

ISA Fall Summit: Emerging Leaders Session

Case Study

Abstract.

ABC Distribution (herein after referred to as ABC.D) is a privately owned company that has been a maintenance, repair and operations (MRO) inventory supplier and support services provider to distributors across North America for the past 20 years. In 2019 ABC.D had entered the early stages of an aggressive expansion plan that got disrupted by COVID in early 2020. With the supply chain network temporarily shut down, ABC.D paused their strategic planning and shifted towards more short-term solutions to deal with the COVID shutdowns, and then the post-COVID demand surge. ABC.D is now refocusing on its long-term strategic plan at a time of heightened economic uncertainty and needs to evaluate its path forward.

Company Overview.

ABC.D started as wholesale provider of MRO products including safety equipment, adhesives, sealants, fasteners, and fittings, as well as integrated supplies and services. They have been active in bringing on new brands to build their depth of offerings and began developing two new product lines in 2019, one specializing in material handling equipment and the other providing metalworking machinery. In addition to offering products, ABC.D offers services in OSHA safety training and inspections with a team of certified instructors. A regionally distributed sales team accounts for 90-95% of revenues while the rest is sole-sourced from ABC.D's website.

ABC.D owns and maintains seven warehouse facilities throughout the U.S. to help support the six regions it operates within:

Southeast (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV)

Southwest (AZ, NM, OK, TX)

Pacific (CA, OR, WA)

Midwest (IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI)

Rocky Mountain (CO, ID, MT, NV, UT, WY)

Northeast (NY, PA, MA, DC, MD, DE, NJ, CT, RI, ME, VT, NH)

There was an effort to build its own fleet of delivery vehicles to support each market, but as of right now, ABC.D only has a team of ground freight drivers in its Southeast region, while contracting the remainder of its trucking needs.

In addition to its warehouse facilities, ABC.D maintains a corporate office with a C-Suite including a chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO), a chief revenue officer (CRO), and chief information officer (CIO).

Competitive Advantages.

ABC.D has positioned itself as a premier integrated supplier focused on reducing the total cost of ownership of MRO goods and services with a proven track record of improved productivity, reduced product consumption, and working capital improvements.

Revenue.

Historical monthly revenue data can be found in Exhibits 1A and 1B which show the topline growth in ABC.Ds total business. This can be analyzed to show internal company trends and historical business cycle highs and lows, and be uploaded to Top Line Pulse for an evaluation of ABC.Ds relationship to the macroeconomy. This analysis will serve as the baseline for understanding ABC.D's outlook as it develops its strategic plan.

Fleet.

ABC.D is uncertain about further expansion into providing its own ground freight. They started to run analysis on the oil price environment and saw an opportunity in 2019 to lower its costs. With that said they have found their costs to operate their own fleet are greater than if they would contract out their freight, however having their own truck drivers in the Southeast has improved their lead times and overall supply chain resiliency. A vehicle fleet schedule is included below:

Fleet Model	Year Acquired	Initial Asset Value	Depreciated Value	Replacement Cost	Annual Maintenance and Fuel Cost
Tractor-Trailer Truck	2019	\$114,999	\$46,000	\$144,999	\$50,000
Tractor-Trailer Truck	2019	\$114,999	\$46,000	\$144,999	\$50,000
Tractor-Trailer Truck	2019	\$114,999	\$46,000	\$144,999	\$50,000
Tractor-Trailer Truck	2019	\$114,999	\$46,000	\$144,999	\$50,000
Tractor-Trailer Truck	2021	\$134,999	\$107,999	\$144,999	\$40,000
Tractor-Trailer Truck	2021	\$134,999	\$107,999	\$144,999	\$40,000
Box Truck	2019	\$34,999	\$27,999	\$47,999	\$12,000
Box Truck	2019	\$34,999	\$27,999	\$47,999	\$12,000
Box Truck	2019	\$34,999	\$27,999	\$47,999	\$12,000
Box Truck	2021	\$45,999	\$36,799	\$47,999	\$10,000
Box Truck	2021	\$45,999	\$36,799	\$47,999	\$10,000
Box Truck	2022	\$47,999	\$47,999	\$47,999	\$10,000

Buildings.

While ABC.D feels it has developed its Southeast region nicely, their operating costs are creating challenges in other markets, specifically in the Pacific and Rocky Mountain regions. They believe their facilities in Texas, California and Colorado are facing capacity constraint challenges, specifically due to labor, inhibiting some of their sales growth. Alternatively, the capacity utilization in Arkansas is very high and there are concerns of equipment downtime and employee burnout at that location.

