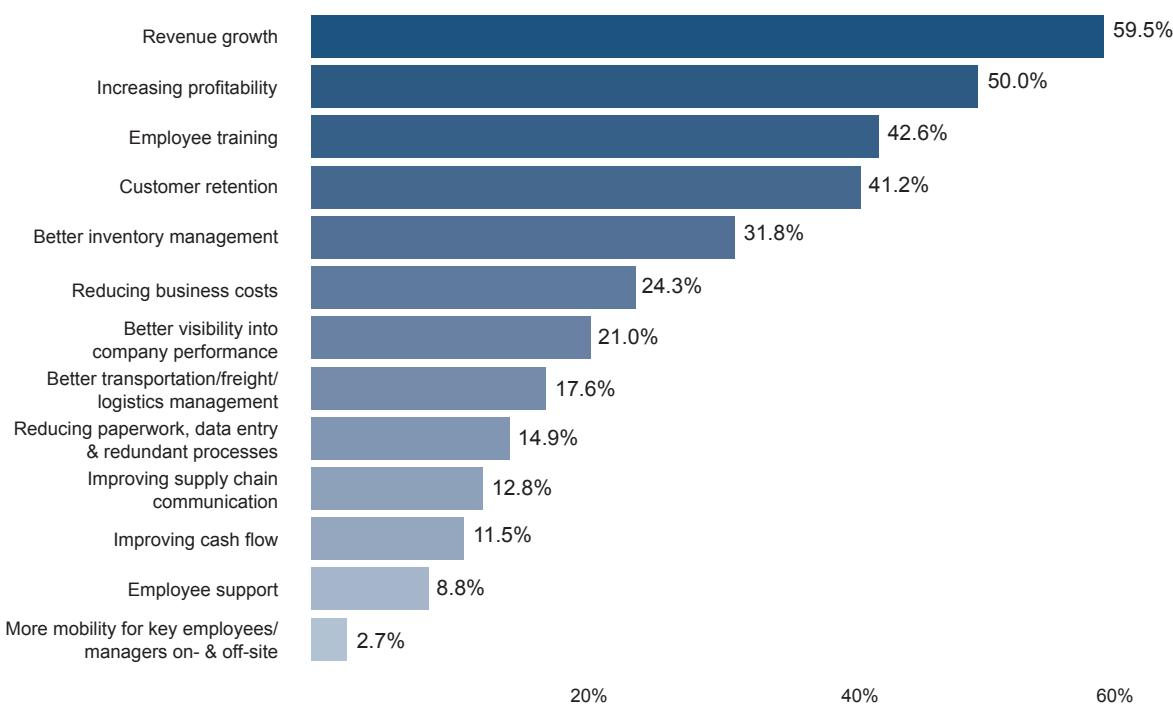
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Key Business Priorities

Revenue growth topped the list of business priorities for companies again this year, with 59.5 percent of respondents including it among their responses. This was followed by increasing profitability (50 percent), employee training (42.6 percent), customer retention (41.2 percent) and better inventory management (31.8 percent). Reducing business costs and better visibility into company performance were also top priorities for many of this year's respondents.

Employee training was more important to respondents this year than last year. It moved up from a No. 4 position in last year's survey to a No. 3 position this year, pushing customer retention down to the No. 4 slot. Increasing profitability moved up to No. 2 from No. 3 a year ago, reflecting respondents' concern over pressure on margins.

What are your top business priorities for the next 12 months?



