



MDM Special Report:

# **2013 MDM Market Leaders & Distribution Trends Report**

**An annual update for premium subscribers from the editors of Modern Distribution Management**

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# Bumpy Conditions Drive 2013 Trends

*Distributors expect mixed results for the rest of 2013*

As much as we've tried to escape the implications of the word "uncertainty" since the end of the recession, distributors in many sectors are still reporting bumpy business conditions. This is due in part to both natural and man-made emergencies, including Superstorm Sandy and government inaction which could have led to a fiscal cliff (which didn't occur) and sequestration (which did).

"I think everybody had the view that once we got the election over, it would get sorted out one way or the other. ... Everybody's just sort of running around in circles doing laps, and we still have this high level of uncertainty," says Mike Marks of Indian River Consulting Group.

"Some of the distributors that I talk to are seeing their backlog is down a bit, and they are worried it is a harbinger that things aren't as robust as a year ago at this time," says Brent Grover of Evergreen Consulting Group. "But it's important to note that a year ago at this time, things were really up." In 2012, distributors reported a big increase in sales relative to the year before. But because the word recession – however mild – is being uttered in conjunction with 2014, people are "spooked," Grover says.

Distributors are reporting mixed conditions in the middle of 2013. "Business has been a little off," says Rob Stern, vice president of sales and marketing for Werner Electric Supply Company,

Neenah, WI. "It's been a tough year to figure out because there are certain markets that are doing really, really well, and then there are others that are doing the complete opposite."

These ups and downs are driving many of the trends we outline in the 2013 Distribution Trends Report, featured in this special double issue of *Modern Distribution Management*. Distributors are incentivized to make their companies as healthy as possible so they can be better positioned to face the next few years. This includes a greater focus on inventory management; the use of data to find opportunities to grow sales and increase profits; and investing in new product lines and geographies in an ongoing effort to diversify.

They are recognizing energy is best spent on what's in front of them. "We can't control the weather or the fiscal cliff or sequestration or changes in the industry, so we worry about the things we can control on a day-to-day basis," says Dave Myers, promotions and communications supervisor for industrial distributor Kimball Midwest, Columbus, OH.

Stern is optimistic about the rest of the year. "There's a lot of money pent-up, and I think that once it goes, it's going to go," he says. "We think we're going to have a positive second half of this year, and that's going to take us into a really strong 2014."

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## Generational Shift Drives Changes in Technology, Expectations

The median age of companies' sales forces is getting older, says Brent Grover of Evergreen Consulting, as many Baby Boomers were not able to retire in the wake of the recession. At the same time a new generation of management is coming up through the ranks, as more distributor owner-operators prepare to hand the reins to the next generation.

That dynamic has shifted everything from technology investments to customer service expectations.

"What's interesting to me is that we now have four generations at work together, and that's unusual," says Julia Klein, CEO of C.H. Briggs Company, Reading, PA.

With younger workers comes a new set of expectations, says Mike Rowlett, CEO of fluid power distributor Womack Machine Supply, Farmers Branch, TX. "If we treated young folks new to the business today the same way that I was treated 35 years ago, then we wouldn't be able to keep any of them."

Mike Gassmann, chief growth officer for Van Meter Inc. in Cedar Rapids, IA, says in general, the younger generation places higher importance on things like flexible working hours and access to health and safety programs. The ability to give back to the community is also very attractive, he says.

"The ability to do things holistically is a lot more attractive to the younger generation," Gassmann says.

Lillian White, president of Treen Safety (Worksafe) Inc. in Vancouver, BC, agrees. "I think the generation today is often concerned about what the company's purpose is and whether they are committed to social, environmental and community values, so we work really hard on that."

Treen has incorporated programs that support these ideals, such as a program that measures the company's carbon footprint called Climate Smart.

Millennials' expectations around career advancement are also different, many say.

"The expectations of students coming out of the university are pretty high in terms of what jobs they'll get and what wage they'll get," White says. "So finding that balance between great employees and great compensation is tough."

Doug Adams, owner and president of fasteners distributor EFC International, says he thinks universities are partly to blame for work-

ers' higher expectations, as they overpromise in an attempt to justify tuition rates.

Meg Hulme, director of application development and e-commerce for building materials distributors BlueLinx, says younger workers coming into the company also have different expectations around technology.

"They're more experienced in the just-in-times, the Googles, the Tweets, the texting," she says.

BlueLinx has adapted its capabilities to offer a social environment by adding instant-messaging, screen-sharing and video conferencing capabilities through Microsoft Lync.

The generational shift may also be driving distributors' increased focus on data and analytics, according to industry expert Mike Workman, professor emeritus of Industrial Distribution at Texas A&M University. While the older generation can sometimes see investments in new analytics and other technology as not critical, younger leaders often view such upgrades as a necessity.

Still, Grover says, as the median age of the sales force increases, the ability of distributors to make new technology investments work may be more difficult.

"They're the people who make it happen," Grover says. "... They are not as adaptable. They're the ones not as excited about CRM and about strategic pricing, and they're not as excited about customer profitability analysis."

But many distributors are welcoming the technology-related pressures coming from new workers because the buyer has also become younger. In the construction industry, for example, younger remodelers are more likely to use email or visit a company's website when they need something, says Craig Webb, editor of ProSales Magazine.

As a result, more dealers have begun to set up online platforms.

Rich Pratt Jr., vice president of Prospect Fasteners in Wauconda, IL, says distributors need to be prepared to communicate with customers in as many ways as possible. "That's the only way you really have a chance to keep all of your opportunities for growth available," he says.

But some companies are ill-prepared. "We are seeing a shift toward the Internet, but it's late, and it's going to be still later for some distributors that are not in line with where the customers are," says Jonathan Bein of Real Results Marketing.

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As the younger generation moves into the industry and more experienced workers move out, the transfer of knowledge is important to many companies who are ready to pass the baton to the next generation, Bein says. Workman says the gap between the incoming and outgoing leadership team is wider than any gap he's seen in his 45 years in distribution.

Several distributors say the industry has yet to see the full effect of the generational shift, a trend David Parks, executive vice president of Hydradyne, Fort Worth, TX, says is one of the biggest challenges facing his company today.

"We haven't hit the full impact of that, and America hasn't hit the full impact of that," Parks says.

## Hiring in Distribution Complicated by Lack of Visibility, Shifting Needs

**'We now are trying to be more proactive and planning, hiring for the skills needed for future needs and trying to avoid being reactionary.'**

For many distributors in 2013, the biggest challenge to hiring isn't a lack of skills or experience.

"The challenge on the distribution side isn't finding the people, it's having them even know that we exist," says Vicki Maderia, senior director of human resources for Needham Electric Supply in Canton, MA.

Distribution is still an invisible industry to many young people, and distributors who want to hire to meet the growing demand post-recession are struggling to be visible in a competitive marketplace.

"We're not the glamour industry," says Chris Bursack, director of marketing for ISC Companies, a power transmission distributor in Plymouth, MN.

As a result, recruiters have to market the company and the industry while evaluating talent.

The hiring challenge that many distributors are seeing is in some ways a problem of their own making, says Channel Marketing Group's David Gordon. They want someone with experience in the industry and they have an idea of who they want to hire – but those people often already have jobs and may not be looking to change.

Or they've left the industry entirely, especially in construction-related sectors. "A lot of those people lost their jobs in the downturn and went out and found other jobs, and they're not coming back," says Craig Webb, editor of Pro-Sales Magazine.

But with a stubbornly high unemployment rate, there is still the perception that positions should be easy to fill.

"There's a huge difference between the

people that are available and the people that are right for the job," says John Salveson of executive search firm Salveson Stetson Group. "Companies often confuse the two."

The skill sets required today are different than a decade ago.

Formerly entry-level jobs, such as truck drivers, now require extra certifications or training, says Craig Wood, industrial group president of O.E. Meyer, Sandusky, OH, and the president of the Gases and Welding Distributors Association.

"It's really finding talent versus a body," Maderia says.

"Traditionally our company has looked for people who have experience already. We now are trying to be more proactive and planning, hiring for the skills needed for future needs, and trying to avoid being reactionary."

That approach is particularly important if the company plans to grow, says Mike Marks of Indian River Consulting Group. The skills need to run a business that's a \$25 million or \$35 million company are different from those needed to run a \$50 million or \$80 million company, he says.

More distributors say they have plans to hire in 2013, according to an MDM survey conducted earlier this year. But distributors are being more "cautious" about who they're hiring and how many people they add, according to Brent Grover of Evergreen Consulting.

Distributors are much more interested in investments in productivity tools so they can grow their company without growing payroll too much, he says.

## The Rise of 'Little Data' in Wholesale Distribution

Data is big in business today. "Data is king right now. If you don't have good data, you're in trouble," says Chester Collier, senior vice president, global distribution for manufacturer Walter Surface Technologies in Montreal. "You always hear 'cash is king,' but data is what helps to drive the cash in today's market."

Distributors in recent years have developed a greater appreciation for data's role in helping them expand into new markets and better serve existing customers. "Data is the lifeblood of a distributor. Our teams are constantly analyzing data to determine the most effective ways to serve our customers from cost savings to logistics and synchronizing supply with demand," says Dan Brailer, vice president, investor relations and corporate affairs for WESCO Distribution Inc., Pittsburgh, PA.

Data collected via the Reading, PA-based C.H. Briggs' Inforce Everywhere software, which collects information from Salesforce as well as social media platforms in real time, helps the specialty building products distributor discover and rectify issues as they arise. Despite the project's success, CEO Julia Klein doesn't refer to it as big data. "It's what we would call 'little data,'" she says, since external information such as end-user preferences and behaviors isn't included.

Chris Bursack, director of marketing for power transmission distributor ISC Companies, Plymouth, MN, says his company is working to better utilize the data that already exists in its ERP systems to uncover better pricing procedures, enable better quote follow-up and identify margin leakage. It's more about "a bunch of little things that data can help us do better" than

it is about big data, he says.

"The vast majority of distributors have got so far to go before tackling big data problems," says Jonathan Bein of Real Results Marketing. Big data, as he defines it, is more discovery-oriented than basic analytics, looking for trends among huge volumes of data to find answers to questions companies didn't even know they had. What's more important for distributors right now, he says, is finding answers to the basic questions distributors have already identified, like how much it costs to serve each customer.

Before distributors can tackle big data, they must first overcome the challenges many say they are facing with basic analytics, like ensuring the accuracy and uniformity of data, finding the right people to analyze it and drawing conclusions from it. "Getting data is never a problem," says David Parks, executive vice president of fluid power distributor Hydradyne in the Dallas-Fort Worth, TX, area. "Getting data in a useful form that you can make decisions from is always the challenge."

When small and mid-sized distributors master little data, they can begin to explore the big data problems that larger companies have begun to tackle, Bein says. Until then, he says, big data is more of a fad than a useful tool for most distributors.

Some, though, are already looking ahead to where data can take them next. Klein, for example, imagines a software program that automatically tells the company what else it might be able to sell to a customer based on the purchasing patterns of past customers. "But we're not there yet," she says.

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***'You always hear cash is king, but data is what helps to drive the cash in today's market.'***

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## Distributors Get Smarter About Vending

The Fastenal Company's rapidly expanding FAST Solutions industrial vending program has surprised some with its aggressive approach. The distributor aims to sign 30,000 machines in 2013, or 2,500 a month.

According to the distributor's first-quarter earnings report, the company is on pace to hit that goal.

Fastenal is far outpacing its national competitors with its industrial vending program, but others, including MSC Industrial Supply and Grainger, have also integrated vending into their inventory management programs. Vend-

ing allows distributors who do it well to embed themselves at customer locations, growing loyalty and sales with existing customers.

Fastenal's aggressive push has affected distributors in the U.S. and Canada even if they don't compete directly. It has changed customer expectations and sparked requests for vending and other VMI services.

"Anytime a competitor of that size does anything, it certainly affects your business," says Mark Levac, president of industrial distributor Levac Supply Ltd., Brockville, ON.