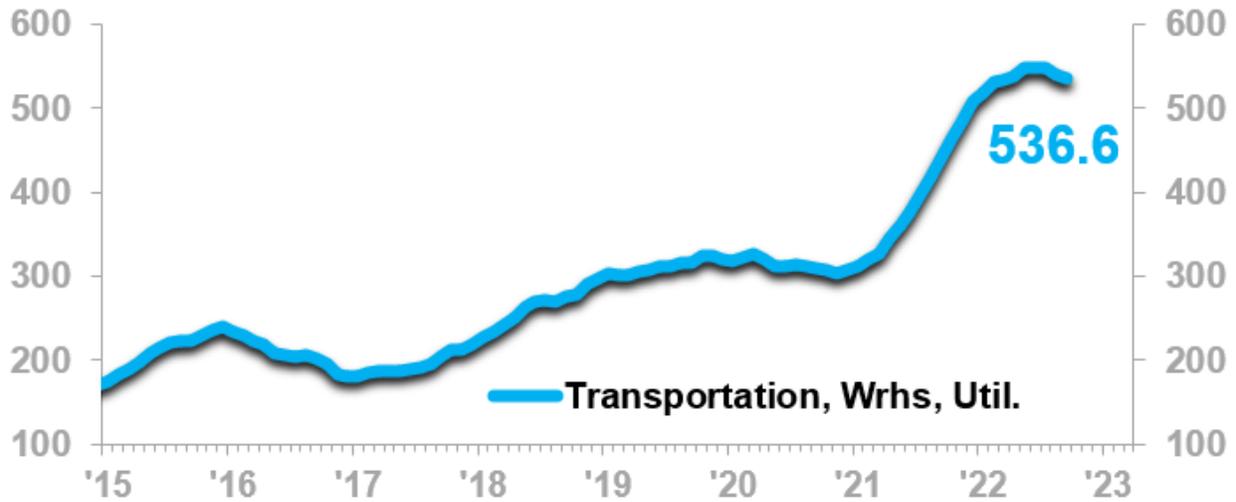
Building	Region Served	Building Value	Total Value	Net Sales
Corporate Office - GA	National/Online	\$9,194,351	\$12,422,829	\$3,586,220
Georgia Warehouse	Southeast	\$11,866,086	\$15,988,641	\$12,219,714
West Virginia Warehouse	Southeast/Midwest	\$8,657,018	\$11,272,567	\$8,301,436
Arkansas Warehouse	Southeast/Midwest/Southwest	\$11,418,309	\$18,634,243	\$14,942,585
Texas Warehouse	Southwest	\$7,537,576	\$13,112,986	\$7,570,910
California Warehouse	Pacific/Southwest	\$9,925,719	\$17,714,033	\$8,235,025
Colorado Warehouse	Rocky Mountain/Midwest	\$8,321,186	\$15,413,510	\$5,910,623
Pennsylvania Warehouse	Northeast/Midwest	\$7,709,224	\$10,467,383	\$5,644,977
Total		\$74,629,469	\$115,026,191	\$66,411,489

Labor.

ABC.D employs operational staff within their corporate office, material handlers and managers at their warehouses and a team of truckers in the Southeast for each of their ground-freight service offerings. ***A breakdown of their existing employees and job openings within their warehouses is included in Exhibit 5.***

At the time of this strategic planning, the labor market is very tight. The US unemployment rate is trending below 4.0% with labor force participation rates rising and overall employment above pre-pandemic levels. Despite those trends, job openings and quit rates remain elevated, specifically in the warehouse, transportation and distribution space, shown below.

US Job Openings 12MMA in Thousands



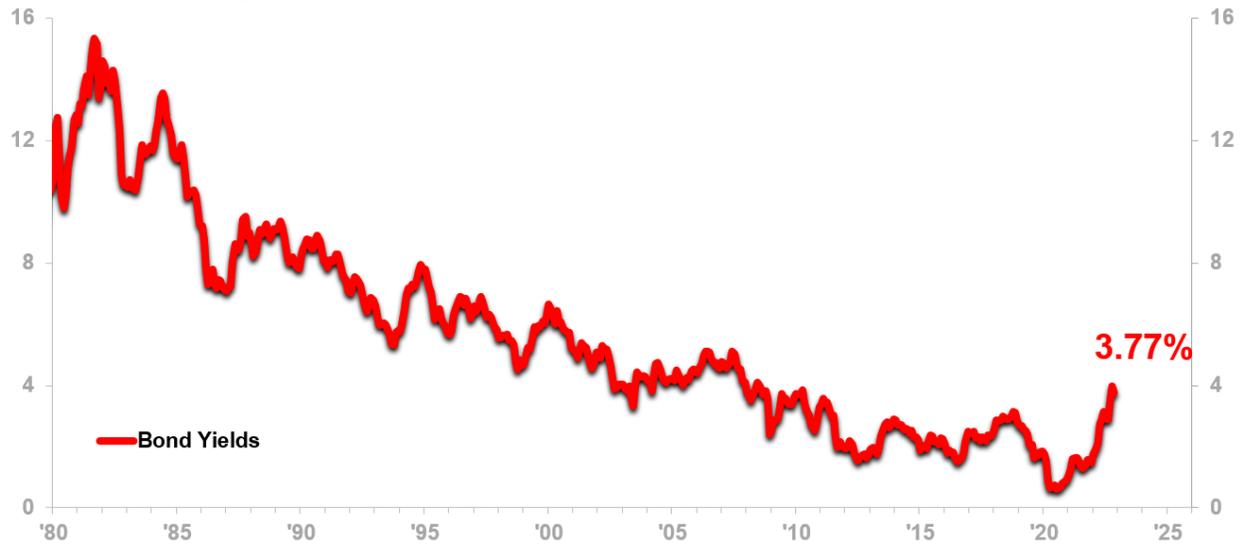
Current Debt and Interest Rate Market.

