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Welcome to spring! Now that we are well into 2018, we may have already found ourselves buried in the day to day. Lest we forget that just a few short months ago, we were all attending HDAW18 in Las Vegas soaking up great weather, renewing friendships, and acquiring new industry knowledge. The dynamic duo of Troy Zurbuchen, (President, Midwest Heavy Duty) and Matt Forner (Director Aftermarket Sales, Grote Industries) put on an incredible show…and we would expect nothing less from a couple of CVSN members! Our good intentions of putting into practice the thoughts of keynote speakers Josh Linkner (be creative), Thomas Nestor (developing strategic partnerships) or Colin Gold (create fans) may still be in the “to do” pile. Now it’s time to dust off your notes and put those take-aways to work.

One of the big take-aways I came away with was the need to get my team trained. Things are changing in our industry faster than ever and our team needs to be up to speed if we are going to stay competitive. Unfortunately, I’m not a great teacher – that’s my wife, she’s a great teacher. I’m more of an optimistic whiner or as I like to define that, a businessman. But fortunately for me, the Distributor Training Expo is quickly approaching (April 20-22) and the administration of training is handled. With 25 top flight suppliers signed up bringing their technical trainers, our guys are going to get current, focused, in-depth training straight from the source. You know, the guys that make the stuff we sell.

Another take-away I came back with from Vegas was to follow up with all the notes I took during our One-on-One meetings with vendors. If you didn’t participate in the one-on-ones, you missed prime opportunity to beg, plead and steal for your company. The number of opportunities, plans and projects is astounding, but they will only be considered success if we follow through with implementation. I encourage each of you to reach out to your supplier partners and put those plans to action.
Finally, I came away from HDAW18 with a modicum of satisfaction for our industry. We’ve taken some hits over the years, but we just keep getting up looking for more. As Josh Linkner suggested in his keynote speech, “get knocked down 7 times, get up 8”. That seems to describe us. So, in the shock that we all seem to be standing fairly firm at the moment, be grateful but not wasteful and get back to work!

ANDY ROBBLEE
President of Six Robblees’
CVSN President
The CVSN GenNext Distributor Training Expo is gearing up for their 3rd annual event scheduled for April 20th – 22nd in Atlanta, GA. There is a lot of excitement coming from both suppliers and distributors as the distributor spots have once again SOLD OUT with 38 distributor companies and 200 salespeople! We are keeping a waiting list in case of any changes. Any interested distributors should still sign up and join the waiting list to potentially attend this year plus be added to the marketing list for early registration in 2019.

I think the biggest misconception is that it’s the same group of people we see at the buying group shows and/or HDAW. It’s not. The distributor audience at the DTE isn’t principals and purchasing agents....it’s the salespeople that physically sell product every single day. We rarely see them at HDAW or Buying Group events. Even on the supplier side, it’s a different audience as suppliers are sending the people that typically train the salespeople and not just the upper management team.

In most cases, it’s the product trainers.....the people that are hands-on helping salespeople sell more products by educating them. The Distributor Training Expo really is a new event with a new audience. There’s no doubt about it.....the aftermarket parts business is getting more competitive as the OE’s and the Super Groups continually bring on new products and educate their sales force. How can we compete? Is our perceived level of service enough to hold market share? Is this business model sustainable? Do we sit back and hope something magical happens or do we work for those sales? Without a doubt.....an educated sales team will hands down outsell an uneducated sales team. For the investment, I’m not aware of a better venue to train salespeople to sell the top industry brands. Vendors see the value and I’ve personally spoken with most of them about their ROI on this event. Distributors also see the value and raved about the event in both 2016 and 2017. As a result of this event, distributors are selling more product and suppliers are suppling more product to sell. It’s an absolute win-win for all of those involved.

New this year: Keynote Speaker Jim Pancero will present; We need Arsonists...not Firefighters!’ Shifting from reactive supporters into proactive initiators” – Are you still functioning as just “Order takers” to your customers instead of selling as “Trusted Advisors”? Successful selling in today’s competitive marketplace is no longer founded on just servicing and supporting a customer. Learn how even experienced counter reps can sell more (and at higher margins) bringing your best customers new solutions and challenging the way your buyers have done business in the past. A detailed workbook and action guide will be provided to all attendees.