With Fastenal increasing the rate of vending

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***'If you don't have a reputation for near-perfect service, you are reduced to selling your services based on price.'***

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machine placement and other national distributors following, albeit at a slower pace, how will smaller independent distributors compete?

The response is mixed as to whether vending is a viable, long-term solution. But distributors who are going after vending, either reluctantly due to customer requests or enthusiastically with their own customized solutions, agree that care must be taken to ensure the offering is profitable. As a result, they are getting smarter about vending.

Fastenal has acknowledged challenges with profitability in its vending programs. The distributor plans to fine-tune the products available in the machines and centralize order-picking for vending.

"If you don't have a reputation for near-perfect service, you are reduced to selling your services based on price," says Jon Schreiberfeder of Effective Inventory Management Inc.

If done right, the cost to the customer of any VMI solution, including vending, is not as important, he says. "It's my experience that once you establish a VMI relationship with a customer, if you perform well you will have that customer forever."

Levac, whose company has a long history in vendor managed inventory for its customers, says that in the case of VMI and specifically vending, customer expectations need to be met for providers of those solutions to be successful and profitable.

"The value of VMI still rests with the people who are managing it for you. In many cases a simple cabinet with product in it is as effective as a vending machine for a customer. It's really about what a customer needs," he says.

Customers are also getting smarter about vending. Industrial distributor SB Simpson, Burlington, ON, expects to place more machines this year than last year. But customers are not as eager as they once were.

"They're learning more about the true purpose of vending machines and not expecting them to be the solution to all their problems," says Scott Simpson, president.

Sal Longo, CEO of safety distributor North-

ern Safety & Industrial, Utica, NY, says vending will continue to be a part of the industry, but "it's not one-size-fits-all or the solution that it was kind of being made out to be a year ago."

And some sectors don't lend themselves well to vending. In fasteners, for example, vending isn't a good fit, according to several in the sector, but bin stocking and other VMI services are gaining in popularity.

Challenges remain. Many distributors say they've heard of plenty of failed vending initiatives. Because vending can be a big investment, if product price is low, it can be a challenge to make it a profitable venture. And many customers want the machines for free.

But some smaller distributors are finding ways to more effectively and efficiently serve customer demands for vending.

Safety and industrial supplies distributor Mallory Safety & Supply, Longview, WA, developed a solution called SnapVend in partnership with VendNovation.

Tim Loy, president, says the machines offer distributors a low-cost alternative to Fastenal's vending program. They are already being used at some of Mallory's customers, as well as by a few other distributors. The machine is lower-cost because the operating system runs in the cloud, reducing maintenance.

"If the customer doesn't have to put much skin in the game, and you make it easy on them with a free machine, I think it does allow customers to shift business," Loy says.

While Brent Grover of Evergreen Consulting says Fastenal is far ahead in the industry when it comes to vending, "their competitive advantage won't last forever."

Distributors who are interested in trying out vending services but don't want the capital outlay should test it with critical customers, especially those that may be more vulnerable to competitors' vending programs, Grover says.

See if there is a way to expand the sale of your products with those customers, and "don't give it away," he says. He says if the service brings value, the customers should be willing to share the cost.

## Distributors Get Aggressive with Inventory Management

Distributors are thinking more strategically about inventory in 2013, according to Jon Schreibfeder of Effective Inventory Management. Lately, he's seen a sharp increase in inquiries from distributors who want to review their inventory policies and procedures.

"What we are seeing is that businesses are trying to get as lean as possible without harming customer service," Schreibfeder says.

The cost of carrying inventory isn't necessarily the issue because the cost of money is low, according to Mike Gassmann, chief growth officer for Van Meter Inc., Cedar Rapids, IA. "Instead, if we're going to carry it, the inventory has to stay good, it has to stay healthy inventory," he says. "So for us, the ability to minimize the amount of non-moving or dead inventory has really been our focus." The distributor works with manufacturers to set up "exit strategies" for inventory that's not moving.

Many distributors say they are putting more pressure on their partners. "Distributors are watching their inventory levels a lot more closely than they ever have been and are expecting the manufacturers to have more product on the shelf and be able to ship on an overnight basis if necessary," says Chris Bursack, director of marketing for industrial distributor ISC Companies, Plymouth, MN.

Customers are more open to services distributors can provide that will help them improve productivity and lower costs, says Steve Drummond, general manager for Source Atlantic, Saint John, NB.

Customers don't want to stock inventory, so distributors have had to make inventory management a priority to ensure uninterrupted

service. "What our people have to do is make sure they have just enough and not too much," says Mike Nilson, president of Sabre Industrial, Langley, BC. But distributors say that can make serving customers more challenging if forecasts are off.

Some distributors are working with customers to get better estimates on future demand. Distributors are also providing more information to vendors to avoid erratic lead times. More distributors are also cross-stocking, bringing in large shipments on big savings from vendors, splitting them and sending inventory on to branches.

As a result, Schreibfeder says distributors are becoming more formal in how they determine what they centrally warehouse and what they replenish from a local branch. And for some, slower products are being centralized. "That would have dismissed that out of hand five years ago," he says.

Schreibfeder says that distributors became more focused on better inventory management over the past couple of years, in part due to fear. This year he says it's probably due to a renewed focus on profitability. Distributors are "able to breathe" and have left survival mode behind. "I just see people getting aggressive and not being complacent with having too much stock or not enough stock," he says.

Employees charged with inventory planning are also gaining more respect in the industry, according to Schreibfeder.

"I'm seeing it especially in those companies that are publicly held or held by venture capitalists," he says. "They are living or dying by their inventory levels."

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***'Business are trying to get as lean as possible without harming customer service.'***

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## Vendor, Distributor Consolidation Continues

Consolidation by the largest players in the wholesale distribution industry continues throughout the U.S. and Canada as they grow product breadth, geographic reach and services capabilities. Regional distributors also continue to acquire, boosting their national presence. Private equity is helping to drive the latter.

"The cost of being in the game keeps getting higher ... to fund what customers are demanding," says Charlie Lingenfelter, president and CEO of Industrial Distribution Group, Belmont, NC. "So consolidation is happening at a faster pace."

In many distribution sectors, including industrial, the market remains relatively fragmented, but there are still impacts on independent distribution businesses.

Brent Grover of Evergreen Consulting says when companies change hands, the new owners tend to be more interested in upgrading the acquired distributor's technology platform and analytics capabilities.

Distributors who remain independent are also pushing up their investments in online platforms and other initiatives that will help them compete on a more even playing field. And

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as a result of the increased power of the national distributors, more small and mid-sized distribution companies are joining buying and marketing groups to increase their buying power and ability to serve customers on the national stage.

Some smaller or mid-sized distributors are also using partnerships and sometimes acquisitions in their local markets to expand reach and complement their portfolio of products and services to compete more effectively.

Part of the challenge for smaller companies is that they have financial and resource limitations around training and technology investments, says David Parks, executive vice president of fluid power distributor Hydradyne, based in the Dallas-Fort Worth, TX, area. Parks says larger companies can share inventory over larger regions, as well as back-office functions. "The synergies out there from consolidation are making life for the small, independent distributor more difficult every day," he says.

Still, a few decades ago many predicted the demise of the small local distributor, according to Mark Kahn, founder of Kahn Tools and former president of Production Tool Supply. That hasn't happened yet. He says he knows small distributors who literally live "in the shadow of

Grainger." Customers just like doing business with the smaller companies. "That's the relationship that so many distributors have built," Kahn says.

Manufacturer consolidation is also providing some challenges for distributors. Mike Rowlett, CEO of fluid power distributor Womack Machine Supply, Farmers Branch, TX, says relationships going back many years can change dramatically overnight when a vendor is acquired. "That change, and the change in the acquired company, isn't always a good thing," he says.

Customers are not exempt from the consolidated trends either, which challenges distributors to prove their value to the new owners.

Julia Klein, CEO of specialty building products distributor C.H. Briggs Company, says that it is often assumed that when markets improve, consolidation slows and those that wanted to sell already have. But she doesn't think that is true.

"I think that will continue to happen at the customer, vendor and distributor level as we come out of this really deadly recession," Klein says.

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***'The synergies out there from consolidation are making life for the small, independent distributor more difficult every day.'***

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## Wallet Share, Customer Demands Drive Channel Convergence

For distributors, increasing wallet share with existing customers tends to be a more effective way to grow sales than finding new customers – though successful distributors are likely doing both. As a result, more distributors are expanding not only their product lines, but also the categories of products they offer. And they're expanding the ways in which they go to market.

"Wallet share is becoming an even bigger focus than ever before," says David Gordon, president of Channel Marketing Group. "That's driving companies to look at these alternatives."

Industrial Supply Co. Inc., in Plymouth, MN, recently changed its name to ISC Companies to reflect its changed market focus, according to Chris Bursack, director of marketing. "We've broadened our product and service offering into so many different areas that Industrial Supply Company just didn't fit the overall market strategy that we're employing," he says. The company began in 1939 as a "true power transmission and bearings distributor," Bursack says. And while that segment is still very important to the company, it has since added a machining and fabrication business and a sensors

and controls business.

"With a flat market, more nationals will continue to add adjacent product categories, and safety has seemed like the most prime category," says Tim Loy, president of Mallory Safety and Supply, Longview, WA. "It is a product category you can feel very good about selling because it keeps employees safe and injury-free, so I expect to see more of the big guys adding safety."

"Channel convergence seems pretty natural given the low-growth reality and high-growth ambition."

Interline Brands, Jacksonville, FL, is another example of channel convergence happening – and in the past five years or so accelerating – in today's distribution markets. The distributor has expanded its reach in janitorial supplies significantly, and it now makes up about half of the MRO distributor's revenues, or \$800 million pro forma, President and COO Ken Sweder says.

The market is attractive to Interline Brands for a few reasons: Jan-san is a consumable and stable business; it complements the end-markets the distributor already serves; and it offers the opportunity to cross-sell Interline's full suite of

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products to more customers.

“There are a lot of folks focusing on product expansion, this concept of endless aisle, different supply chain linkages so they can offer more through online portals,” Sweder says. “It’s also a very, very large industry. So the space is large enough to have multiple large players here and to have those folks thrive and survive.”

But distributor desire to expand and grow isn’t the only driver of this trend. Customers are also looking for ways to streamline and cut costs from their operations. Reducing the number of distributors they need to do business with is one way they can achieve this, says Mike Gassmann, chief growth officer at Van Meter Inc., Cedar Rapids, IA.

“Customers understand that it costs them money to have multiple suppliers in different areas,” Gassmann says. “If, for example, a company can buy their mechanical products and their electrical products from one distributor, ... it will be more cost effective for them.”

The distributor, in turn, becomes more important to the customer, Gassmann says, making it harder to sever that tie. “It’s a win-win situation,” he says.

With more companies considering new ways to go to market – from manufacturers exploring direct sales to more e-commerce options

– the competition to become more important to customers will only grow.

“What we’re seeing from our customers, particularly the smaller ones, is that there are cases where they’re feeling the pressure of the squeeze in their geographic region from someone else’s e-commerce channel,” says Jonathan Bein, senior partner with Real Results Marketing. That pressure is more pronounced for distributors that don’t have a strong online presence.

Expanding into new sectors is not without its challenges, however. Distributors expanding into new product lines may not have a real understanding of that channel, Gordon says. Or they may not have the expertise to really do more than supply the product – which is not what most customers are looking for in today’s market.

Manufacturers need to be convinced of the viability of these types of market moves, as well.

“You have to understand where you can be successful and what segments you can be successful with,” Gassmann says. “You have to have some credibility with the suppliers in order for the suppliers to take you seriously. If the segments are widely different, it’s more difficult to get into that space.”

## Other Trends: More Challenges, Opportunities Noted by Distributors

In the main articles for this year’s distribution trends report, we picked out some of the most prominent trends impacting the most diverse set of companies. But the list is in no way complete.

Here are some of the other trends mentioned in our conversations with distributors and in the survey MDM conducted:

**Growing online competition continues to have an impact on the market**, both positive and negative. In some sectors, such as HVACR, customers are ordering online and then finding out later the product was wrong for their application, causing additional work and challenges for the contractor, and in turn, the distributor. AmazonSupply.com’s impact is limited so far, according to many distributors.

