Welcome to the Inaugural ASA Quarterly Market Survey!

The **ASA Quarterly Market Survey** is offered to all ASA-member distributor companies. Once a quarter, ASA will pose questions on hot-button topics of great interest to our members.

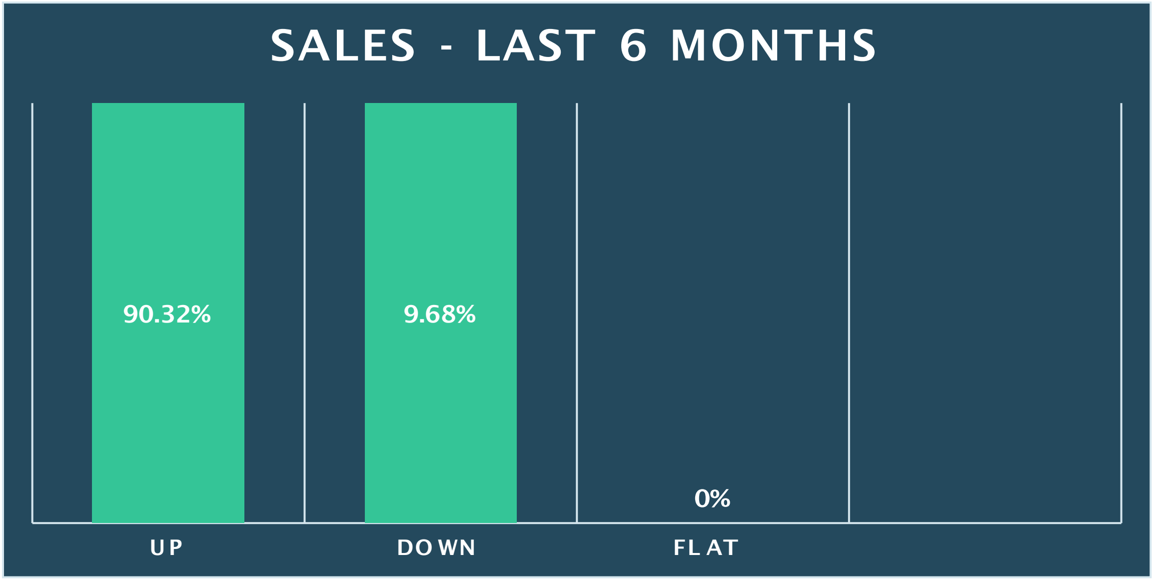
These questions have been generated by ASA distributor members — your peers, colleagues, and competitors.

Results are published in our weekly ASA Insights e-newsletter, in our quarterly ASA Review publication and through Supply House Times, ASA's official media partner.

Some of the questions were kept open-ended to allow for distributor elaboration, which will enhance the value of the report when published. All responses and identity have been kept strictly confidential.

If you would like to participate in the next survey, contact:
ASA Manager of Data and Market Intelligence **Bri Baresel** at bbaresel@asa.net.