If you’re interested in learning more, I highly encourage you to watch the video and read about the event at CVSN.org or gennexthd.com.
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CVSN and GenNext Sign Memorandum of Understanding to Align Focus, Core Strengths and Industry Deliverables

Las Vegas (Jan. 22, 2018) – The Commercial Vehicle Solutions Network (CVSN) and GenNext announced today at Heavy Duty Aftermarket Week ’18 (HDAW) a signed memorandum of understanding (MOU) with the intent to align the strengths and core competencies of the two organizations.

“The signed MOU confirms the commitment of these two organizations to bring forth more value-driven content and programs for the heavy-duty aftermarket,” said Ian Johnston, president of Gen Next. “Our combined core competencies will allow us to offer fresh, innovative ideas to continue to move the industry forward.”

Each organization is recognized for its individual contributions to the betterment of the heavy truck aftermarket.

- GenNext delivers programs that drive results for emerging professionals, in, or entering the North America independent heavy truck aftermarket.
- The primary CVSN objective is to create an industry-wide forum for professional development, legislative awareness and business opportunities by utilizing broad industry cooperation, education and the exchange of information throughout the channel.

The alignment under the MOU seeks to merge these strategies creating a synchronized energy in bringing value to the industry based on a new joint mission.

“One of CVSN’s core values is to consistently develop great parts people into great business people through education, training and building strong relationships,” said Andy Robblee, president of CVSN. By uniting our efforts, together we will take this expertise to the next level to further serve the heavy-duty aftermarket as it continues to grow and redefine itself.”

As defined in the MOU, GenNext will maintain its board of directors, as well as carry primary stewardship of the upcoming Distributor Training Expo in Atlanta, GA, April 20 – 22, 2018. Both organizations will maintain their primary vision, core competencies and deliverables while emphasizing their strengths for creating greater opportunities and results for the North America independent heavy truck aftermarket.
Distributors in all lines of trade, including CVSN members, operate in a sales-focused environment. Interestingly, that focus is both positive and negative. On the one hand, the economy continues to provide a strong tailwind which allows firms to enjoy steady, albeit moderate, growth. On the other hand, there is near-hysterical concern about how Amazon might cause the sales party to end badly.

Such a sales focus inevitably leads to a challenge with regard to expense control. In a strong growth environment, expense control is largely neglected. Further, if Amazon is a competitive concern, then there is a feeling that customer services—and the associated expenses—need to be increased.

This report attempts to balance with the sales versus expense conundrum. It does so by examining two specific issues:

- Goal Setting for Expense Control—A suggestion as to the specific targets that firms can use to control expenses over time.
- Expense Control Procedures—An examination of the specific actions required to make the expense goals a reality.

Goal Setting for Expense Control

Expense control has a terrible reputation. This is because it is generally confused with expense cutting. This conjures up famous expense slashers with nicknames such as Chainsaw Al and Neutron Jack. The mere thought of expense cuts puts fear into the heart of almost every manager.

Expense control is the polar opposite of expense cutting, except in a very few instances where expense levels may be outrageous. Expense control involve matching up expenses with sales in a more meaningful way. It starts with the assumption that in most firms expenses are likely to rise from year to year. The key is to control the rate of growth relative to the anticipated increase in sales.
This is demonstrated in Exhibit 1 which presents current results for the typical CVSN member. The first column provides information at the present time, with dollar figures in the top and percent of sales figures at the bottom.

### Exhibit 1

**The Impact of Alternative Expense Increases Combined With a Five Percent Sales Increase for CVSN Members**

<table>
<thead>
<tr>
<th></th>
<th>Typical Firm</th>
<th>3.0% Expense Increase</th>
<th>5.0% Expense Increase</th>
<th>7.0% Expense Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>$15,000,000</td>
<td>$15,750,000</td>
<td>$15,750,000</td>
<td>$15,750,000</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td>9,900,000</td>
<td>10,395,000</td>
<td>10,395,000</td>
<td>10,395,000</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>5,100,000</td>
<td>5,355,000</td>
<td>5,355,000</td>
<td>5,355,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>4,350,000</td>
<td>4,480,500</td>
<td>4,567,500</td>
<td>4,654,500</td>
</tr>
<tr>
<td><strong>Profit Before Taxes</strong></td>
<td>$750,000</td>
<td>$874,500</td>
<td>$787,500</td>
<td>$700,500</td>
</tr>
</tbody>
</table>