“But it caused people to sit up and realize or think about the fact that B-to-C e-commerce has arrived in the B-to-B marketplace,” says Brent Grover of Evergreen Consulting. “I think the standards have been elevated a lot for what constitutes excellence in electronic commerce for

wholesale distributors.” Julia Klein, CEO of CH Briggs, a specialty building products distributor, agrees. “We’re all expecting the ease of ordering, the technical infrastructure and the speed of de-livery. Once you experience that with Amazon, you begin to expect that in every part of your world.”

**Distributors are growing their investment in technology.** “We are getting reports of a number of dealers who are buying into technology now that they had not been buying a few years ago,” says Craig Webb, editor of ProSales Magazine, which focuses on the building materials sector.

**Sales force mobility grows.** Distributors are deploying smartphones and tablets, which are also facilitating interest in and greater adoption of customer relationship management applications. “Now that they’re proven and more widely accepted, I see tablets as a great opportunity for us to better equip our field team,” says Kevin Reidl, president of the National Fasteners Distribu-

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tors Association and Hodell-Natco Industries, Cleveland, OH.

**Collaboration among distributors in some sectors is increasing** outside of the traditional associations and buying/marketing groups. And manufacturers in some sectors are seeking out distributors that can respond to demand creation and not just response. They often offer special deals to these distributors, according to Mike Workman, long-time industry expert and professor emeritus of Industrial Distribution at Texas A&M University.

**Concerns over the Affordable Care Act (Obamacare) have distributors rethinking their compensation and benefits plans.** HVACR distributor Charles D. Jones Company, Kansas City, MO, is thinking about sharing more of the cost of health insurance with employees. "It's going to be a challenge to keep up with the changes in the Affordable Care Act," said Royce Henderson, president.

**Ongoing additions to distributor services include customer training.** Industrial distributor Levac Supply, Brockville, ON, for example, has added a formal industrial health and safety training company, launched last year after doing it in-house several years. End-users have fewer resources post-recession and fewer resources to do the training in-house, especially smaller cus-

tomers, providing opportunity to distributors. If distributors don't get up-to-date on technology, they won't survive, according to Doug Adams, owner and president of fasteners distributor EFC International.

**Big-box stores are getting stronger in some sectors of distribution and making a more aggressive push to target B-to-B customers.** This includes sectors like janitorial and office supplies, as well as building materials.

**Supplier consolidation: Industrial Distribution Group is making bigger commitments to fewer suppliers.** "Less is more, you just have to figure out what the right less is," said Charlie Lingenfelter, president & CEO of Industrial Distribution Group.

**Distributors are facing a battle to keep margins up,** in part due to customers increasingly shopping prices online and in some sectors due to commodity inflation.

**Larger distributors are employing 'targeted pricing structures.'** "This more aggressive pricing is putting downward pressure on the independents' margins and is forcing them to employ different strategies to shift the focus off price (not necessarily a bad thing!)," says Scott Bebenek, president, IDI Independent Distributors Inc., Mississauga, ON.

 2013 Market Leaders

# 2013 Sector Lists & Trends

- Building Materials/Construction
- Electrical
- Electronics
- Fasteners
- Fluid Power
- Gases and Welding Equipment
- Hose and Accessories
- HVACR/Plumbing
- Industrial
- Industrial PVF
- Jan-San
- Pharmaceutical (list only)
- Plastics (list only)
- Power Transmission/Bearing
- Safety Products

## Methodology for Top Distributor Lists

This is the fourth annual report on the state of the distribution industry, which includes the lists of top distributors in 15 sectors. These are the 2013 MDM Market Leaders. The lists are ranked in order of fiscal 2012 revenue size alone; no other factors were used to compile these lists.

These lists reflect North American revenues where they are clearly broken out by the global distributors. For example, rather than list Wolseley plc as the top industrial distributor, we listed its North American subsidiaries, Ferguson Enterprises/Wolseley Canada.

We collected data for this report in several ways. Companies were asked to fill out a form online providing data about revenues, trends and executives. In addition, forms were sent to companies known to be the largest players in their sectors. We also utilized SEC annual filings for public companies.

In the end, not every company was willing

to provide us with revenue data for 2012, yet we deemed it important to include them anyway (e.g. McMaster-Carr, SunSource, etc.).

We utilized several resources to estimate where to place these companies on their respective lists.

These resources included: past reported revenues, average revenue increases within the sectors, data from economic reports and conversations with industry experts. All companies for which we estimated revenues and/or position are notated with "N/A."

Revenues for all companies in this report are in U.S. dollars. For companies who report their data in other currencies, we converted their revenues to U.S. dollars using the exchange rate in place on the last day of that company's reported fiscal year to determine ranking.

- The MDM Research Team

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# Industrial Distribution Sector

## *Top 40 Industrial Distributors and Key Trends*

### Key Trends

**E-commerce continues to grow as a critical sales growth tool.** MSC Industrial Supply recently reported 40 percent of its sales come from its online platform; and Grainger's sales through grainger.com continue to grow at a quick pace. Mid-sized distributors are following behind, launching new websites. But the gap between the haves and have-nots continues to widen, with many smaller industrial distributors just now starting to build out more robust platforms even as Grainger dedicates hundreds of employees to its e-commerce business.

**Distributors continue to expand product categories,** but face some challenges. Just as with e-commerce, more small and mid-sized distributors have followed the larger distributors into new product categories, especially after the recession when many were looking to bounce back by growing spend with existing customers and appealing to new end-markets. For some, it's been effective. But some industrial distributors that have ventured outside their core have reported challenges with resources or profitability in new product categories. Still, it remains a growth avenue for many in this sector.

**Vending services continues to explode, especially in MRO.** Last year, MDM reported that vending machines were increasingly being used by a broader range of distributors as a way to embed themselves in customers' facilities. The Fastenal Company continues to be the leader in implementation, but MSC Industrial Supply's acquisition of Barnes Group's North American distribution business this year will strengthen its position in vending and other vendor managed inventory services. Grainger has incorporated vending into its inventory management programs, but vending remains a small percentage for the distributors. Many other distributors in this sector are also using vending as a growth vehicle or testing out vending with select customers in response to the national distributors' push.

**Customers are consolidating suppliers and demanding more services.** Thanks to their own work force cuts during the downturn, customers accelerated consolidation of their supply base, but beyond products, they are asking for more

### Top 40 Industrial Distributors

1. Ferguson Enterprises/Wolseley Canada
2. W.W. Grainger
3. HD Supply
4. MRC Global Corp.
5. Airgas\*
6. Motion Industries
7. The Fastenal Company
8. McMaster-Carr
9. Applied Industrial Technologies\*
10. MSC Industrial Supply
11. Edgen Group
12. Sonepar
13. WinWholesale Inc.
14. Interline Brands
15. Wurth - North America
16. DXP Enterprises
17. Kaman Industrial Technologies
18. F.W. Webb
19. ERIKS (North America)
20. Bearing Distributors Inc. (BDI)
21. Industrial Distribution Group
22. Turtle & Hughes
23. Wajax Industrial Components
24. The United Distribution Group
25. SunSource
26. BlackHawk Industrial
27. Barnes Distribution North America
28. Lawson Products
29. DGI Supply
30. Gas and Supply Co.
31. RS Hughes Co.
32. Hisco
33. Hydradyne
34. SBP Holdings Inc.
35. FCX Performance
36. Womack Machine Supply Co.
37. Valin Corp
38. Kimball Midwest
39. Canadian Bearings
40. Bossard North America

\*calendar year 2012

Get revenues for the top 40 and distributors in 14 other sectors at [mdm.com/marketleaders](http://mdm.com/marketleaders)

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services from distributors. Many have stepped up to the plate, adding more services to their portfolios. But many distributors still struggle to adequately document and get paid for the added value they are providing.

**National and regional distributors expand via acquisition.** New product categories, services and expansion into more geographies are driving ongoing consolidation in the industrial sector. Canada and Mexico are still targets for distributors of all sizes for growth, and many distributors continue to follow customers overseas, to Europe and Asia in particular.

**Distributors continue to pursue national reach.** National accounts or integrated supply opportunities are growing for distributors in this sector. Distributors of all sizes continue to work with other distributors via buying and marketing groups or through co-ops or partnerships to compete more effectively on this level.

#### Acquisitions/Expansion

2012 and the start of 2013 was a busy time for M&A in the industrial distribution sector. The past year has seen a lot of activity from regional and national industrial distributors.

MSC Industrial Supply has acquired Barnes Group's North American distribution business, adding \$300 million to its revenue base. The distributor now has more reach in Canada and can take advantage of Barnes' vendor managed inventory services base.

Interline Brands agreed to buy JanPak for \$82.5 million at the end of 2012, expanding its reach in janitorial supplies. Interline Brands also went private in 2012, agreeing to be acquired by GS Capital Partners and P2 Capital Partners.

McJunkin Red Man Corp. is now MRC Global and public, listed on the New York Stock Exchange as NYSE: MRC.

Kaman expanded its reach in electrical and automation components with the acquisition of Zeller Corp. Kaman also sold its Canadian branches to Wajax Industrial Components and entered a partnership with the Canada-based

distributor to serve customers on both sides of the border.

Applied Industrial Technologies acquired Parts Associates in December 2012, with 200 employees.

WinWholesale made several acquisitions in 2012, as well as opened new locations throughout the U.S.

HD Supply continued to streamline its business in 2012 with the divestment of its industrial PVF division to Shale-Inland Holdings, an affiliate of two private equity firms. HD Supply also merged its electrical and utilities businesses under the name HD Supply Power Solutions.

Ferguson Enterprises acquired Davis & Warshow in New York, which operates eight wholesale and seven showroom locations.

Grainger acquired Techni-Tool, with 2011 sales of \$88 million.

DGI Supply made two acquisitions in 2012 and one since the start of 2013.

Amazon launched AmazonSupply.com in 2012, with 500,000+ products.

Flow control products distributor FCX Performances continues to expand via acquisition, with two in 2012.

Mining supplies distributor United Central Industrial Supply and industrial rubber products distributor GHX Industrial were combined in 2012 to form The United Distribution Group.

BlackHawk Industrial continued its growth path, acquiring EF Baily Co. in Seattle, WA, the seventh acquisition of BlackHawk putting it now in the Pacific Northwest.

Airgas acquired 12 businesses with aggregate annual sales of \$39 million in 2012.

#### The Numbers

Average sales growth for the Top 40 Industrial Distributors in 2012: 12.6%

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# Power Transmission/Bearings Sector

## *Top 10 Power Transmission/Bearing Distributors and Key Trends*

### Key Trends

Sector convergence has accelerated, particularly between the power transmission and electrical sectors. Several factors may be driving the move into different sectors, including desire for more wallet share with existing customers and customer demand for fewer suppliers. Electrical distributors are entering the power transmission space at an increasing pace, looking to get in with their drive customers earlier in the process and to become more important to those existing customers. As one distributor noted, it's more difficult today to clearly define that dividing line between mechanical and electrical.

Power transmission companies are taking advantage of the convergence. ISC Companies, Plymouth, MN, changed its name this year to better reflect its broader offering. In addition to its historical niche as a power transmission and bearing distributor, the company became a certified panel shop in 2012. "We're not only able to supply electrical products along with our mechanical products," says Chris Bursack, director of marketing, "but we can actually design and build electrical panels for our customers." The move allows the distributor to serve their customer at more points along projects and to be more important to those customers throughout the process.

Distributors are also expanding into other areas, such as safety and jan-san to continue building breadth of product for customers looking to streamline their procurement process.

**Services and solutions become more than buzzwords.** Companies of all sizes are feeling more pressure to expand the services they offer to their customers in order to enhance their value propositions and differentiate themselves from other players in their markets. This has become particularly important in light of the channel convergence discussed above. Werner Electric Supply, Neenah, WI, identified the power transmission sector as a growth opportunity when its customers said their existing PT distributors weren't providing enough engineering services.