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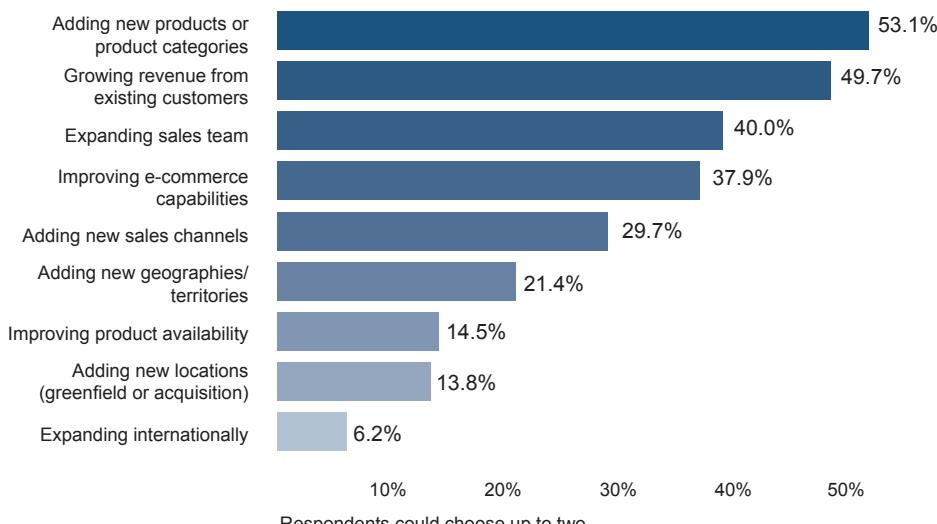
Plans for Building Revenue

The most common way survey respondents are planning to grow revenue in the next 12 months is through adding new products or product categories (53.1 percent), which took over the top spot after spending the past two years behind growing revenue from existing customers, which this year came in second with 49.7 percent. “We need additional products to generate excitement amongst our customers,” said one respondent.

Parallel to last year’s survey were the categories that came in third and fourth place: expanding the sales team (40 percent) and improving e-commerce capabilities (37.9 percent). Finding qualified salespeople and training them has grown in importance, with one respondent saying that “new salespeople are critical to success.”

Improving e-commerce capabilities continues to grow, as companies realize they must have robust systems in place if they hope to keep and gain market share. As one respondent said: “We feel if we expand our e-commerce capabilities and shift smaller customers to online, and refocus our outside sales reps to larger customers, our sales will grow.”

How are you planning to build revenue over the next 12 months?



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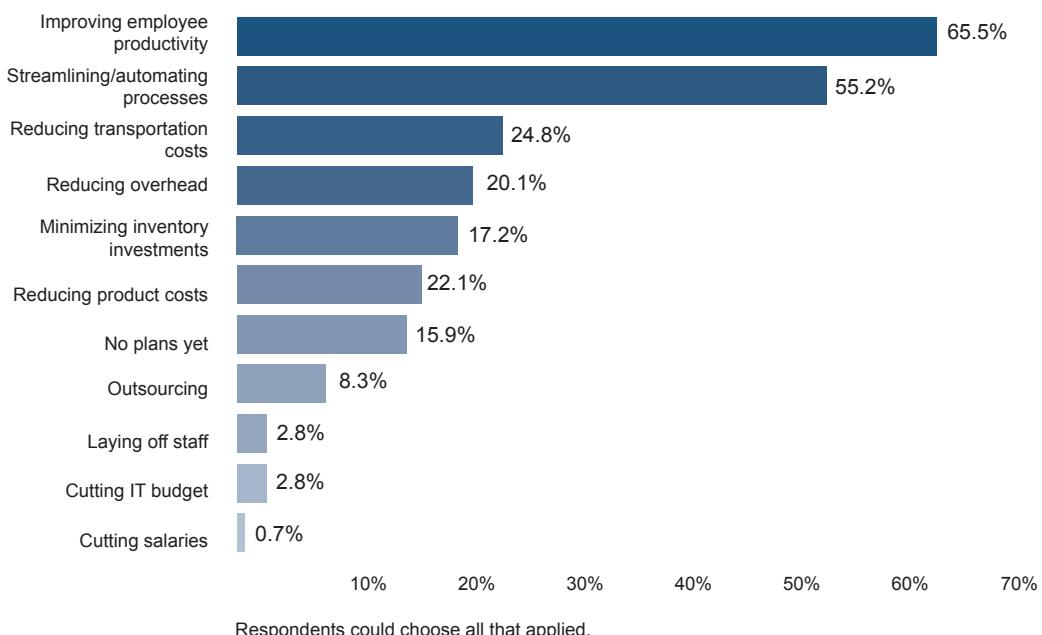
Plans for Cutting Costs

Improving employee productivity was again the method of choice for cutting costs this year, with 65.5 percent of respondents – nearly the same percentage as last year – naming it among strategies they plan to employ. Streamlining or automating processes was No. 2 for the third consecutive year, at 55.2 percent.