### Typical Firm Income Statement--%

<table>
<thead>
<tr>
<th></th>
<th>100.0</th>
<th>100.0</th>
<th>100.0</th>
<th>100.0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td>66.0</td>
<td>66.0</td>
<td>66.0</td>
<td>66.0</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>34.0</td>
<td>34.0</td>
<td>34.0</td>
<td>34.0</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>29.0</td>
<td>28.4</td>
<td>29.0</td>
<td>29.6</td>
</tr>
<tr>
<td><strong>Profit Before Taxes</strong></td>
<td>5.0</td>
<td>5.6</td>
<td>5.0</td>
<td>4.4</td>
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Change in Dollar Profit: 124,500  37,500  -49,500

Percentage Change in Profit: 16.6%  5.0%  -6.6%

At present, the typical firm generates $15,000,000 in sales, operates on a gross margin percentage of 34.0% and generates $750,000 in pre-tax profits. This represents a bottom-line profit of 5.0% of sales.

The final three columns of numbers track the performance of this typical CVSN member as it generates sales growth of 5.0%. This is a fairly typical figure in mature industries. The three columns combine the same 5.0% sales growth rate with three different levels of expense growth.

The first of the three scenarios demonstrates the impact of 5.0% sales growth with an expenses increase of only 3.0%. This produces what is typically called a 2.0% sales to expense wedge. It is a figure that is widely discussed in distribution as a reasonable goal for expense control.
As can be seen, profits explode from the current $750,000 to $874,500. This $124,500 improvement is an increase of 16.6% as shown at the bottom of the first “what if” column. It represents a modest improvement in expense control, but a significant improvement in the bottom line.

The second scenario reflects sales and expenses increasing by the same exact 5.0% rate. It is a sales to expense wedge of zero. The result is that profit follows along with a modest 5.0% increase. This represents what has tended to happen in distribution over the last two decades—glacial change.

The final scenario highlights what happens if the sales to expense wedge is negative. In this case, expenses have increased 2.0% faster than sales. Sales still reach the same $15,750,000 level as in the first two scenarios, but profit is decimated. The resulting profit margin is just 4.4% and profit falls by $49,500.

In all three projected columns sales have increased at the same 5.0% rate. However, the level of expense growth causes profit to increase by very different amounts. Over time the change is massive.

Ideally, firms should be looking for ways to achieve a positive sales to expense wedge on the magnitude of 2.0%. This should be an integral part of the planning process. However, it can’t be generated without some precise planning.

## Expense Control Procedures

Historically, there has been an assumption in distribution that a greater use of technology will result in expense control. The historical pattern discussed earlier indicates that sales and expenses have grown at about the same rate over time. This does not mean that technology is not important. Instead, it suggests that something must be added to the technology mix. Four additional ingredients are required to help achieve true expense control.

### Analytics

It is hard to know if expenses are under control or out of control without some specific points of comparison. It is essential to benchmark against other firms in the same industry on an expense line by expense line basis.

### Transaction Economics

The two most important metrics that influence costs throughout the business are the number of lines on each order and the average line value. Transactions with few line items or a low value per line extension are inherently unprofitable.
Customers buy the quantity they want, of course. However, the opportunities to change both the line extension and number of lines per order are huge. The simple idea of one more item on every order (want fries with that?) can dramatically change the entire sales to expense equation.

Customer Analysis—Results continually show that some customers are highly profitable and others are quite unprofitable for the firm. While eliminating customers is almost never justified, working with customers to equate the support and services they receive to the profit levels they generate is entirely reasonable.

Proper Planning—The role of planning in generating higher profit levels cannot be overstated. Unfortunately, too many firms continue to plan sales and expenses separately. They must be planned simultaneously in order to ensure that the desired sales to expense wedge is achieved.

Moving Forward

Expense control continues to be the Achilles’ heel of most distribution organizations. Cost levels have not been decreased despite major technological improvements. It seems time to think in some new ways.

Firms need to plan for generating a sales to expense wedge on the magnitude of 2.0%. If that planning process is backed up with specific actions to make the wedge a reality, expenses can be controlled and profits can be increased sharply.

About the Author:
Dr. Albert D. Bates is a Principal at the Distribution Performance Project. That organization’s website: (distperf.com) has numerous free tools distributors can use to improve profitability.