"The right expertise could get us in with machine designs with our OEMs a little earlier, basically doing mechanical designs before the

### Top 10 Power Transmission/Bearing Distributors

1. Motion Industries
2. Applied Industrial Technologies
3. Kaman Industrial Technologies
4. BDI
5. Wajax Industrial Components
6. DXP Enterprises (Power Transmission)
7. W.W. Grainger
8. Canadian Bearings Ltd.
9. OTP Industrial Solutions
10. IBT Industrial Solutions

electrical," says Rob Stern, vice president of sales & marketing for Werner.

Customers are increasingly looking to distributors to help them cut costs out of their operations.

**Perceived commoditization of product is becoming a bigger challenge** in the power transmission and bearing segment. With more people doing research online before completing purchases, many products are looking more alike. Lack of consistent product data also complicates product differentiation, which in turn drives more competition on price alone.

### Acquisitions/Expansion

Kaman expanded its reach in electrical and automation components with the acquisition of Zeller Corp. Kaman expanded its end-market exposure with the acquisition of Florida Bearings.

Kaman also sold its Canadian branches to Wajax Industrial Components and entered a partnership with the Canada-based distributor to serve customers on both sides of the border.

Applied Industrial Technologies acquired Parts Associates in December 2012, with 200 employees. Applied also expanded its service offerings in Canada with the acquisitions of Industrielles Chicoutimi and Specialites Industrielles Harvey in Quebec.

# Electrical Distribution Sector

## Top 25 Electrical Distributors and Key Trends

### Key Trends

**Sector convergence has accelerated, particularly between the electrical and power transmission sectors.** And for distributors to continue to succeed, they will have to continue to think more broadly, according to Chris Hartmann, CEO of Rexel Holdings USA. Several factors may be driving the move into different sectors, including the desire for more wallet share with existing customers and customer demand for fewer suppliers.

As a result, new competitors are entering the electrical marketplace. For example, Neal Keating, president and CEO of Kaman, described the power transmission distributor as having an increasing presence in the electrical and automation control space. Based on the latest breakouts, Kaman Industrial Technologies may have a place on MDM's top electrical distributors sector list in the future. At the same time, electrical distributors are entering the power transmission space at an increasing pace, looking to get in with their drive customers earlier in the process and become more important to those existing customers. As one distributor noted: It's more difficult today to clearly define the dividing line between mechanical and electrical.

Distributors are also expanding into other areas, such as safety and jan-san, to continue building the breadth of available product for customers looking to streamline their procurement process.

**Energy efficiency is a top priority.** Green building initiatives and increased awareness of the cost of energy on the part of the consumer has helped to grow the drive for energy efficient products and efficiency services. Discussions about energy efficiency have been happening for years, but there is still a lot of opportunity for growth in this area. According to a recent study released by the Rexel Foundation, 61 percent of Americans plan to install energy efficiency solutions.

This trend also ties back to channel convergence, particularly in the lighting space, according to David Gordon, president of Channel Marketing Group. The move to LEDs has changed how lighting is sold and who is selling it. More distributors, such as WESCO and Rexel, are looking to become information resources

### Top 25 Electrical Distributors

1. Sonepar
2. WESCO International
3. Rexel Holdings USA/Rexel Canada
4. Graybar
5. CED
6. Anixter
7. HD Supply Power Solutions
8. Border States Electric
9. W.W. Grainger
10. Crescent Electric Supply Company
11. McNaughton-McKay Electric Company
12. Mayer Electric Supply
13. EIS
14. Elliott Electric Supply
15. Turtle & Hughes
16. North Coast Electric
17. Summit Electric Supply
18. City Electric Supply
19. The Reynolds Company
20. State Electric Supply Company
21. Wholesale Electric Supply Co. of Houston
22. Dealers Electrical Supply
23. Kirby Risk
24. Werner Electric Supply Company
25. Van Meter Inc.

for energy efficiency, as well. Both companies released studies on energy efficiency in the first half of 2013.

### Alternative energy markets have slowed down.

While there is still opportunity in alternative energy markets, the markets have not expanded as much as many people expected a few years ago. The solar panel market has been flooded with product from China, pushing down prices for domestic distributors even though supply may not be reliable in the long term.

Add to that mix cheaper domestic oil resources from the shale gas plays, and the drive for alternative energy isn't as attractive as it once was. That doesn't mean it will go away. Several electrical distributors are continuing to invest in building out that side of their businesses, such as Werner Electric Supply in Neenah, WI. But

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results are mixed.

#### Acquisitions/Expansion

Much of Sonepar's acquisition activity focused on growing its global footprint. The Paris-based distributor completed acquisitions in Spain, Brazil and New Zealand, bringing the number of countries it is active in to 36. Sonepar also acquired Codale Electric Supply in Salt Lake City, UT.

In 2012, Rexel completed an acquisition that shifted the Top 25 list this year, buying former No. 16 Platt Electric Supply, Beaverton, OR. Rexel also acquired Munro Distributing, Fall River, MA and Liteco, Fredricton, NB, in addition to several acquisitions outside of North America.

WESCO, unlike the previous two distributors, focused its acquisition activity on strengthening

its position in Canada and expanding its product offering through acquisitions in the U.S. The company acquired Conney Safety Products in Madison, WI – one of the largest safety distributors in North America.

Crescent Electric Supply expanded its national reach through three key acquisitions in 2012: Stoneway Electric Supply, Spokane, WA; McCullough Electric Company, Pittsburgh, PA; and Lake Electric Supply, Storm Lake, IA.

Graybar continued to expand organically rather than through acquisitions, opening new locations in Illinois, Nebraska, New York, North Dakota, Pennsylvania and Texas.

#### The Numbers

Average growth for companies on the electrical Market Leaders list: 7.9%

## Electronics Distribution Sector

### *Top 5 Electronics Distributors and Key Trends*

#### Key Trends

**End-of-life concerns have become more prominent for electronics distributors.** More distributors are introducing electronic asset disposal (EAD) services to address concerns for their customers. Avnet and Arrow, in particular, have made several acquisitions in recent years to address electronic asset disposal concerns. Most of the concerns fall into two categories: data security and environmental.

With more information being stored on smaller devices and information thieves becoming more tech savvy, safely disposing of electronic devices has become more complicated. More electronics distributors are providing options for ensuring the security of data by assisting in the disposal process. State and federal governments have created regulations related to the environmental impact of electronics entering landfills. Some are banning direct disposal of electronic devices outright. As a result, distributors are seeing significant opportunity to help customers comply with regulations.

On the other hand, there is also a concern about being able to provide components for products facing obsolescence at the end of their perceived lifecycle. Larger distributors, such as Avnet, are making acquisitions to ensure continued support as electronic devices near the end of their functional lives.

#### Top 5 Electronics Distributors

1. Avnet
2. Arrow Electronics
3. Future Electronics
4. TTI, Inc./Mouser Electronics
5. Digi-Key Corp

**Demand has increased for product traceability.** Concerns about liability around counterfeit products have increased demand for product traceability further along the product's lifecycle. Previously, where the product went became "hazy after a few steps," says Anne Ting, executive vice president of marketing for Components Direct, an Avnet company. Counterfeiters have also become more savvy, increasing the need for channel visibility.

#### Acquisitions/Expansion

Avnet expanded its cloud and data center automation offerings with the acquisition of Seamless Technologies. It also acquired BrightStar Partners and Pepperweed Consulting.

Arrow completed six acquisitions since January 2012.

# Fasteners Distribution Sector

## *Largest Fasteners Distributors and Key Trends*

### Key Trends

**Consolidation continues.** Doug Adams, owner and president of EFC International, says he's seeing consolidation at the supplier, distributor and customer level, as many owners reach retirement age. Mike McGuire, editor of American Fastener Journal, says in fasteners distribution, many owners are in their mid-60s and 70s. "So I think there are a lot of people looking to sell, and a few people looking to buy. I think that trend will continue."

### The need for internal training has increased.

"Fastener education and training has picked up in the past couple of years," McGuire says. One reason for the pick-up, he says, is that cross-training helps distributors do the same amount of work with fewer people. And as more independent reps have replaced factory reps as manufacturers have tried to cut costs, McGuire says manufacturer-provided training has decreased. Kevin Reidl, NFDA president and president of Hodell-Natco Industries, Cleveland, OH, says the loss of tenured workers and the influx of a new generation of workers also create a need for training. "I think the biggest concern is replacing the experience, the product knowledge and the industry knowledge. That is very difficult to do, and it takes a long time."

**Demand for vendor managed inventory has increased.** "Vendor managed inventory is a big concept, and it's growing within our industry," NFDA's Reidl says. While most large consumers of production fasteners already have vendor-managed inventory systems in place, he says, second- and third-tier manufacturers are now implementing VMI more broadly. "There are many different flavors of vendor-managed inventory programs, so we continue to expand the type and variety that we offer," Reidl says. Bin stocking programs, McGuire says, continue to grow in popularity.

**The fasteners and adhesives channels are converging.** McGuire says that many of the jobs in the automotive, appliance, farm implement and aerospace industries that used to require screws or other types of fasteners now require glue. That's been a gradual trend, he says, but it continues. Reidl says some distributors in the

### Top Fasteners Distributors

Here are some of the largest distributors selling fasteners.

- Anixter
- Barnes Distribution
- B/E Aerospace
- Bisco Industries
- Bossard America
- Copper State Nut & Bolt
- EFC International
- Endries International (Wolseley Industrial Group Company)
- The Fastenal Company
- W.W. Grainger
- Kimball Midwest
- Lawson Products
- McMaster-Carr
- MSC Industrial Supply
- The Hillman Group
- Wesco Aircraft
- Wurth - North America

industry have been proactive about the trend as manufacturers discover that adhesives can be cheaper to assemble than nut-and-bolt-type products. "So some companies in our industry are leveraging that and offering it to their customer," he says.

### Acquisitions/Expansion

In April 2013, MSC Industrial Direct Co. Inc., Melville, NY, completed the acquisition of the North American distribution business (BDNA) of Barnes Group Inc. (NYSE: B) for \$550 million. With the acquisition, MSC extends its product offering in fasteners.

Elgin Fastener Group LLC, Batesville, IN, acquired Vegas Fastener Manufacturing, Las Vegas, NV, in April 2013.

Swiss fasteners distributor Bossard announced plans to acquire Intrado AG (Hünenberg), which sells electrical engineering products, in February 2013.

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Stanley Black & Decker, New Britain, CT, completed the acquisition of Powers Fasteners, Brewster, NY, in June 2012. The company agreed a month later to acquire Infastech from CVC Capital Partners and Standard Chartered Private Equity Limited for \$850 million in cash.

Tramec, LLC, Iola, KS, acquired LRG Fastener Corp., Harrison, NJ, in June 2012.

Building Material Distributors, Galt, CA, a distributor of specialty building materials, acquired Master Fasteners International, Long Beach, CA, and Fastener Source in June 2012.

Wesco Aircraft Holdings Inc., Valencia, CA, agreed to acquire Toronto-based specialty fasteners distributor Interfast Inc. in May 2012, for C\$134 million (US\$130.3 million) in cash.

## Industrial PVF Distribution Sector

### *Top 5 Industrial PVF Distributors and Key Trends*

#### Key Trends

**Industrial PVF distribution sector growth is driven by the ongoing shale oil and gas industry and the infrastructure put in place to support that.** According to Industrial Info Resources, expenditures on PVF products have risen each year since 2009. An article in *The Wholesaler*, a publication for industrial PVF distribution, reported that spending has shifted and is forecast to grow sharply through 2016. The growth is driven by shale development and industries that benefit from low natural gas prices. MRC Global, one of the largest industrial PVF distributors, expects growth in PVF spending to continue, according to its annual report. It outlined several factors that are driving long-term growth in this sector including:

- Underinvestment in North American energy infrastructure
- Production and capacity constraints
- Market expectations of future improvements in the energy and industrial sectors
- Regular replacement of products used in “extreme operating environments

#### **Demand from customers for services grow.**

Customers are increasingly outsourcing procurement and inventory management requirements, driving distributors in this segment to

#### Top 5 Industrial PVF Distributors

1. MRC Global
2. Ferguson Enterprises/Wolseley Canada
3. NOV Wilson
4. Edgen Group
5. Shale-Inland Holdings

offer more integrated supply and one-stop shopping services.