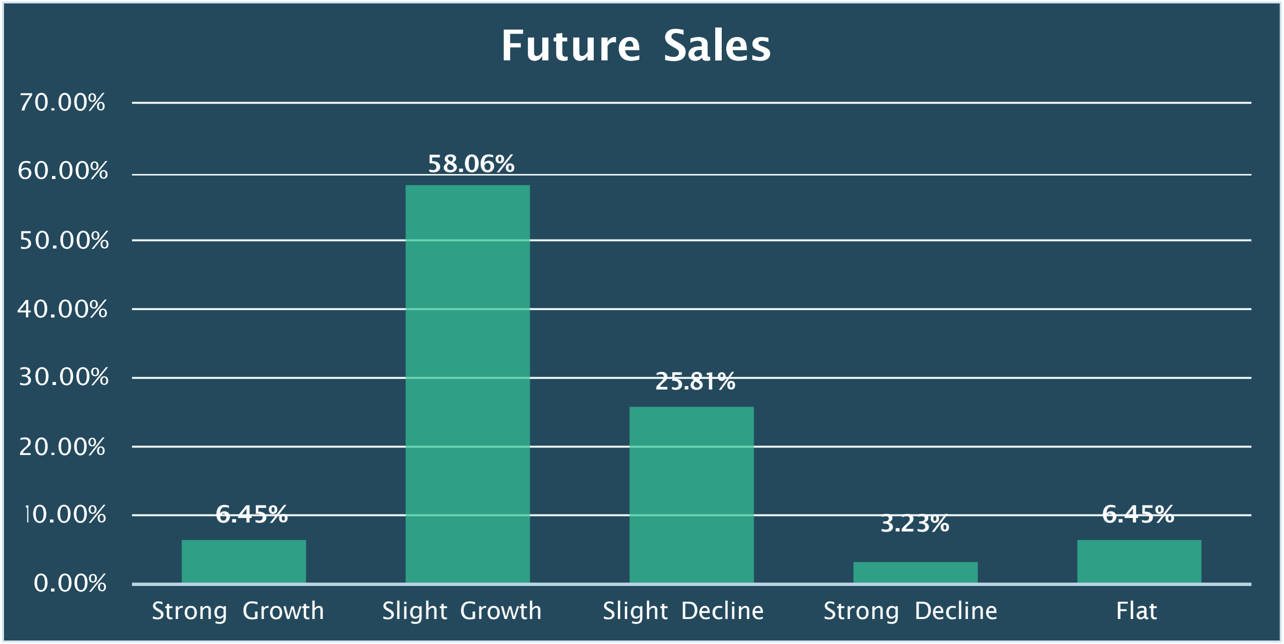
How have your company sales been over the last 6 months?



The Distributor Says:

- June, July, and August down 15-20%
- Steady growth from last year also!!
- Last two have been flat.
- Up in terms of dollars, but volume is closer to flat vs. prior year.
- Difficult to measure due to seasonality.
- This month down about 20%
- The last 3 months have been flat to slightly up.

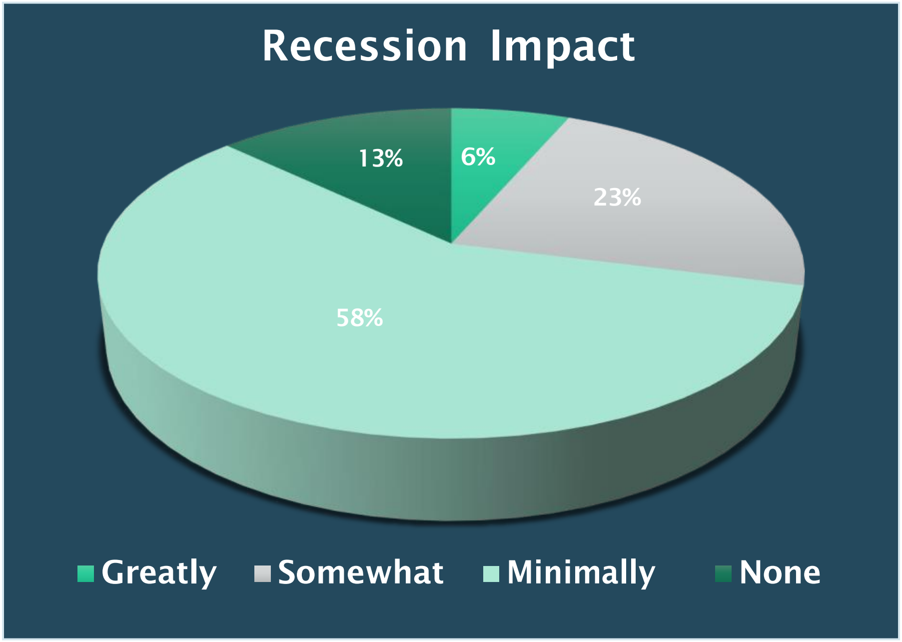
In the next 6 months sales-wise, do you expect…



The Distributor Says:

- Home sales seem to be slowing a bit.
- New branch openings, segment expansion, acquisitions and organic growth are all contributing to rapid growth prospects.
- Cooler months typically bring decline.

Has the recent recession talk impacted your business?