ABC.D has acquired a series of loans to fund its capital expenditures, including its fleet and warehouses. A breakdown of these loans is included below:

Loan ID	Principal	Interest Rate	Initial Term	Remaining Term	Annual Payment
Building Loan 2014	\$10,000,000	3.00%	120	24	\$1,158,729
Building Loan 2016	\$15,000,000	3.25%	120	48	\$1,758,943
Building Loan 2019	\$15,000,000	3.15%	120	84	\$1,750,584
2019 Vehicle Purchases	\$564,993	5.00%	60	24	\$127,945
2021 Vehicle Purchases	\$361,996	7.00%	60	48	\$86,015

While ABC.D is interested in expanding its facilities and in the process of evaluating its fleet the costs to borrow have increased above the interest rates. The government bond market can serve as a baseline for the direction of interest rates in the economy. The current long-term bond yields are included below:

US Government Long-Term Bond Yields (Raw Data)



ABC.D has done some preliminary analysis on the costs of a building loan, vehicle loan and a line of credit as potential options for further evaluation. These estimates are included below.

Loan ID	Principal	Interest Rate	Initial Term	Remaining Term	Annual Payment
Building Loan 2023	\$15,000,000	6.50%	120	N/A	\$2,043,864
Vehicle Loan 2023	\$564,993	7.50%	60	N/A	\$135,856
Line of Credit	\$2,000,000	8.00%	xx	N/A	xx

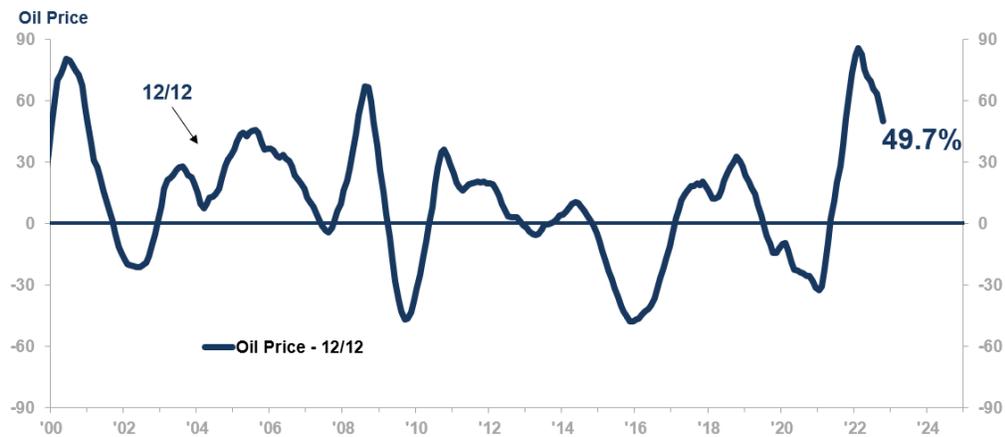
Expenditures and Inflation.

The overall inflation environment is captured in the charts below including overall US Consumer Price Index to US Producer Price Index as well as the US Crude Oil Spot Price

US Consumer Price Index to US Producer Price Index in 1/12 Rates-of-Change



US Crude Oil Spot Prices 12/12 Rates-of-Change



Board of Directors.

ABC.D is governed by a Board of Directors that has historically been entrepreneurial with a degree of risk tolerance. They have been receptive to innovative solutions as well as aggressive market expansion. Prior to COVID, the Board was beginning to consider various options to support their expansion included the acquisition of a potential manufacturing company to jumpstart a production branch of ABC.D, their freight service offerings, and opening new warehouses. In that vein, they would like ideas to help provide an additional degree of diversity to their revenue streams.

Exhibits.

Exhibit 1. Total historical sales data

Exhibit 2. Income Statement

Exhibit 3. Balance Sheet

Exhibit 4. Company Profile

Exhibit 5. Warehouse Labor Breakout

Task.

Analyze ABC.Ds total historical sales and identify what phase of the business cycle they are in and what the internal trends in the 3/12 and 12/12 rates of change suggest about their near-term sales trajectory.

Upload the historical sales data into Top Line Pulse and identify ABC.D's top three leading indicators. Determine what the lead/lag relationship is between those indicators and ABC.D's sales.

Using the ABC.D's internal trends and the leading indicators identified, generate an outlook for their revenue outlook and expected business cycle phase at the end of 2023.

What are ABC.D's key challenges and what opportunities do you see for them?

Using your overall analysis, recommend a series of management objectives to prepare for 2023, address their key challenges, and develop a strategic plan for opportunities.