Energy efficiency initiatives involving PVF offer opportunity to distributors. Using the right pipes, valves and fittings can play a big role in reducing energy costs in buildings, according to distributors in this sector.

#### **Acquisitions/Expansion**

HD Supply continued to streamline its business in 2012 with the divestment of its industrial PVF division to Shale-Inland Holdings, an affiliate of two private equity firms.

McJunkin Red Man Corp. is now MRC Global and public, listed on the New York Stock Exchange as NYSE: MRC.

# HVACR/Plumbing Distribution Sector

## Top 10 HVACR/Plumbing Distributors and Key HVACR/Plumbing Trends

### Key Trends

#### HVACR:

##### **Strong growth kicks off the hot season in 2013.**

In the most recent business conditions report from the Heating, Air Conditioning and Refrigeration Distributors International (HARDI), average sales growth for HVACR distributor members in April were up in double digits, following a nearly 7 percent decrease in March. Distributors saw an 8.3 percent gain in April 2012. Average sales growth over the 12 months ended April 2013 was 6.1 percent for distributors in this sector. The improvement was attributed to an improving economy, especially in new home construction. Retail sales were up in April, also showing that consumers are ready to spend on their homes, according to Andrew Duguay, senior economist, ITR Economics. HARDI members expect growth to continue.

##### **EPA challenges HVACR distributor planning with R-22.**

The Environmental Protection Agency (EPA) has added more R-22 refrigerant availability. "The inconsistency of the EPA is a concern," says Royce Henderson of Charles D. Jones Company, Kansas City, MO. This has made it difficult for distributors who have already told customers that R-22 would not be available.

##### **But HVACR distributors did receive a reprieve on regional energy efficiency standards.**

After challenges from the industry, including a lawsuit filed by HARDI, the Department of Energy dropped their push for regional energy efficiency standards. "The regional standards would have been a brutal hit for everyone because our inventory would have been obsolete overnight," Henderson says. The issue will likely arise again in a couple of years, but the industry hopes the standards will be approached and implemented in the right way this time around.

##### **Distributors report shift in the products-services mix.**

HVACR distributors say business has shifted to more new or replacement equipment than repair, indicating recovery in some end-markets. In April, the latest data available from HARDI, HVAC equipment sales generated the strongest sales gains. "People were putting on Band-Aids over the past few years," says Watsco

### Top 10 HVACR/Plumbing Distributors

1. Ferguson Enterprises/Wolseley Canada
2. Watsco
3. Hajoca/EMCO Corp.
4. WinWholesale
5. Johnstone Supply
6. F.W. Webb
7. R.E. Michel
8. Morrison Supply Co.
9. W.W. Grainger
10. Interline Brands

SVP Barry Logan. Combined with other factors such as warranty expiration and energy mandates, the HVACR industry is likely to benefit from what Logan called "pent-up spending" in the next year or two.

**Sales of Mini-Splits are up.** Interest from consumers in Mini-Split systems, or ductless systems, is up. Mini-Split systems are designed to cool a single room or zone.

#### Plumbing:

##### **American Supply Association distributor members continue to show differing results based on their revenues.**

According to the latest ASA survey, plumbing, heating, cooling and PVF distributors with under \$10 million in annual revenues are showing the slowest rate of growth yet the largest growth in margin. Meanwhile, the association's largest distributors, with over \$125 million in annual revenues, have the largest rate of revenue growth, the lowest percentage of distributors showing increased gross profit increases and the most showing increased year-to-date profitability. The plumbing, heating and pipe, valve and fitting distributors are also up 4.8% on a trailing 12-months basis.

**Inventory rebuild in 2013 continues.** According to the same ASA report, inventory turns are improving, as well.

Plumbing distributors are preparing for the 2014

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implementation of the Reduction of Lead in Drinking Water Act, a federal law that amends the Safe Drinking Water Act and sets new, lower standards for the amount of lead permissible in plumbing products that come into contact with potable water.

#### Acquisitions/Expansion

Watsco announced in 2009 it would form a joint venture with Carrier Corp. to distributor Carrier, Bryant and Payne products throughout the U.S., Latin America and the Caribbean. That joint venture continues, and in the years since that initial agreement, Carrier Enterprise, the name the JV operates under, has expanded into other U.S. regions, Mexico and, most recently, Canada.

Morrison Supply Co. made its first acquisition since being acquired by private equity firm Advent International at the end of 2011. Morrison Supply acquired California-based Express Pipe & Supply, with 12 branches, in January 2013. The distributor said in 2012 that Southwest U.S. was a big target for growth. "Candidly, we're

looking at a lot of opportunities both within the region and outside of it," says Advent's Stephen Hoffmeister.

Canada home improvement retailer RONA has recently agreed to sell its Commercial and Professional Market Division to EMCO for C\$215million. The deal was announced in June 2013.

WinWholesale made several acquisitions and opened new locations in 2012, which is continuing in 2013.

Ferguson Enterprises moved into the New York City residential and commercial plumbing market with its acquisition of Davis & Warshow in October 2012. It also acquired Reese Kitchens in 2012.

Charles D. Jones Company Inc., Kansas City, MO, acquired Empire Gas & Electric Equipment Company in Colorado.

## Building Materials Distribution Sector

### *Top 10 Building Material/Construction Distributors and Key Trends*

#### Key Trends

**Distributors have mixed expectations for 2013.** Ken Jacobson, partner at Principia Consulting, told MDM in February that distributors' expectations for 2013 "depend on the day you're asking," varying depending on the latest political news or economic report. ProSales Magazine editor Craig Webb says he's seen improved attitudes post-recession. "It was really a painful time. But now they've got their noses above water. They know they're not going to drown anymore," Webb says. Julia Klein, CEO of specialty building products distributor C. H. Briggs Company, Reading, PA, says it may not be time to celebrate just yet. "The biggest and most encouraging trend is a little bit of rebound in the housing market, although I would temper that by saying that any increase is off of such a low that I'm not quite sure that we're on a solid upward swing that will really make a difference quite yet."

**Hiring continues to be difficult**, thanks to the volume of people who lost their jobs in this

#### Top 10 Building Material/Construction Distributors

1. ABC Supply Co.
2. ProBuild Holdings
3. Beacon Roofing Supply
4. Allied Building Products
5. BlueLinx Corp.
6. 84 Lumber
7. HD Supply
8. L&W Supply
9. Builders FirstSource
10. Roofing Supply Group

sector after the crash. ProSales Magazine editor Craig Webb says: "A lot of those people lost their jobs in the downturn and went out and found other jobs, and they're not coming back."

**Distributors and their customers face cash flow**

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**challenges.** “Banks have only recently opened up the spigots again, and ‘opened up the spigots’ is probably overly-generous,” Webb says. “They may have turned the handle slightly.” This has made inventory management, a challenge for almost any distributor, particularly challenging in this sector.

**Distributors are buying into new technology to improve cross-selling opportunities and increase productivity.** Webb says he’s received reports of distributors buying into technology that had not been a few years ago. Greg Bloom, chief sales and marketing officer at Allied Building Products, says the company is monitoring social networks to find out how to do a better job of utilizing social media for its critical services. Klein, at C. H. Briggs Company, says the company would like to build on its existing data platform, Inforce Everywhere, to find ways to incorporate external information on their customers and product end-users to better identify cross-selling opportunities and customer needs.

#### Acquisitions/Expansion

HD Supply’s line of business White Cap Construction Supply opened its new headquarters and regional offices in April 2013, including a branch and distribution center with over 128,000 square feet, in Norcross, GA.

ABC Supply Co. Inc., Beloit, WI, acquired Lee Wholesale Supply Inc., a distributor of steep-slope roofing, siding and windows with four locations in Michigan, in March 2013.

Beacon Roofing Supply Inc., Peabody, MA, has made a string of acquisitions over the past year, including Ford Wholesale Co., San Jose, CA and CA-based Construction Materials Supply, Pittsburgh, PA-based McClure-Johnston Co. and Structural Materials Co. in Santa Ana, CA.

In April 2012, Roofing Supply Group, LLC, Dallas, TX, agreed to sell the business to private equity firm Clayton, Dubilier & Rice, LLC, from The Sterling Group. The distributor also completed acquisitions in the U.S.: Cassidy Pierce in Pennsylvania and Fowler & Peth in Colorado.

Roofing Supply Group bought Intermountain Supply in Washington before being acquired by private equity firm Clayton, Dubilier & Rice.

Allied Building Products proved to be one of the most active acquirers in 2011, completing several acquisitions including Austin Acoustical Materials and Astro Building Supplies.

US LBM Holdings slowed down its expansion in 2011 but still added two companies to its ranks: John H. Myers & Son and Lyman Lumber.

The Gores Group, a majority owner of Stock Building Supply since Wolseley spun off the unit in 2009, purchased the remaining interest in the company in 2011.

#### The Numbers

Average growth for the Top 10 Building Material/Construction Distributors in 2012: 6.3%

## Hose and Accessories Distribution Sector

### *Top Hose and Accessories Distributors and Key Trends*

#### Key Trends

**Regional distributors continue to consolidate, backed by private equity.** Regional distributors believe there are opportunities to consolidate this fragmented sector, building out national presence. Three of the top five companies in this sector have also been recently combined with other companies. Lewis-Goetz and Co. was acquired by Dutch industrial distributor ERIKS in 2011. Since then GHX Industrial was combined with United Central Industrial Supply, and Singer Equities combined with Bishop Lifting Products to form SBP Holdings.

#### Largest Regional Distributors in This Sector

- Lewis-Goetz and Company
- GHX Industrial
- Singer Equities
- JGB Enterprises
- HosePower

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**Customers demand more sophisticated safety-related services.** As evidenced by the development and strong reception of the Association for Hose and Accessories Distribution's Hose Safety Institute, distributors in this segment are seeing increased demand for training and other services around hose assemblies. The growing need for distributors to provide these services has upped the ante in the industry to compete effectively.

**End-market opportunities continue to grow in oil & gas.** Distributors in this sector continue to benefit from shale oil and gas exploration and production, shifting some distributor product mixes to meet the unique needs of that market.

#### Acquisitions/Expansion

Mining supplies distributor United Central Industrial Supply and industrial rubber products distributor GHX Industrial were combined in 2012 to form The United Distribution Group.

GHX has acquired three companies since the start of 2012: Key City Warehouse Sales, close to shale oil and gas production in Texas; Express Hose & Fittings II; and most recently, Flowline Components & Flowline OEM Group. GHX company McCarty Equipment Company has recently established a location in Dickinson, ND, bringing its presence to two branches in the state, where shale oil and gas production is booming.

Singer Equities was merged with Bishop Lifting Products to form SBP Holdings, both owned by AEA Investors. Singer Equities has been active on the acquisition front over the past year, acquiring Stewart-Hunt; Industrial and Marine Equipment; and Hanna Rubber Company.

Lewis-Goetz acquired Industrial Rubber and Supply in March 2012, focused on the Southeastern U.S.

## Fluid Power Sector

### *Top 10 Fluid Power Distributors and Key Trends*

#### Key Trends

**Electronic and electrical components have greater influence on sector.** Kraft Fluid Systems in Strongsville, OH, is more involved now in the integration of hydraulic, power transmission and electrical equipment for its customers, says Scott Durand, vice president of sales & marketing. Durand says this has meant changes to the sales process, with conversations starting on the controls side with hydraulics following. The company recently hired its first electrical engineer, is investing in electrical engineering equipment and testing capabilities, and has shifted the focus of its in-house and vendor trainings to electrical controls to accommodate the shift.