The Distributor Says:

- Our industry in the commercial / industrial side is a lagging indicator. We will trail the general economy by 6-12 months and trail the leading indicators by 8-16 months.
- September is picking up slightly.
- Likely becoming more of an issue.
- Prices are higher, but projects started does not seem to stop.
- Seeing a slight slowdown in business activity.

Do you see inflation slowing down or are pricing increases still prevalent?

The Distributor Says:

- On some commodities we have seen prices drop.
- Inflation is slowing down.
- We still have about 5% inflation in our costs. I expect to see less price increases.
- Stabilizing overall. I expect price increases to return to a more normal cadence and see current prices as a new set of normal in terms of a baseline.
- Frequency of price increases has slowed with some pricing coming down.
- I think inflation has leveled off the past few months.
- Some prices are going up, but my real concern is looming deflation (such as with water heaters).
- Still prevalent.
- It has slowed, but not to zero.
- Slowing — expecting some decreases.
- The rate of inflation growth is slowing as the prior year comps are beginning to catch up.
- Pricing is starting to slide with some commodity vendors lowering their prices.
- Pricing increases are still prevalent, but the frequency and degree are slowing down.
- Price changes both upward and downward are a concern.
- Yes, slightly but still too soon to know the impact.
- Plumbing industry pricing went way higher than 8%. Little PVC reduction on prices.
- I see commodity price deflation starting to show up in pricing in the form of "specials."
- Price increases are slowing down. We have seen a few price reductions lately.

How are you best managing vendor lead times as the supply chain heads toward better stability?

The Distributor Says:

- Trying to hedge and manage inventory and only buying what we need currently.
- Increasing the number of vendors used.
- Communication with our employees and customers on lead times.
- Close communication with vendor partners is critical to successfully managing the existing supply chain.
- Follow up with vendors, use multiple sources.
- Very difficult. Increased our inventory levels to help offset the lead times.
- I was ordering more inventory than I normally would to mitigate the stock outages, but with deflationary pressures mounting I dare not do that.

- Mostly improving, but a recent added time for deliveries from factories.
- Increased inventory levels.
- We are closing watching inventory and open PO's.
- Manually in our ERP and with constant communication with our partners.
- We have way too much inventory.
- Lead times have become more stable and suppliers inventory levels have stabilized.
- Prior to the supply chain crisis, we single-sourced many items. Now, we utilize 2 or 3 sources, though there has been some stabilization. Also, given the increased requirements to reach FFA, higher quantities or a broader mix of products are being ordered per PO.
- Communication between reps' vendors and us.
- Lead times are much more reliable, however vendor minimums for free freight are increasing. This has forced buyers to purchase less frequently.
- Buying more to cover the lead times.
- Expanded our inventory by $2 million.
- Seek lead time from manufacturers. Use past lead times to keep inventory. Bought commodities from several sources. Monitored backorders to keep or cancel, tried to build better relations with sales reps and manufacturers.
- We are reducing our safety stock inventories on lines that improved.
- Better transportation efforts.
- We have been adjusting lead times in our business system to match up with vendor performance for the last couple years.
- Finding other sources when possible and trying to use more stateside companies to work with.

If you are still experiencing shortages, rationing, what product categories are you seeing these shortages in? And why?

THE DISTRIBUTOR SAYS:

- PVC, our inventory could not keep up.
- Long lead times on valves.
- LP tankless water heaters: Factory missed forecasting.
- Yes, tool manufacturing, steel, and aluminum products.
- HVAC products mostly.
- Experiencing less shortages.
- Off-show manufactured tools.
- 1-piece tub and showers.
- Commodities.

- Poly products.
- Flex, PVC.
- Commercial water heaters are a problem.
- Electrical gear.
- Fiberglass flex duct; we're on allocation.
- Pumps and pipe.
- Water heaters.
- Primarily our more engineered products.
- Still some shortages on individual items, but spotty. Rationing for fiberglass showers and PVC pipe, I have been told has ended. Still long lead time.
- Valves, overseas parts.
- Flex duct and fiberglass pressure tanks are the main pain point for us.
- Depends on the week, but valves more than pipe or fittings
- PEX, copper press, specialty ball valves, items that require processor chips.

