MODERN DISTRIBUTION MANAGEMENT

mdm premium

VOL. 49, NO. 04
FEBRUARY 25, 2019

■ *MDM Interview, Part 2*

The Transformation Journey of Lawson Products

Four years after transitioning its sales and digital models, Lawson Products President and CEO Michael DeCata delivers a progress report.

Since the Great Recession of 2008-2009, few publicly-traded companies have undertaken as much change in sales model, technology platform, process improvement and culture as Chicago-based Lawson Products. From 2009 to 2013, Lawson converted all of its sales representatives from a network of independent sales agents to sales employees, today numbering 1,000. MDM last talked with President and CEO Michael DeCata in 2014, who outlined the unique service-focused value proposition and changes taking place at the time. Four years after transitioning its sales model, we check in again for a progress report. In this issue we conclude our conversation with Decata.

By Thomas P. Gale

MDM: You have a sales force of about a thousand representatives. As you describe, a lot of traditional outside sales force models are under enormous pressures in terms of cost. But you talked earlier about the analytics part of this. They're getting very clear direction and guidance based on the analytics that you've built.

DeCata: That's correct. We provide tremendous feedback on all aspects of what they do, whether it is, opening new accounts, penetrating existing accounts and retaining existing accounts. So very simple metrics and analytics, but delivered in an effective way that the individual sales reps and their district sales managers can use.

We have gone from about 757 sales reps on Jan. 1 of 2013 to approximately a thousand sales reps today. Currently, half are seasoned reps who have been with us a number of years. The other half are newer, as we've added and expanded.

Even in changing our culture, the idea of growing sales within existing customers is challenging because very often customers like to spread the business around a little bit. But it is our belief, based on the analytics and our objective analysis of the marketplace, that we are a far better supplier to our customers, with more comprehensive service, more reliable and consistent service – we call it service-intensive vendor managed inventory – than any of our competitors.

So, from my perspective, anything less than 100% share of consumables at our customer's site is a disservice to the customer. Again, we're not talking about motors and ladders and compressors. We're talking about 12 product categories of consumable MRO, but anything less than 100% and the site is getting poor service, less frequent service, less intense service. Now, communicating that effectively to a customer can be challenging, but by us being more effective with our customers, our commitment is to make our customers as profitable as possible by providing the least amount of inventory they can possibly have, and at the same time never letting them run out of anything and solving the problems that come up. The optimization and integration of all of that results in a profitable value for the customer – their machines run and run more effectively. If we can do that, we build tremendous stickiness and the loyalty between our sales rep, who is providing service, and the customer.

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INSIDE

mdm
competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Thomas P. Gale

Watch for Consolidation Spike in 2019

While M&A activity was strong in 2018, there are a number of factors lining up to make 2019 even stronger. (Disclaimer: MDM is not a financial advisory service; these are just my observations of how the tea leaves look in the kettle of distribution from watching 30 years of business cycles play out.)

When you look at the average age of owners, the business ecosystem of wholesale distribution not surprisingly aligns with broader generational trends – baby boomers are retiring in record numbers. Those who own distribution companies are looking carefully at the current business cycle and evaluating options and timing. Anecdotal reports into MDM are that deal pipelines are chock full – deal makers are running full tilt.

And even though rising interest rates and volatility in equity markets created more turbulence in financing markets in 2018, there is no shortage of investment capital looking for landing spots. Sellers are in a great place to catch it and prosper in a hot market – for the most part.

The main story really doesn't change that much from cycle to cycle. Well-run companies that optimize their pricing and profitability command higher multiples; those that haven't are targets for private equity firms to unleash untapped EBITDA. Companies less susceptible to economic cycles attract more attention. That success formula doesn't change much. What changes are the new market dynamics in each cycle that impact valuation.

I'm writing this during MDM's third annual Sales GPS conference, where we focus on ways to transform a traditional outside sales model into a more integrated, digitally-supported and team-based approach. It's difficult to change generalist roles of sales people; that challenge is compounded when you consider that the trending demographics of distribution sales forces is a picture of reps in their 50s and above. Similar to the owner's tenure, many have been in their generalist role for decades.

Companies that are proactively addressing this sales force challenge are worth more – simple equation. They are bringing millennials into the mix and creating specific sales, support and service roles for a team. They are updating their sales model to one that is more effective and profitable in an increasingly digital marketplace.

The other new metric that's emerged in this cycle has largely been driven by the three-year growth of Amazon Business to a $10-billion distributor and marketplace. Distribution companies that are more Amazon-proof are more valuable. They have developed a more service-focused versus transaction-based model; products are the cover charge to get in the door, not the margin generator.