©2018 Distribution Performance Project. CVSN has unlimited duplication rights for this manuscript. Further, members may duplicate this report for their internal use in any way desired. Duplication by any other organization in any manner is strictly prohibited.
At the recent AAPEX/SEMA Show in Las Vegas, I heard endless versions of a popular Wall Street game... ask every CEO of every company threatened by Amazon: “What’s your Amazon strategy?” And, the typical ‘this great industry of ours’, get me out of here corporate-speak answers aren’t helpful. Mostly a dodge to let field people take care of this annoyance.

Distributors of all sizes accosted me with another well put question... “I’ve read your Amazon articles...great job...but what the hell should I do?”

For the past two years, my partners and I...most importantly distribution guru Bruce Merrifield... have encouraged legions of distributors in various specialties to follow this service-value innovation recipe:

1) Do a customer profitability ranking;
2) Sort the top 100+ into different niches;
3) Pick the historically most profitable niche and within it 5+ most progressive, cooperative customers;
4) Visit them to discern what next-level service value definition and metrics are.

Self-Analysis Is Cheap!

Great questions beg for answers that can’t yet be known, but they will help new visions to emerge. Then smarter, fail-forward experiments can begin. Here’s a starter list to modify your business plan and/or vision continuously. Involve your smartest people (not necessary just top execs), research, debate and act on any insights that surface.
1. What are your estimations for the exponentially-growing data driven trends in trucking. Can your group think through:
   • How to be doing more online and less offline as digital, wireless bandwidth explodes while costs drop?
   • Learn the future of synthetic intelligence and predictive maintenance…. this application of ‘data science’ is fewer than 2 years away.
   • Acquire knock-off mobile devices that can get and receive 5G downloads of exponentially growing product information starring video?

2. Do you agree that digital platform companies in heavy-duty parts and service can grow and operationally scale with these trends at a market-dictated pace?

3. What is the group’s feeling about the power and potential reach of Amazon’s rapidly-evolving, integrated and snowballing platforms that include: (a) Prime Members; (b) AWS-powered web-site capabilities and experience; (c) Marketplace: 2 MM resellers with 350MM SKUS (d) third-party product-information explosion; (e) Fulfillment by Amazon; and (f) Alexa/Echo converging with 5G phones and service in 2020 to enable Voice Commerce in the workplace?

4. When and why will more factories cut a direct, content-management deal with Amazon that may also include selling hottest items to them? This practice is growing like a weed today.

5. What channel conflicts will then ensue between producers and their distributors/dealers? Can they be minimized? What distributor/dealer disintermediation and (simultaneous?) win-win, re-intermediation do you foresee?

6. How will distributors and groups identify their most profitable, customer-niches to invent next-level value that Amazon can’t match? What chronic losing - customer and product activities - will distributors exit to better reinvest talents into renewing value for best customers
7. If digital marketplaces are booming, then what small-bet experiments are you considering surfing this wave as either an AMZ reseller and/or a player on other potential, emerging, channel marketplaces?

8. By 2020, 50% of B2B purchasers will be Millennials (currently ages 19-35). Surveys inform us that they see both outside and inside sales reps as a:

- 9-5, Monday-Friday inconvenience.
- They prefer faster, on-line, 24/7 product discovery and rebuying.

What is your 2020, sales force vision to: partner best customers; accommodate shifting customer preferences; and compliment the exponential increase in on-line product education?

My real question is: What new analytics will factories and their legacy channel partners need to unweave their existing channels and reweave new ones to both cooperate and compete -via vertical channel marketplaces - with Amazon?
CVSN is proud to recognize HARMAN HVS as Truck Parts and Service Magazine’s 2017 distributor of the year. CVSN would also like to acknowledge Action Truck Parts and Drive Train Industries as finalists for the 2017 Distributor of the year award and that they are CVSN Member Companies.

It is said that "You are known by the company you keep"

Your company can also be part of the "Best of the Best"

Join CVSN today at www.cvsn.org or call us at 904-737-2900
HDA Truck Pride Annual Meeting
April 4-8, 2018
San Diego Marriott Marquis & Marina
San Diego, California

CVSN/GenNext Training Expo
April 20-22, 2018
Hyatt Regency
Atlanta, Georgia

CVSN Aftermarket Distribution Summit
September 8-12, 2018
Château Élan Winery & Resort
Braselton, Georgia

VIPAR Annual Business Conference  October
14-19, 2018
JW Marriott Marco Island
Marco Island, Florida
Château Élan Winery & Resort

September 8th-12 2018

Braselton, GA


more information coming soon