Are there any indicators or predictors you have noticed with the future cost of goods/the decrease of material trends?

The Distributor Says:

- Water heater prices have decreased. PVC pipe prices have decreased.
- Not currently. I think price increases will still hit in early 2023.
- The world economy and supply chain are still dynamic and subject to disruption. I would expect to see steel slowly rise as energy costs increase into the colder months.
- Lead times have improved, but I haven't noticed any prices decreases.
- The rate of inflation is falling, no doubt precipitated by interest rates rising. Some of the most volatile commodities have fallen/experienced deflation (copper, PVC).
- PVC pipe and fittings has announced a price decease as we speak.
- Not really — but the escalation in price was situational in many cases — and not sustainable.
- We are seeing some decrease in commodities.
- Slowing growth of increases with slight declines in commodities in the coming year.
- PVC seems to be going down.
- As the supply chain becomes more dependable, there is downward pressure on some pricing.
- Commodity pricing softening in plastic. copper stabilized. Steel down slightly.
- Transportation costs are increasing cost of goods either through direct product costs or higher free freight minimums.

- Commodity pricing is retracting.
- Think some manufacturers took advantage of the supply chain to rise prices higher than needed. Will keep in mind what suppliers were helpful in delivery and pricing.
- I have not seen many indicators other than some reductions in lead times by a few vendors.

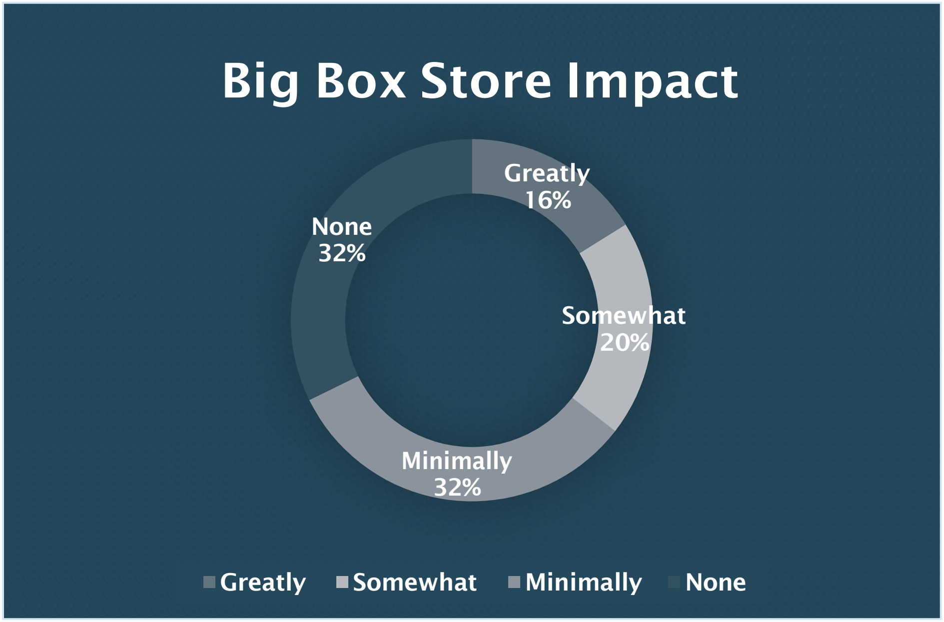
Do you pay more attention to week-over-week sales or gross profit trends right now?

- Week over week = 25.8%
- Gross Profit Trends = 74.2%

The Distributor Says:

- Margin is one of the top two importance factors of a successful business. We can control margin and expense, but sales are what they are at the current time.
- Paying more attention to units sold.
- I watch both closely. I am most interested, however, in gross profit trends.
- Week over week is too hard to manage.
- Gross profit trends are a better sign of health. Watch both.

Have Home Depot/Big box stores had a greater impact on your business since the start of the pandemic?



THE DISTRIBUTOR SAYS:

- The big box tends to push price increases through slower than the wholesale channel.
- They can sell water heaters well below my cost.
- Mostly on residential water heaters.
- Pricing on PVC and fittings has been a significant and continuing issue.
- Have lost most of my PVC-DWV fittings and PVC pipe sales to the big box stores.
- Our customers were forced to look there because of product shortages and allocations.