Reducing transportation costs moved to the No. 3 slot this year from No. 5 and was included among the choices of 24.8 percent of respondents. It displaced reducing overhead, which moved down to No. 4, suggesting that companies are looking more carefully at their shipping options. Lower fuel prices to begin 2015 could help in this capacity but raises other concerns.

Another cost reduction strategy rising in this year's survey was reducing product costs, which stayed in the No. 6 slot but jumped 5 percentage points to gain on minimizing inventory investments, which was again the fifth most popular way to cut costs but lost 3 percentage points from a year ago.

How are you planning to cut costs over the next 12 months?



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Technology Plans

Respondents' top technology challenges in this year's survey, in order of the frequency with which they were mentioned, were:

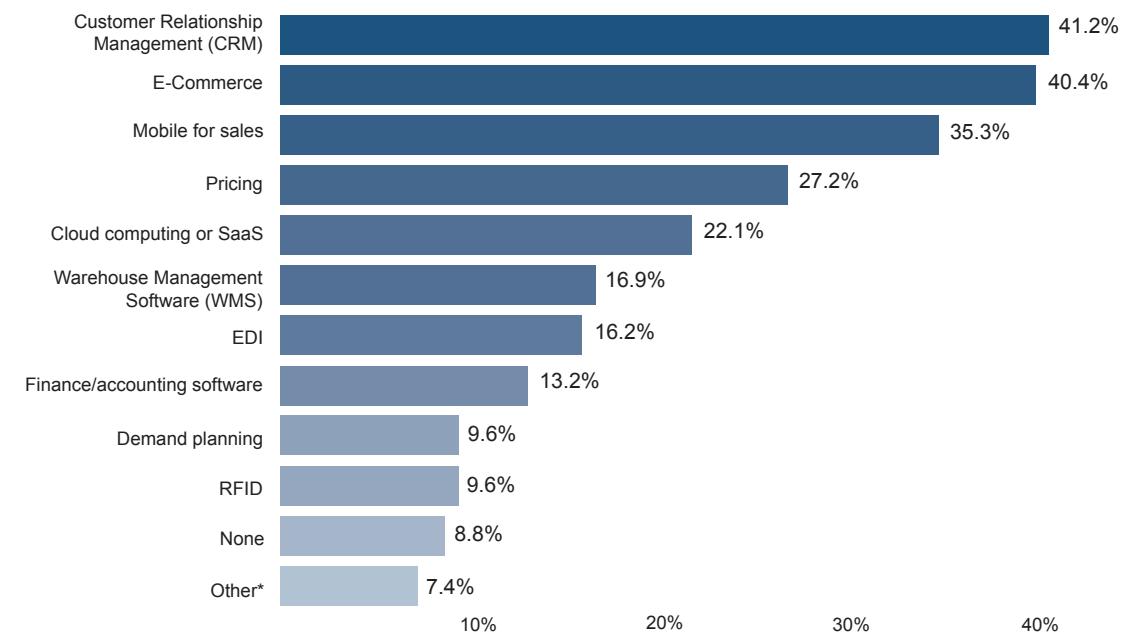
- Developing e-commerce platforms
- Cost of implementing new technologies
- Streamlining ERP systems
- Training staff on new technologies
- Implementing business intelligence
- Updating product data
- Integrating systems with customers
- Establishing mobile applications
- Upgrading/selecting CRM platforms
- Automating inventories

Effective use of technology gives distributors a distinct business advantage, and those that have fallen behind must push forward on implementing solutions if they hope to remain competitive. But companies must also have the right system in place for their salespeople to manage customer relationships.