**Distributors see customer destocking.** Business has been slow for many distributors over the past six months, and customers are still showing signs of indecision. Mike Rowlett, CEO of Womack Machine Supply, Farmer's Branch, TX, says uncertainty over the presidential election caused many of Womack's customers to slow down their purchasing. "And when the sequester became an issue, some of those who hadn't put the brakes on yet put the brakes on at that point ... Customers don't want to keep any more inven-

#### Top 10 Fluid Power Distributors

1. Applied Industrial Technologies
2. Motion Industries
3. SunSource
4. W.W. Grainger
5. Hydradyne
6. The Fastenal Company
7. FCX Performance
8. Womack Machine Supply
9. Kaman Industrial Technologies
10. Berendsen Fluid Power

tory on the shelf than they have to," he says. Hydradyne Executive Vice President David Parks has also seen distributor de-stocking in recent months, especially those servicing oilfield markets. "I think from the manufacturer's standpoint, they're going to be pleasantly surprised as, particularly in the fluid power industry, inventory sold is going to have to be replaced."

**Consolidation is taking place up and down the supply chain.** Although M&A activity has slowed a bit, consolidation continues for distrib-

utors and manufacturers in the fluid power sector. The greatest effect for Womack has been on the customer side when manufacturer customers are acquired by larger companies. "Relationships going back many years change dramatically when a manufacturer is bought by a large conglomerate," Rowlett says. Fluid power continues to be a big growth area for Applied Industrial Technologies, Motion Industries and Kaman Industrial Technologies – all historically power transmission/bearing distributors who have quickly expanded in industrial supplies and fluid power in the past decade.

#### Acquisitions/Expansion

Houston, TX-based DXP Enterprises Inc. acquired National Process Equipment Inc., a Canadian distributor of pumps, service and repairs, integrated system packaging, compressors and related process equipment in April of 2012.

Singer Equities Inc., Glen Burnie, MD, acquired Stewart-Hunt Inc. based in Burlington, MA in June of 2013. Stewart-Hunt is a fluid power distributor specializing in hydraulic pumps, motors, cylinders and various other hydraulic components.

In May of 2012, Kaman, Bloomfield, CT, agreed to acquire Northwest Hose & Fittings Inc. based in Spokane, WA. Northwest Hose & Fittings, with 2013 sales of \$8 million, is an authorized Parker distributor of hydraulic hose, fittings, adapters as well as couplers and industrial hose to a diverse group of industries such as

the metals, agricultural, industrial machinery and equipment industries. In December 2012, entered into a national distributor agreement with Schneider Electric, where Kaman became a distributor for Schneider Electric's line of industrial automation and control products, as well as select power control and protection products commonly used in motor control applications.

Columbus, OH-based FCX Performance Inc., acquired Pierce Pump Company, L.P., Dallas, TX in January 2013. Pierce is a distributor of pumps, mechanical seals and compressed air equipment in Dallas and the north Texas market.

In November 2012, Parker Hannifin Corp., Cleveland, OH, acquired PGI International, Houston, TX. PGI is a designer and manufacturer of specialized, high-pressure flow control components and systems for oil & gas, agriculture and petro-chemical applications.

B.W. Rogers Co., Akron, OH, acquired K-D Fluid Power Corp., Tonawanda, NY, in September of 2012. K-D also has locations in Rochester and Syracuse, NY.

In August 2012, RG Group, York, PA, acquired Allegheny Fluid Power, a full-service pneumatic and automation distributor based in Sewickley, PA.

Hydradyne LLC, a fluid power and motion control products distributor, acquired Parker distributor Allen Orton LLC in May.

## Gases & Welding Distribution Sector

### *Top Gases & Welding Equipment Distributors and Key Trends*

#### Key Trends

The ongoing helium shortage continues to plague the industry, but may be nearing its end. The helium market has been driven in large part by the federal government for decades. The federal government maintains a stockpile of the gas used in high-tech and medical research. Sales of the gas began in 2003 to recoup the cost incurred for creating the stockpile, which lowered the market price for the gas and, according to some experts, stifled production of more. Supply and cost are still volatile, but expectations are that it will level out by the end of the year. "I think

#### Largest Regional Distributors in This Sector

- Airgas
- Praxair
- Gas and Supply Company
- Norco, Inc
- Roberts Oxygen Company

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we're over the hump," says Craig Wood, industrial group president of O.E. Meyer, Sandusky, OH, and president of the Gases and Welding Distributors Association. Current suppliers have had the distributor on allocation for helium, but that has been loosening in recent months.

**Nationals continue to be aggressive about expansion.** Airgas and Praxair, the key national players in gases distribution, continue to grow aggressively via acquisition. Smaller local distributors are feeling more pressure to consider selling. "It's nonstop," said one gases distributor in response to the First-Quarter MDM Baird Distribution Survey. That said, smaller distributors are also seeing opportunity in areas where the national distributors have expanded. Business may have disruptions during the integration pe-

riod, providing an opening for smaller companies to make a move to increase market share.

**Opportunity in specialty gases grows.** Several distributors have identified specialty gases as the fastest growing segment in this sector. As a result, some distributors are looking to expand beyond the "basic products" to capitalize on this segment.

#### Acquisitions/Expansion

Airgas continued to lead the acquisition charge in 2012, completing more than a dozen acquisitions during the year.

Praxair was also active on the acquisition front, including acquiring five branches from Airgas in Western Canada.

## Safety Products Distribution Sector

### *Largest Safety Distributors and Key Trends*

#### Key Trends

**Safety distributors are benefiting from growth in manufacturing and increased legislation and regulations around safety.** Distributors are also benefiting from demand for training around new regulations and legislation.

**Safety specialists face encroachment in the sector from national distributors.** Growth in the safety sector has amplified the interest of large industrial distributors looking for growth outside of their core. "With a flat market, more nationals will continue to add adjacent product categories, and safety has seemed like the most prime category," says Tim Loy, president of Mallory Safety and Supply in Longview, WA. "Channel convergence seems pretty natural given the low-growth reality and companies' high-growth ambitions." One of the biggest deals in 2012 was when electrical distributor WESCO Distribution acquired Conney Safety Products. Commodity products have been the easiest targets, leading some in the sector to increase their focus on value-added services and regulatory knowledge.

**Customers want more (free) inventory management services.** While vending isn't a one-size-fits all solution, Sal Longo, CEO of Northern Safety & Industrial in Utica, NY, says he has seen increased demand for inventory manage-

#### Selection of the Largest National & Regional Distributors in This Sector

Airgas Safety  
Arbill  
Conney Safety Products (WESCO)  
DXP Enterprises  
The Fastenal Company  
W.W. Grainger  
Mallory Safety & Supply  
Northern Safety & Industrial  
Orr Safety  
Safety Today  
VWR International  
Wise Safety & Environmental

ment services among his larger customers, many of whom want vending as part of their overall VMI solution. Loy of Mallory Safety and Supply says many customers who been asking for vending solutions expect distributors to pay for the machines. As the need to provide free machines became apparent, Mallory teamed up with VendNovation to develop a cost-effective machine. "It's really got a lot of momentum and traction. We have a large active pipeline of vending projects with customers," Loy says.

**Vendors consolidate.** Lillian White, president of Treen Safety Inc. in Vancouver, BC, says she sees consolidation happening at the vendor level, with small companies being bought up by large companies like 3M and Honeywell, a trend she expects to continue. And as distributors continue to grow larger through acquisitions, they are increasingly looking for suppliers who can handle national accounts, which in many cases means consolidating their vendors. "The more you can consolidate with one vendor, the better service levels you're likely going to get," White says.

#### Acquisitions/Expansion

WESCO International Inc., Pittsburgh, PA, a distributor of electrical, industrial, and communications MRO and OEM products, agreed to buy Conney Safety Products LLC, Madison, WI, in June 2012.

Mallory Safety and Supply, Longview, WA, acquired the ENSA North America training division of Airstreams Renewables Inc. ENSA provides wind energy-specific height/rescue and confined space training and, under the Mallory umbrella, will provide equipment, equipment rental and service, safety staffing, and other solutions to its training customers.

International distribution and outsourcing group Bunzl plc acquired McCordick Glove & Safety Inc. Bunzl also acquired Vicsa Safety SA in Chile and its subsidiaries in Peru, Argentina, Colombia and Mexico; and three business that form part of the Industrial & Safety division of Jeminex Limited in Australia.

Safety Supply Corp., the parent company of Radians Inc., acquired Crossfire Safety Eyewear in January of 2013.

## Jan-San Distribution Sector

### *Largest Janitorial and Sanitary Supplies Distributors and Key Trends*

#### Key Trends

**Market conditions improve.** In a recent survey for AFFLINK (June 2013) by AlturaSolutions Communications, nearly 57 percent of jan-san distributors believe the second half of 2013 will be better than the first half. The strongest market segment in the survey this year was private offices, followed by hotel/hospitality and health care. Education markets were reported to have declined this year compared with 2012. The survey also found that 40 percent of distributors were seeing more end-users purchasing new equipment rather than repairing.

**Distributors go green.** Jan-san distributors are offering green products and services to their customers, including consultation and training around transitioning to environmentally friendly cleaning products and equipment.

**Specialists are challenged by ongoing channel convergence.** Just as with safety, distributors selling janitorial supplies are finding more competition these days with distributors in other segments adding jan-san supplies and equipment to their repertoire in an effort to grow spend with existing customers. With that, the largest distributors, including Grainger and

#### Top 5 Jan-San Distributors & the Largest Regional Distributors

1. Staples Advantage/Quill.com
2. Unisource Worldwide
3. Xpedx
4. W.W. Grainger
5. Interline Brands – AmSan

#### Other Jan-San Distributors:

- Dade Paper
- HP Products
- Pollock Paper
- KelSan
- Western Paper Distributors
- Dalco Enterprises
- Strauss Paper
- WAXIE Sanitary Supply
- EBP Supply Solutions
- The Fastenal Company

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Interline Brands, continue to grow their presence in janitorial supplies. Interline in particular has grown rapidly in the space with acquisitions of regional distributors AmSan and JanPak in recent years. Retailer Staples has also been a big challenger with its increasingly aggressive push into the B-to-B space and expansion beyond office products into jan-san.

**Industry fights government proposal to reduce jan-san vendors.** If a current FSSI request for quotation proposal goes ahead, the ISSA, a trade association for the cleaning industry, says there may be negative repercussions for the industry. It would reduce the number of jan-san vendors on the GSA schedule to just 15, compared to the more than 1,000 now.

**Customers demand more services.** In the same AFFLINK survey, distributors said the main add-on service they were being asked to help end-customers with was floor care, followed by workloading, which allows facility managers to

more accurately determine staffing levels, costs and cleaning needs to maintain a facility. ISSA now includes workloading as part of its Cleaning Industry Management Standard (CIMS) program. More distributors in this sector are offering training, as well, including how to use the cleaning supplies and equipment they sell.

#### Acquisitions/Expansion

Interline Brands acquired JanPak for \$82.5 million, adding more than \$200 million to jan-san sales for the MRO distributor.

In April 2013, it was announced that International Paper has agreed to explore a proposed merger between its distribution business, xpedx, and Unisource Worldwide Inc. Both sell facility supplies.

#### Acquisitions/Expansion

Average sales growth for the Top 5 jan-san distributors in 2012: 1%

## Other Distribution Sectors

### Top 10 Semi-Finished Plastic Shapes Distributors

Global Plastics Letter provided the following list to MDM as a representation of the largest distributors of semi-finished plastic shapes in North America. The following are estimated revenue ranges for the top distributors:

**Annual Sales of more than \$400 million**  
SABIC Polymersshapes

**Annual Sales of \$300-\$400 million**  
Laird Plastics

**Annual Sales of \$200-\$300 million**  
Piedmont Plastics

**Annual Sales of \$100-\$200 million**  
Curbell Plastics  
Total Plastics Inc.  
Professional Plastics  
Cope Plastics  
AIN Plastics

**Under \$100 million in Annual Sales**  
Port Plastics  
E&T Plastics  
Regal Plastics  
Acirlex

### Largest Drug Distributors

Pembroke Consulting's Adam Fein, who writes the popular Drug Channels blog at [www.drugchannels.net](http://www.drugchannels.net) provided the following list as a representation of the largest pharmaceutical wholesalers.

