



Richard Leeds

Chairman and CEO, Systemax

Editor's Note: In this issue, *martinwolf* interviews Richard Leeds, Chairman and CEO, Systemax. Richard has been with Systemax for over 30 years and has served as Chairman and CEO since 1995. He also served as President of the Company's Industrial Products group until 2011. He has guided the Company from its IPO in 1995 to its becoming a Fortune 1000 leading international multichannel merchant.

What are your thoughts on the market today, and what do you expect from the economy in 2015?

I think the economy is good overall and the reduction in the price of gasoline should offer additional support. But I don't see any retailers that are benefiting from that yet. Retail closings or bankruptcy seem to be part of the regular landscape now, which we recently saw at Wet Seal. This stronger economy hasn't yet translated to an improvement in consumer buying habits, but overall I expect profits in the industry to remain stable.

Are you seeing the technology industry follow these trends, or in your experience are they different?

From a consumer standpoint, the technology industry needs something new for consumers to buy that they don't already own; there hasn't been a new category or product line introduction for a while. In fact, that's true of many industries—but it's particularly important for consumer electronics companies. And we're seeing that today with consumer electronics purchases primarily focused on replacement or upgrades of existing products. So the industry needs to come up with something compelling to buy. I don't expect many drones to be sold and wearables have been hailed as the next big thing, but I don't think they'll be driving sales volumes going forward. You can go down the list—there's no major new must-have item that really excites the consumer market.

What about in the Business to Consumer industry? What's that business climate like?

The business-to-consumer climate has always been an aggressive space. Customers have lots of options, and as a whole it's probably the most competitive industry with the smallest margins.

Has the decline in oil prices affected your business yet?

Not yet. For us and I believe everybody else, we're just waiting for it to for it to kick in. I'm not sure when we will see it come into effect but eventually business and consumer will start to notice that extra money in their pockets.

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How does the current European business climate affect your business, and do you expect it to change in 2015?

The economies of the various European countries are much different than the U.S., and each are a little bit different from each other. Right now, it seems like there's a flight to investments in the U.S., but we're continuing to find places where we can grow our business and make money in Europe. We have pan-European operations and are in 9 countries serving the B2B and government market. So in Europe we're not affected by the issues facing the B2C industry that I mentioned earlier. Overall, it's a very competitive landscape but we are finding opportunity there. We have a shared common support infrastructure which helps us drive efficiencies and unique plans for each country which allows us to better position ourselves in the market and meet the specific needs of our customers.

Who do you service from a company size and industry vertical perspective?

In the U.S., we focus more on small to mid-market businesses, while in Europe we pretty much run the gamut from small to enterprise-size clients and government. On a vertical perspective, we have a broad approach.

What do you see as your major growth opportunities for 2015? How will you see Systemax taking advantage of those opportunities?

I think moving into services and moving up the stack are two ways we can grow. This allows us to bring more value to our customers and strengthen our relationships. One way we can provide additional services is through M&A. We made a couple of acquisitions in Europe that broaden our skill set and service offerings, which will allow us to transform our operations. Here in the US we'll look for similar acquisitions or build these capabilities ourselves.

How do you choose the companies that you acquire? Do you go out with a particular mandate, or just look for companies that offer you transformative potential?

We do a mixture of both and we are constantly looking for companies to buy. We're opportunistic and the companies we've acquired have been opportunistic purchases. That said, they need to bring strategic value to our business and strengthen our ability to achieve our goals.

How is your industrial products division faring? Is it synergistic with your computer products?

Industrial products and computer products are two separate businesses. Our industrial products division, which operates in North America and includes our GlobalIndustrial.com brand has been doing

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very well. Its five-year revenue CAGR is more than 20%. We're in the middle of closing a strategic acquisition which will further strengthen our operations. We have been expanding our share of the market and are well positioned for continued growth.

Systemax went public in 1995. What have been some of the biggest changes or developments in the industry that have helped shape Systemax's development since then?

The industry is dynamic and has seen substantial change since 1995. In fact it's a market that literally changes daily and in regards to product marketing and pricing for example can change in real-time. We've made a number of acquisitions of competitors which have helped expand and transform our businesses and have seen many other competitors go out of business, especially in the retail space. Brick and mortar retailers have been especially hard-hit—overall, it's been a crazy ride over 20 years. We have taken a very prudent approach to our retail footprint and the consumer side of our business. We never overextended ourselves and that has allowed us to ride out the ebbs and flows of the consumer market. In addition, we have significantly expanded the B2B part of our business both in our industrial and technology operations. We have seen a number of opportunities to grow our B2B operations and have been very pleased with our success.

What's the biggest example of this trend?

Well, we have seen a number of large consumer electronics retailers go bankrupt in this country and shut their doors. That had a huge impact on the industry and changed the whole consumer electronics ecosystem, impacting peers, vendors, customers and employees.

What has been the impact of cloud computing on Systemax?

It's both an opportunity and a risk for us. It's an opportunity for us to sell cloud-based services and help our customers implement these solutions, and it's a risk in that customers can move completely to the cloud. But we think there's a hybrid, and we see that as the future model where some things are on the cloud and some things are hosted on in-house servers. It's kind of like going back to the future. When I started in this business, it was very similar to cloud computing in that people were renting time on machines, very similar to a hosted-type model—and now it's swinging back that way. If you've been in the industry long enough, things eventually come around back the way they were.

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How do you see the role of distributors changing with today's focus on mobility and security? Does that affect you?

It ultimately means that we have to provide more services to our customers. We need to and are expanding our skill set to meet the needs of the market and our customers. More and more businesses are mobile – from telecommuting to the integration of mobile devices within the business IT environment. That often includes personal devices that bring additional security concerns. Security is on everyone’s mind given the high profile data breaches that have been in the news – so it’s a key product and service we need to deliver for our customers.

Do you see product companies ultimately transitioning to a services-based model?

Services offer product companies higher margins, and everybody wants to get into a higher margin business so we're seeing an industry-wide evolution. But it's not a mandatory shift—there will always be room for products-focused companies.

How do you differentiate Systemax from your competitors?

One way is that we efficiently service and target smaller size customers within the B2B market. We have been serving this market for almost 30 years; we’re very good at it and have built the company to serve this market. We know who they are, their unique needs and requirements. Many competitors try to reach out to this market segment but are not able to deliver the value and service we provide – they are often too enterprise focused. That's really where our edge is—our past relationship and experience and personal attention to our customers and we are taking that model and bringing it to larger customers in the market.