To that end, CRM again edged out e-commerce at the No. 1 spot in this year's survey, with 41.2 percent of respondents including it among technologies they plan to explore in the next 12 months. Respondents frequently mentioned a desire to improve customer service and access customer information more quickly, including "having a CRM platform that gives us correct information on our customers."

E-commerce was a close second at 40.4 percent. Like the last two years, mobile for sales (35.3 percent) was the next most popular choice, but it increased 5 percentage points from 2014.

Which new technologies, if any, do you anticipate exploring in the next 12 months?



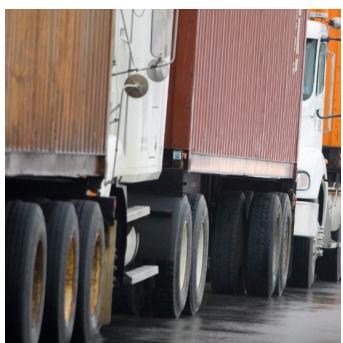
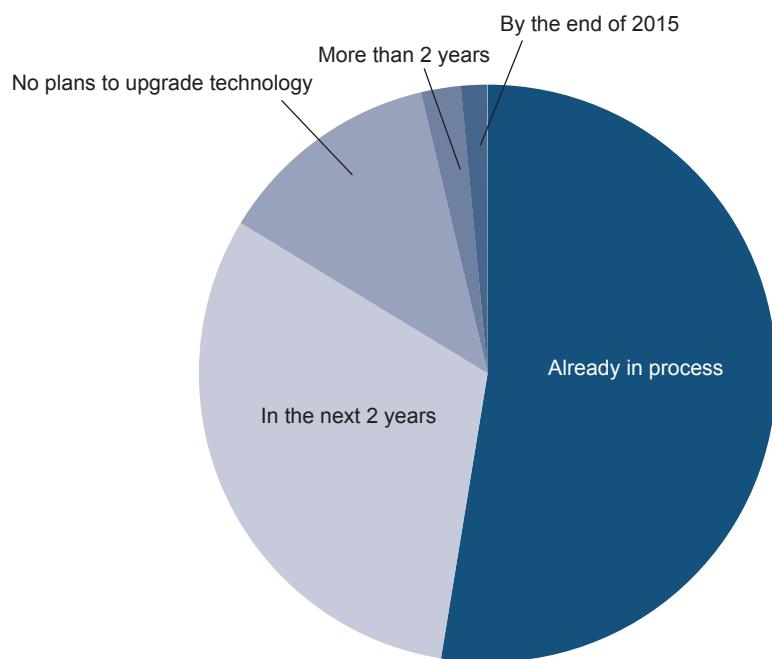
Respondents could choose all that applied.

*Other: Business analytics, new ERP system, transportation management, social media, hand-held tools for outside sales-people, VMI software

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What is your timeframe for upgrading technology in your business?

Many distributors are experiencing growth and have a positive outlook for 2015, which makes for an excellent time to invest in technology in preparation for another downturn. Most respondents in the survey are planning to upgrade their technology capabilities in the next two years, with the majority already in the process of doing so.



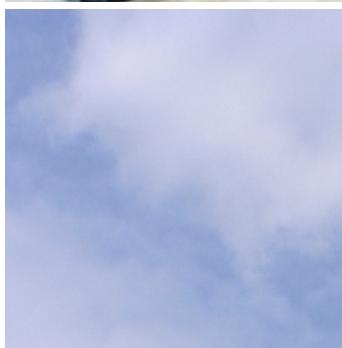
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Cloud Computing

Software as a Service, or cloud computing, was mentioned by more than a few respondents as a potential fit for their businesses, although many remain unsure of the benefits of cloud computing, similar to the past two years.