Do you see a continued increase in big box store market share in our industry? If yes, why do you feel that way?

- Yes = 48.4%
- No = 51.6%

The Distributor Says:

- We are focused on true commercial / industrial sectors.
- They have larger resources.
- They have created some pricing pressure with certain products. They are selling some products for less than we can buy them.
- The democratization of information on the internet has prompted every Tom, Dick, and (Harry) to take on home repairs that they would have never tried in the past.
- They are investing in large warehouses to service that market.
- Due to the PHCC deal with Home Depot, although I suspect the effect will be minimal.
- Alternative joining technology has made them a player in more product lines.
- Licensed contractors still use distributors.
- They are currently in inventory reduction mode and have slashed pricing to do it.

What is the No. 1 thing you are doing to drive efficiency in your organization right now?

The Distributor Says:

- Put it as a part of bonus structure.
- Manage inventory and purchasing.
- Changing to centralized purchasing.
- Process automation and technology investment.
- All our employees on our systems, policies, and procedures, regardless of years of tenure.
- Trying to turn our inventory faster so we are not holding it and constantly moving in within our warehouses.
- We are attempting to reduce complexity and use technology wherever possible to minimize gaps in staffing.
- Increasing stock; Have it on hand as it sells.
- Communication and inventory control.
- New technologies.
- Productivity rewards.
- We continue to work on our logistics.
- Customer service. Keep it simple methods. In-house training.
- Investing in tools to help us be more efficient.

- Utilization of training and SOP implementation.
- Pricing discipline.
- Better product file, better pricing across network, improved receipts, and AP process.
- Drive sales to inside sales and will-call pickup. Overhead for delivery is a challenge. Will try to use e-commerce for existing customer base as much as possible.
- Concentrating on selling more to our 80/20 accounts and new account development.
- Systems automation projects.
- Watching inventory buys and timing as well as placing stock orders to carry more inventory so we have it available.
- Implementing EOS.

Does your company use Vendor Managed Inventory (VMI)?

- Yes = 38.7%
- No = 61.3%

The Distributor Says:

- We want to, but just not there yet.
- Just getting started with this initiative.
- Does not fit our customer base.

If you do use VMI, what do you see as the advantages/disadvantages of doing so?

The Distributor Says:

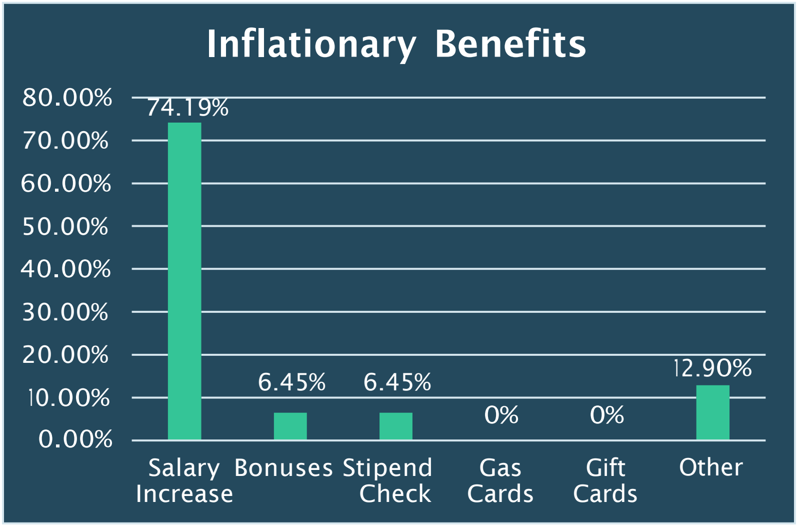
- We can gauge what the customers use regularly and buy to fulfill, and we have data from year over year for seasonal buys.
- We have used VMI for a long while now. The future is in EDI.
- Logistics cost control, stronger vendor relationship levels, more consistent supply chain flow in our business.
- Just starting. Waiting to see advantages.
- Less manpower required to maintain ordering.
- it has helped us manage our inventory levels.
- We VMI with our customers and we have a few key partners that we VMI our inventory with.
- More consistency in inventory and vendor preference.
- Benefits our stores since our POs and invoices match. Also gives us a standard process weekly to replenish material.
- We are knowing the facilities we are in and can gauge what to purchase based on past trends.