Top 3:  
McKesson Corp. (\$116.9B in drug distribution)  
Cardinal Health Inc. (\$95.1B in drug dist.)  
AmerisourceBergen Corp. (\$77.7B in drug dist.)

Other Large Wholesalers in This Sector:

Morris & Dickson (\$3.6 billion)  
H.D. Smith (\$3.4 billion)  
Smith Drug (\$2.2 billion)  
Curascript Specialty Distribution (\$2.1 billion)  
NC Mutual Wholesale Drug (\$1.1 billion)  
Anda Distribution (\$1.0 billion)  
Rochester Drug Cooperative (\$825 million)

Other regional and specialty wholesalers include: Burlington Drug, Dakota Drug, FFF Enterprises, Florida Infusion, Harvard Drug Group, King Drug, Metro Medical, Miami-Luken, Seacoast, and Value Drug.

# 2013 MDM Market Leader & Market Mover Profiles

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# Replenex Builds Culture of Cost Savings

*Distributor's Web-based tool helps it effectively track customer savings goals*

*Replenex, Eden Prairie, MN, was selected as an MDM Market Mover for making finding and documenting cost savings and improving profitability for customers a part of the industrial distributor's culture.*

Getting beyond piece price savings for customers is industrial distributor Replenex's goal.

"Piece price reduction is tangible and is an easy way to measure savings. Not to mention that many organizations incentivize their purchasing around piece price reduction," says Matt Cohen, president. "Nevertheless, piece price savings hardly scratches the surface of opportunities to save customers money."

Cohen says customers expect more. Fill rate, product assortment and similar metrics are assumed, he says. "If you're not providing them today, you're not going to stay in business long."

Instead, Replenex has centered its business on reducing total cost of MROP products for its customers, primarily looking at the manufacturing process as a whole. "We've seen an increasing demand from our customers to show them the value they are getting from the middleman in the channel," Cohen says.

The distributor worked with one customer to create capacity. They examined processes and recommended the best products. "This approach actually caused piece price and total tooling cost to go up – way up in some cases," he says. "Because we were focused on the process rather than the piece price of the product we were selling them, the result was amazing."

The customer eliminated overtime and weekend and third shifts. "And they were able to maintain the same level of throughput," Cohen says. In addition, the customer had a lower scrap rate and better initial product quality. "The customer has tracked savings in the hundreds of thousands of dollars," he says.

To track value-add for its customers more effectively, Replenex developed a Web-based tool in 2009. "It really is part of our DNA," Cohen says. "We were already documenting cost savings a variety of different ways. But when the market is down, and the economy is not doing well, there's no better time to reinvest in your business and invest in tools that ultimately will help you bring value to the customer."

Salespeople use the tool to contribute, manage and archive cost savings projects. The tool,

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## 2013 MDM Market Movers

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**Distributor:** Replenex

**Headquarters:** Eden Prairie, MN

**Leadership:** President Matt Cohen

**Details:** Industrial distributor Replenex has made finding and documenting customer cost savings a part of its DNA, including building a Web-based tool to help salespeople track progress toward customer savings goals.

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which customers can also access, creates visibility for Replenex so that the distributor can show the value of what they're bringing to the relationship and progress toward goals they set with the customer. Salespeople are measured by the quantity of cost savings projects and the value of the savings those projects represent.

The tool itself is easy to use, according to Cohen. But actually identifying cost savings projects requires training. To that end, the distributor has monthly meetings where salespeople share best practices and what's worked and what hasn't.

The company recognizes that cost savings projects can come from anywhere in the organization, and it encourages other departments to contribute ideas.

Suppliers are also involved. They are leveraged for savings ideas or for new solutions to old problems. They are also utilized for training.

Cohen says the distributor wants to redefine what integrated supply means. "When you view your mission as helping customers decrease their total cost of ownership, integrated supply really means integrating your organization into your customers' business and manufacturing process to help them drive total cost of ownership down," Cohen says.

The distributor's approach to partnering with customers seems to be having a positive effect. Since 2009, the company's top line has grown by double digits, and, as a result, it has grown its net income and EBITDA.

The distributor's broader vision is that it can contribute to helping manufacturers keep production in North America "If we don't find ways for customers to re-engineer their processes to drive costs out, to drive throughput up or create efficiencies," Cohen says, "manufacturing won't be able to continue to sustain itself in the United States and Canada."

# A&M Finds Niche in Essential Services

*Emergency Response Team helps distributor remain viable in changing market*

*A&M Industrial, Rahway, NJ, was selected as an MDM Market Mover for its shift away from products to essential services and its Emergency Response Team.*

When Superstorm Sandy struck the Northeast in October 2012, flooding, power outages and closed roads disrupted business for days and, in some cases, weeks. A&M Industrial in Rahway, NJ, was no exception.

But even as the industrial distributor faced its own challenges, its Emergency Response Team hit the streets to provide critical services to its clients and help get power up and running along the coast. Additionally, the company moved quickly to provide water and ice to affected areas.

"We're very proud of the work that we did for our communities," says Kevin Rosenthal, executive director of business development at A&M. "It's not always about the operational side; there's also the humanitarian side."

A&M Industrial has carved out a niche in its markets by building an Emergency Response Team and creating a suite of services and products around customers in emergency situations.

A&M Industrial is no stranger to emergency response. Over the past 12 years, the company has been involved in repair, restoration and recovery of essential services for its clients and communities during three major emergency situations, in addition to several smaller situations. But Superstorm Sandy was the one that hit closest to home.

A&M's Emergency Response Team first started to gain prominence within the company about 20 years ago in response to changes in the market.

"We began a program to target essential services as a way of making our company remain viable in a changing marketplace, one that was consolidating with a lot of standardization happening, with a lot of nationalization in terms of the way our clients were looking to do business," Rosenthal says.

When 9/11 happened, A&M Industrial was the only authorized vendor allowed to work out of the Con Edison mobile command center a block away from Ground Zero. "I personally lived there for three and a half months in a tent" working to restore power and gas services to Manhattan, Rosenthal says. "We had worked

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## 2013 MDM Market Movers

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**Distributor:** A&M Industrial

**Headquarters:** Rahway, NJ

**Leadership:** President & CEO Arnold Young, Executive Vice President David Young

**Details:** In response to a changing market, A&M Industrial redefined itself away from being a pure product distributor to one focused on providing essential services to its clients.

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what we thought were emergencies before then, but we didn't know what a real emergency was until then."

It was a horrible event, Rosenthal says, but it was also the greatest learning experience on emergency preparedness, supply chain resiliency and leadership. "We had the honor and privilege of participating in the recovery."

Rosenthal and his team took what they learned and built on it with subsequent events including the Midtown Manhattan steam explosion in 2007 and Superstorm Sandy.

"In a crowded marketplace, you have to answer the question: 'Why you?'" Rosenthal says.

It's important to learn from every situation and build your core competencies and skills to continue to meet the needs of your clients, Rosenthal says. It's not always about what customers want, he says. Instead it's about understanding what their businesses are about to help them understand what they need.

"In today's marketplace, companies need to continue to reinvent themselves to be able to deliver on these types of propositions," he says. What's needed today may not be viable tomorrow.

For example, A&M had to invent new products to address safety concerns after the steam explosion in Midtown Manhattan – things that didn't exist before that, Rosenthal says. And they're still working to develop more new products to continue to improve the safety of these systems. "It's a specialized system with specialized needs," Rosenthal says. "And we needed to rise to that challenge."

Every emergency situation has its own unique characteristics, and a company that focuses on responding to those situations has to be flexible in how they meet the needs of those situations.

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# Strategic Planning Pays Off for MT&S

*Distributor grows sales 129% by selling more in existing markets*

*Machinery Tooling & Supply, Schaumburg, IL, was selected as an MDM Market Mover for its focus on, and long-term dedication to, successful strategic planning practices.*

Since 2005, Machinery Tooling & Supply, has grown its sales 129 percent, from \$17.5 million to just under \$40 million in 2012. The key to success, according to Bob Cuthbertson, president of MT&S, was the five-year strategic plan the company created in 2005.

It can be difficult for smaller companies to find the time for strategic planning, Cuthbertson says. "We tend to spend all of our time working in the business and not on the business," he says. But when Cuthbertson and Ron Major, CEO of MT&S parent company Machinery Systems, started working toward a full buyout of the business in 2004, they recognized the importance of establishing a new vision and a more aggressive growth direction for the company.

"We thought that we were going to go after acquisitions and product lines to achieve the aggressive growth goals we had out there," Cuthbertson says. But the team quickly realized that pursuing increased market share in its existing market could provide growth without the excessive risk or cost of acquiring. "Ten years later, we've nearly tripled our sales, and we still think we have tremendous organic growth potential," he says.

The planning team, made up of key members of management, identified integrated supply as a key growth strategy. The company already had inventory management programs in place, but integrated supply wasn't yet a focus for them, nor was it a focus for other companies in the Chicago area.

Early on the company made the mistake of partnering with customers who weren't fully invested in the program. After seeing that some of the vending machines that had been placed weren't being fully utilized, the company decided to focus on larger-volume accounts where buy-in existed at multiple levels.

The program now accounts for more than 50 percent of annual sales for MT&S. Prioritizing opportunities and closely monitoring inventory, receivables and processes has supported program growth and profitability. Opportunity prioritization, as well as a commitment to details, has also helped ensure service levels for existing

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## 2013 MDM Market Movers

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**Distributor:** Machinery Tooling & Supply

**Headquarters:** Schaumburg, IL

**Leadership:** President Bob Cuthbertson

**Details:** Machinery Tooling & Supply set the time aside to create the company's first strategic plan in 2005; management stuck with it and has seen a 129 percent sales increase since.

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customers, Cuthbertson says.

Another initiative, which Cuthbertson also credits to a focus on strategic planning, was the addition of a complete offering of MRO and safety supplies, a category which he says has seen a 300 percent sales increase over the past three years. "The big 'aha' for me was that we always had stayed focused on cutting tools, because we thought that's where the value-add was," Cuthbertson says. "We found that our customers could really see a value-add on the MRO and safety side, as well." Due in part to an annual reworking of its five-year plan, the company realized soon after the addition of its MRO and safety lines that while customers liked being able to buy those products from them, they were looking for an easier way to do it. MT&S added a customizable catalog system to its website. Each customer can quickly view products that they commonly order, while still being able to access a broader search tool.

The ability to tweak goals and initiatives is part of what has made the company's strategic planning so successful. "It's important, because things change. Look at just how much the market's changed in the last four years," Cuthbertson says. For example, manufacturing customers' focus on competing more effectively with China has lessened, as U.S. operations have become more cost-competitive. When competing with China was a top priority for its customers, MT&S's priority was driving down customer costs to help them compete. While improving customer profitability is still MT&S's goal, Cuthbertson says customers are now competing much more effectively in the global economy.

Having an outside facilitator has also been key to Machinery Tooling & Supply's strategic success. While using an in-house facilitator would have been cheaper, having an outside perspective helped the company make big picture decisions.

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# Interline Brands' Growth in Jan-San

*Distributor focuses on meeting end-market needs with broad portfolio*

*Interline Brands has made significant changes in its product mix, expanding aggressively in the jan-san space. Interline's most recent acquisition in the space was of Davidson, NC-based JanPak, which had \$232 million in sales for the 12 months ended Oct. 31, 2012. Editor Lindsay Konzak spoke with Interline Brands President Ken Sweder about the distributor's growth in janitorial supplies, its plans for its other product categories and the impact of the company's recent ownership change, moving it from public to private.*

**MDM:** How is business going?

**Ken Sweder:** Things are going well. Sales are up just over 21 percent (in the first quarter 2013). A lot of that is driven by our recent acquisition of JanPak. We've seen growth across our three primary end-markets: multifamily, residential and institutional. It's been nice to continue to transform the business over the last few years. We closed 2009 at about \$1.06 billion in revenue, and we'll probably close 2013 with an excess of \$1.6 billion. It's been a really significant change for us as we worked to continue to build leadership positions across our primary end-markets.