Respondents most frequently noted the following benefits of using cloud-based solutions for their businesses:

- Accessibility of information
- Low cost to deploy and implement
- Long-term lower capital costs
- Lower data management concerns
- Ability to stay current on software
- Better and easier access to data
- Reduced local IT staff
- Reduction in down time and maintenance costs
- Mobility
- Capacity and risk removal
- More global business opportunities



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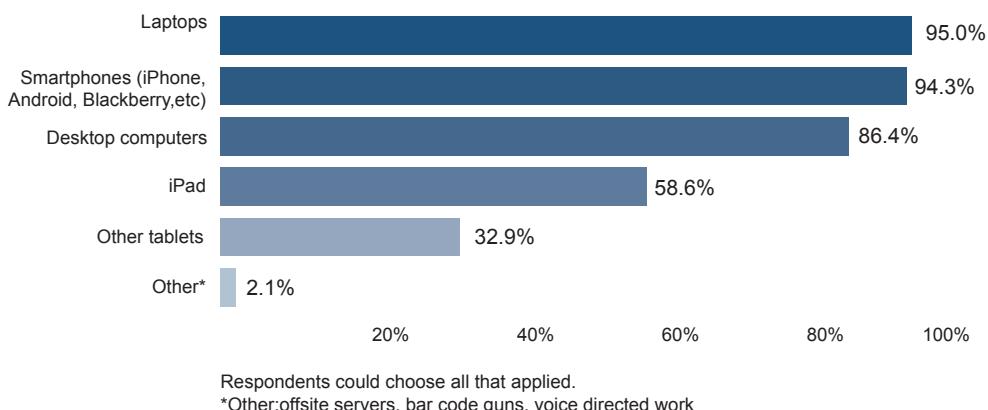
Business Devices

This year's survey saw some interesting, albeit slight, changes to the devices that respondents are using in their businesses. Laptop computers (95 percent) again outnumbered desktop computers (86.4 percent) this year and also narrowly reclaimed the top spot above smartphones (94.3 percent).

Fewer respondents are using iPads – 58.6 percent this year vs. 63.5 percent a year ago – while the “other tablets” category jumped 10 percentage points to 32.9 percent. In all, 91.5 percent of respondents saying they use either an iPad or other brand of tablet (22.7 percent) for business.

These numbers are further proof that creating a mobile-friendly version of a website is becoming more and more critical each year as fewer customers shop using their desktop computers.

Which of these devices do you use in your business?



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About the Survey Sponsor

NetSuite is the #1 cloud ERP solution for wholesale distributors, empowering tens of thousands of fast-growing companies with software to transform and accelerate their businesses. Using NetSuite, distributors can run their businesses on a single, unified platform reducing IT costs and gaining comprehensive, real-time visibility across their organizations.

NetSuite gives your company customer-facing sales force automation and B2B e-commerce, as well as marketing and customer service capabilities that link seamlessly with back-office inventory management, fulfillment and accounting. In delivering NetSuite for Wholesale Distributors, NetSuite has leveraged experience and lessons learned from thousands of wholesale distribution customers, complemented with a best practice professional services implementation methodology and customization services.

NetSuite for Wholesale Distribution

NetSuite's Wholesale Distribution Edition is the only cloud-based, integrated business suite designed specifically for wholesale distributors. NetSuite offers distribution businesses a complete, web-based solution, allowing them to:

- Engage their customers everywhere with omnichannel commerce, reaching them online, by phone, over email, in person and exceeding the evolving expectations of 21st century consumers.
- Monitor and manage their businesses with the ultimate customizable business dashboard, featuring built-in best practices for wholesale distribution.
- Convert leads to orders, orders to shipments and shipments to revenue with NetSuite's advanced warehouse management, inventory management and order fulfillment capabilities.
- Gain a real-time, 360-degree view of customers and provide better customer service through NetSuite's seamless integration of CRM with financials and other back-office systems.
- Grow revenues, enter new markets and improve channel partner engagements with tools for partner relationship management (PRM).
- Leverage demand planning to manage inventory optimally and seamlessly.

For more information, please visit netsuite.com/wd



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