What is the biggest unknown you would like to have data on?

The Distributor Says:

- Second half of 2023
- Manufacturers utilizing direct representation and the elimination of manufacturer reps' agencies.
- High-volume customer account product use at the SKU level, with visibility to 80% or higher in terms of overall use.
- Not knowing the next product(s) to have an overnight significant jump in lead times.
- Where the labor market is headed and if/when we will see improvement.
- How severe is deflation going to be.
- Employees thoughts.
- Economy.
- Interest rates.
- Hiring strategies.
- How deep into a recession the fed is going to let us get.
- E-commerce and vendor relations with online retailers.
- The political environment.
- Competitor pricing.
- What will new construction look like in the next 12 months to forecast usage.
- Unit sales.
- Salaries for workers in our industry.
- Where pricing needs to be.

How are you handling the inflationary pressures with your employees?



THE DISTRIBUTOR SAYS:

- Also, lunches and flexible time off.
- Salary increases as well as bonuses.
- We use a combination of merit-based raises and company-performance tied bonus programs.
- We are an ESOP. Employees participate in the growth of the company via their ESOP accounts.
- Base wages have increased, and we are doing a quarterly inflationary stipend.

Are you having success hiring new employees? What avenues/sources have been the most beneficial for you?

THE DISTRIBUTOR SAYS:

- Just in certain areas. Company culture has helped us to recruit.
- Yes – Indeed.
- Still the biggest struggle. Finding young people to apply.
- We have had some issues as everyone in the United States has had. We have been lucky with "word of mouth" hiring. Employees knowing someone who would make a good employee.
- Yes. It takes a multi-faceted continual effort to successfully recruit, pipeline and retain.
- Limited success.

- Hiring quality persons has been difficult. Hoping to see improvement soon.
- I'm trying to hire one now. Too soon to say how successful.
- Has improved recently. Still looking for new employees.
- We struggle to hire employees at all levels. We need additional avenues/sources but have yet to identify many.
- Right now, we are staffed — but need to replace several retiring/experienced people over the next 2 years.
- We have been successful hiring new employees.
- Yes. Referrals from existing employees.
- Yes. In-house networking.
- Word of mouth.
- Utilization of intern programs.
- Recruiting.
- Yes and no. Recently, we have used a temp company that has provided better candidates. Direct hire is no longer working for us.
- Yes, internal referral program.
- Dedicated recruitment manager.
- Yes. Employment services have done an impressive job for us and the new associates they refer.

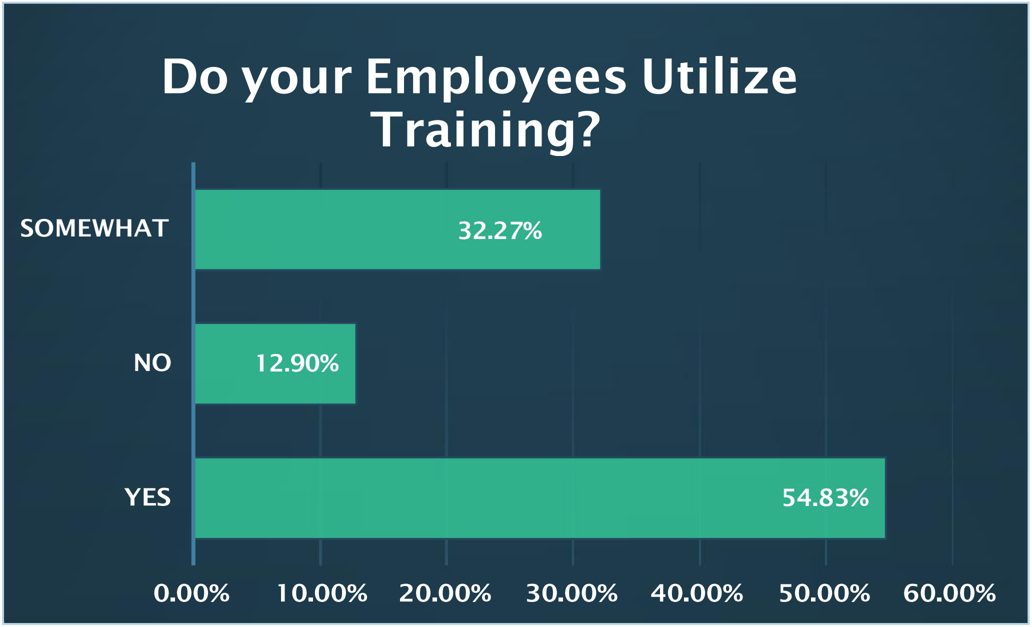
What best practices are you using to maintain current employees and resist resignations?