**MDM:** Interline Brands was acquired by GS Capital Partners and P2 Capital Partners in late 2012. Previously Interline was publicly held. What is the impact of the ownership change on the company?

**Sweder:** That was a very exciting event for us late last year. First of all, let me say how pleased I am to be partnering with Goldman Sachs Capital Partners and P2 Capital Partners. They've been thoughtful and very supportive of everything that we're working on. I should also note that this was a nice opportunity because you have a lot of the senior management team as investors in this business with our partners.

In terms of what's changed, recall that Interline Brands has been public and private before. It's not a big transition because we've thrived in both public, as well as private settings. If anything right now we see this as a really nice opportunity for us to continue to stay aggressive with the business and to continue to think about where it makes sense accelerating certain investments so that we can add capabilities that will allow us to further accelerate our growth rate

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and, of course, scale as we grow.

**MDM:** Interline Brands has grown significantly in the jan-san segment with the acquisitions of AmSan and JanPak and others. Why has this segment been a target for you?

**Sweder:** We think that we've built something today that has become a really attractive institutional business. Today arguably we think that we are one of the largest broadline national jan-san distributors in the United States. It's roughly about half of our revenue stream, on a pro forma basis approximately \$800 million. And that is a very, very big change than even three, four or five years ago.

We've done that really for a few reasons. First, the jan-san business is a very consumable and stable business. It's been nice to add that to our portfolio, and it complements some of our end-markets very well. But what's more is that we think we have a really great opportunity to begin to sell all of our janitorial customers a much larger product bundle. So as you look at the other half of our business, it's all around electrical and lighting, HVAC, faucets, plumbing, security and such. All of our jan-san customers, of course, need those products today. So we see this as a nice opportunity to also sell them everything beyond jan-san. One thing that we like to say is for every dollar of jan-san that is typically spent within an institution, more than a dollar is spent on MRO. Right away we think we have an opportunity with product that we already have to become more relevant, to increase our share of wallet and to prove that we can not only do a great job on the jan-san side but also on the MRO side of the business.

Now, finally, beyond trying to build No. 1 or No. 2 share positions and expanding our product bundle in breadth, having built this national platform, we feel there aren't a lot of other folks within the jan-san space who are truly national as we are. As you know we built our business particularly through multifamily on very high service levels, product breadth, next-day product fulfillment, and we think that's going to serve us really well as we branch out and leverage our national account capabilities across the

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institutional facilities maintenance space.

**MDM:** Could you talk a little more about your most recent acquisition, JanPak?

**Sweder:** This is about a \$230 million business. The thesis around JanPak was getting more jan-san scale nationally, but also filling in some areas where we just didn't have as much jan-san infrastructure and spend as the team over at JanPak did. So, for example, we have a very large MRO operation in the state of Texas. JanPak has a very large jan-san platform in the state. It's really a great opportunity for us to marry those two product bundles not only in Texas but throughout the Southeast.

**MDM:** Do services play a big part in your growth strategy?

**Sweder:** Yes. As we think about what our customers are asking of us, certainly there's the product, but there are a lot of things beyond the product. This is a subtle but very important difference relative to the B-to-C side of the house where folks want a quick e-commerce experience. A lot of our folks are senior executives within very large REITs or large building service contractors or owners of commercial real estate. They want to have full visibility into exactly what's happening at each and every one of their assets. So they've been looking for us to build out Web functionality that gets to product standardization or workflow approval or building out linkages with our customer's budgets. Those types of capabilities and services we think will continue to become even more important, and that's why we want to continue to be a market leader across that dimension.

We have aggressively grown a lot of our vendor managed inventory and prepositioned inventory programs because we think we have a really nice offering for our customers particularly on the residential side of the business who just don't want to be in the inventory management business anymore. They've realized the costs of holding this inventory. That's something that has helped to grow that side of the business. We think this will bode well for us long-term because we're a business that has the size, the scale, the profit and the cash flow to continue to invest aggressively in services and capabilities like that.

**MDM:** Are you planning to grow or make acquisitions in the other segments you've been

targeting such as electrical and HVAC?

**Sweder:** Sure. We hope that folks don't see our investments in the jan-san side or the institutional side of the business as being mutually exclusive or really keeping us from other market opportunities. We absolutely plan to continue to invest across the entire MRO platform of Interline Brands. ... I'm not sure what the crystal ball holds but we are not passing on any great opportunities be it in electrical or plumbing or HVAC, the other core parts of our business.

**MDM:** What do you think has been the legacy of the recession on the distribution industry and how distributors operate or how customers perhaps want to be served?

**Sweder:** There's a lot here to think about because we think that a lot has changed. One is that people's growth expectations have changed. Two is that certain aspects of the industry, particularly smaller folks, have probably become a little bit more conservative. Third, I think you're going to continue to see more of a polarization coming out of the recession between those who can aggressively invest in their business and those who can't.

Customers during this downturn jumped in to their procurement functions more. They thought about how to use technology to gain efficiencies and to cut costs. And all of that flows back across the supply chain and what I'd call the distribution value chain. So what we see as one possible outcome is that there aren't going to be as many folks who can invest \$10 million in their IT or continue to build out an expert sales force or to continue to think about global teams.

Those things will continue to separate some of the larger businesses from others who aren't either willing or able to make those investments. A lot of that is borne by increasing customer expectations. Table stakes in three to five years will be the right technology and product breadth. And experts in the field to help people manage their assets more efficiently or more safely. I think that's a pretty profound change. And if anything it's probably accelerated the rate of change across our industry. That acceleration can take a number of different forms be it in terms of service expectations, supply chain expectations, breadth expectations or really even a blurring of some of the lines from B-to-B to B-to-C. All of those things have all sorts of implications across the industry.

# Arrow Electronics Plots a Global Course

*Distributor launches a new brand platform to highlight its breadth of offerings*

Earlier this year, Englewood, CO-based Arrow Electronics launched a new brand platform for the global electronics distribution company – the first such initiative in the company’s history. Tim Kolbus, vice president of global logistics services for Arrow, spoke with MDM Associate Editor Jenel Stelton-Holtmeier about the new brand platform, the challenges of doing business on a global scale and the direction the electronics industry is taking.

**MDM:** What is Five Years Out, and what was behind its launch?

**Tim Kolbus:** For the 70-plus years of Arrow’s existence, we haven’t really marketed ourselves. And we wanted to crystallize what it is we do as a company. We’re so much more than a distributor today, and we wanted to be able to articulate what it is we do for our customers.

In the past, we had talked about how we’d tell our grandmothers what Arrow does. How would we tell our children? I’ve struggled with that with my own kids.

We started with soliciting feedback from our employees, asking: What does Arrow mean to you? What do you feel we do for our customers as well as our suppliers? We received thousands and thousands of responses on what Arrow is.

The brand Five Years Out comes from the concept of guiding innovation forward. We want to help our customers and suppliers figure out where they want to be in five years. We focus on how we can help take their product to market, whether through design services, end-of-life services, or something else. We do a lot more as far as solution selling and services than people may realize. The brand was intended to get that message out.

**MDM:** Doing business on a global scale has its own set of challenges. What are some of those challenges and how do you address them?

**Kolbus:** There are so many. You have tax issues. You have import/export laws. You have the transportation challenges of moving product in and out of a country. Environmental compliance – each country has different regulations that we need to adhere to. And then we also have the fact that we’re a U.S.-based company, and we have to adhere to the U.S. regulations, as well.

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In general, we handle it by having specialists in each of those areas, people that are really good at tax rules or very good at trade compliance. We also have business generalists. These are the customer-facing positions that really understand the customers in those particular business segments, and they know who the specialists are so they can tap into that knowledge to help them create a solution to solve specific problems for customers around the world.

**MDM:** Is culture a challenge when doing business globally?

**Kolbus:** Absolutely. We have training online as well as classroom training that we’ll send employees through that are going to be heavily involved in global activities. It is huge, and it takes a long time to really get a sense of how to do business in that area if you’re going into a new country or area. Recently Arrow opened a facility in Brazil, and I was in the original group of folks that went down there to get it set up. Some of the cultural differences were operations-related. How do you get certifications? How do you negotiate the lease contracts with landlords?

The relationship side of working in Brazil is also very important. We had to start creating a relationship with the local Arrow employees because they’re the ones who have the deep relationships within Brazil and who will be representing us there.

In some countries, if you don’t develop that relationship part, you’re not going to be successful in that country.

**MDM:** How does the internal culture of Arrow help it be successful as a global company?

**Kolbus:** Arrow is about creating solutions for our customers, and I think everyone within Arrow is in tune with that. We’re used to dealing across functional groups. Our employees are used to dealing with problems and solving those problems for customers and suppliers. That’s ingrained in our culture. When we’re dealing with a problem in a particular country, it’s just a different type of challenge that our employees

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will rise to.

**MDM:** How challenging is the global economy?

**Kolbus:** The global environment is very dynamic right now. Over the last 10 years or so it's moved faster than ever before. We do have certain things that are tried and true, such as how we handle forecasting in one region versus another. But then you deal with other economic or business continuity issues, and we're learning that as we go. As a global company already, we've been doing it for years now. That framework helps us, but I don't think anyone has a playbook on how to do it for every single nuance that will come up. The team we have in place is able to handle that, but it certainly is a challenge for a global company like ours.

**MDM:** What are some of the key changes you've seen in the electronics industry and the electronics distribution industry in recent years?

**Kolbus:** The time to market has shrunk. Customers are coming to us more than ever before to tap into the services and solutions that we offer. They may need design services to bring a product design to market faster. At the end of the process, they ask for support in end-of-life services, or what we would call reverse logistics. How do you handle the data risk with disposing of products that have reached the end of their useful lives? Five or 10 years ago, the concerns around data risks or environmental impact weren't as prevalent in electronics as today.

**MDM:** Have you received any requests that seemed outrageous at the time?

**Kolbus:** All the time. But that's part of what excites people at Arrow, they're helping come up with those very, very crazy ideas that no one has ever come up with before.

**MDM:** It sounds like a lot of these moves have been customer-driven.

**Kolbus:** Our suppliers, as well. We have over 1,000 suppliers on our line card and over 150,000 customers, so when you're dealing with that scale of reach, everybody has different requests and different focuses. I see it coming from both sides.

**MDM:** What are some of the key issues driving the electronics industry right now?

**Kolbus:** One I touched on already: electronic asset disposition, or end-of-life services. Each country is looking at this differently as far as how they want to manage the electronic scrap when its usefulness is over. And it varies by state, as well.

The other one is counterfeit parts on the components side. How do we support our customers in ensuring that those parts we're selling to them aren't counterfeit? What quality controls can we put into place to ensure that?

Ten years ago, people weren't as concerned or attuned to where their product went when it reached its end of life; they are today. And people are getting more sophisticated on counterfeit parts, so that's become more of a challenge in the electronics industry.

**MDM:** Where do you think the industry is going next?

**Kolbus:** We continue to see our customers looking for more and more services, so adjacent services in our space. And there are still a lot of emerging countries that we're not deep in, that our customers or suppliers aren't deep in yet. Brazil is a great example of that. There's a huge opportunity for growth in those markets.

**MDM:** What's the most exciting thing you've worked on in the last few years?

**Kolbus:** For me, it's the electronic asset disposition. In the last couple years, Arrow made seven acquisitions in North America alone related to reverse logistics, really building out our solutions in this space.

It's exciting to me because it addresses environmental issues, it addresses data security issues, and it's a unique value proposition that we have. And it's wide open. There are a lot of opportunities still out there that we can provide for our clients. It's exciting to see my employees getting involved in things they haven't been involved with before.

**MDM:** What has been the most challenging?

**Kolbus:** The global challenges on the logistics side continue to be the most challenging. The global aspect of doing business and offering the breadth of services that we're trying to offer around the world is daunting.

Each country has unique requirements. That to me has been one of the biggest challenges I've had to face in recent years.

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