The Distributor Says:

- Strong company culture and larger raises to reflect inflation.
- Weekly check-ins, small rewards such as gift cards, lunch brought in on Mondays, flexible work hours.
- Increased the starting pay to above industry standard.
- Continue building a strong culture. We have had 8 employees leave us and return because of the culture we have built.
- Culture is king in this effort.
- Use of company vehicles, fuel cards.
- Training and cross training to increase our employees' worth within the company with hopes to elevate into a higher position within the company.
- Attempting to remain competitive with pay.
- Give an unrequested raise where possible. Attempt to strengthen the relationship with concert and other event tickets. Express my appreciation to my people.
- Salary increases, time off, bonuses.
- More incentives.
- Company events and engagement to keep morale up.
- Open communication, good pay increases, trying to keep benefit costs level.

- We have maintained our current employees through benefits, training, and recognition.
- Engagement, engagement, engagement.
- Fostering an environment of caring and growth.
- Wage increases have been the key tool to maintaining our employee base and preventing departures.
- Employees are enjoying more freedoms, such as time off to take care of personal business. Also, providing small rewards like meals or gifts.
- Staying close to the people you want to keep.
- Culture and shared profits.
- ESOP and our fundamentals.
- Keeping a pleasant work environment where people are engaged with our customers' business experience with us.
- Giving more flexibility in the work environment as well as lunches, gift cards and gifts.
- Recognition, department level competition and rewards.

Do your employees currently utilize training courses?



If you do utilize employee training courses, what incentives do you have in place for employees to complete those courses?

The Distributor Says:

- Gift cards, recognition at companywide meetings.
- We allow them to train on company time and we reward anyone that is promoted from excelling in training with pay increases and comps.
- A robust and multi-faceted incentive approach.
- They can see the potential with career advancement in the company, which is their incentive.
- It varies by department. Monetary rewards.
- Personal development.
- Recognition.
- Vendor-sponsored training — the vendor will provide gift cards upon completion.
- Advancement
- Course stipends.
- Cash payment.
- Company "bucks" for merchandise.
- Gift cards usually.

Looking into 2023, are you seeing an economic decline, project delays/cancellations, continued disruptions?

- Yes = 61.3%
- No = 38.7%

The Distributor Says:

- Not in our area, maybe in the metropolitan city though.
- Single-family homes are slowing down due to rate hikes.
- Really just guessing now. Continued, but gradually less supply disruptions. If the fed handles the interest rates adroitly, the economic decline will continue but not get very bad (I think that is the most likely scenario). Product delays and cancellations will almost certainly happen.
- Mostly residential — many of our commercial/institutional jobs are committed.
- Freight and logistics challenges are expected to continue, and several projects will be delayed or cancelled due to material price increases making certain projects no longer viable.
- It's already happening and likely to continue.
- Not yet, but we are not sure what impact yet

If you are seeing decline/disruption in 2023, when do you feel the brunt of it will occur?

- First 6 months of 2023 = 67.7%
- Last 6 months of 2023 = 32.3%

The Distributor Says:

- Seeing rapid growth into Q3 2023.
- I don't think the decline will be bad like 2008-20010.
- I would characterize as slowing growth as opposed to a decline.
- No current decline in business levels.
- I see a garden-variety recession lasting 18 months.