These new dynamics in 2019 are shaping M&A decisions for owners as well as the strategic and financial buyers. No one can accurately time market cycles; those who have moved the levers to increase value and EBITDA have a lot more control over their destiny. Those companies with an aging sales force, exposure to digital competitors and dependency on transactional margin are more vulnerable than ever. That bitter brew seems to be setting up a potentially record year for deal activity.

MODERN DISTRIBUTION MANAGEMENT

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Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email tish@mdm.com or http://www.mdm.com/subscribe.

Published twice monthly; $395/yr., $415 U.S. funds other countries. Six-month, one-year and two-year terms are available. For group subscription rates and site licenses, please contact Tish Marti at 303-443-5060 or visit www.mdm.com/corporate.

ISSN 0544-6538

MDM Interview

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MDM: How much does either an inside sales team or the combination of that and digital help you to keep that cost equation in place?

DeCata: The inside sales team is expanding. Recently, we've added salespeople who are telephone-oriented salespeople as well as what we call retention specialists. So, should a sales rep retire or leave for some reason, we want to keep in contact with the customer. Digital plays an important part in this as well. Our website and digital messaging helps us stay in contact with the customer until either that customer is assigned to an existing sales rep or we hire a new sales rep. The combination of inside sales reps, digital, outside sales reps and retention specialists – that combination goes a long way in bridging the gap when there is a transition. In 2018, by applying that approach, we saw tremendous progress in our customer retention metrics.

MDM: You talked about a pretty unique product and high-service component to what you do. With your outside salesforce model, you're putting a lot of your value in the market into the quality of the people on your team. But we're also in this really tough labor market. Can you talk a little bit about how you et that challenge?

DeCata: This is a challenge for us: a shortage in the labor market and long-term demographics for us in our industry. Both are a challenge for us, but it's my belief that, for our company, there are far more benefits than there are challenges. And I say that because we've had success attracting sales reps because of the investments we've made in infrastructure, process, culture and technology. The benefit to us is that our customers are desperate for maintenance mechanics, truck drivers, and they are in extremely short supply. The more challenged our customers are with maintenance mechanics and truck drivers and people to keep machines running, the more valuable our service becomes. So, in a tight labor market, while we do have challenges in hiring warehouse personnel and attracting sales reps, the bigger benefit is that we become more valuable to our customers. The last thing a shop owner wants is for the extremely valuable maintenance mechanic running up the street to get a part or waiting until tomorrow with the opportunity cost associated with a machine not running for even one day. That opportunity cost is extraordinary.

Many in our industry have a value proposition that goes something like, "If your motor fails, call. We'll get you anything tomorrow." But our value proposition is, "If your whatever fails, you will not call us, because when your mechanic reaches into the drawer for the necessary part, it will already be there." Beyond just the availability of the product – labeling, shop organization, cleanliness – all these things that people take for granted might save your mechanic one, two, five, 10 minutes. They know exactly where to go when the bins are properly labeled. They're clean and it's easy to read it. So even if the stuff is in your shop but you can't find it, it might as well not be in your shop. Beyond just the availability of the product, the fact that the shop is pristine and organized also improves the customer's productivity.

MDM: There's labor and logistics involved; I've got to believe there's a cost aspect to this that has to drive up your cost-to-serve. How do you control that to make it a profitable proposition?

DeCata: A number of ways. We're controlling our costs and enabling productivity of our sales reps through the combination of great training, data and the analytics delivered in an effective manner for the sales rep. The delivery is different than the way a finance person might need it; a sales rep needs it delivered in a certain way. We rolled out a number of years ago a software package called Order Pad. It gives the sales rep complete line of sight to product availability, pricing, application data, customer history, all completely available to the sales rep at all times. The combination of all of that has enabled our sales reps to become more productive.

There are many products that we sell where we feel very pleased about the margin, the unique nature of the product, the value-add, highly customized for the needs of the maintenance mechanic. But, there are other products that we sell that are commodity products – still necessary, and by nature a lower margin. And yet enabling our sales rep to take all of the business, serve the customer's whole need, even the low-price, low-margin, low-commission products is just as critical to the customer and to our cemented relationship. So yes, there are a number of moving parts. Our value proposition integrates product and service intensive VMI. It's a different way of going to market than an e-commerce only model. We believe that this approach offers the lowest total cost for our cus-

Continued on next page

tomers and differentiates us from competitors.

Our customers have told us they like the idea of not even having to think about it. Their 45-minute-a-week employee in the form of our sales rep shows up, does their job, makes sure they don't run out, puts it all away, and then leaves. And the customer can be hardly involved if they choose to be hardly involved. Their bins are always full, the product is always available. There's never more than they need, nor is there is there less than they need. So customers value this high-service, high-touch model, and they recognize that it is the lowest cost alternative they have, even though the prices may be a bit higher because we integrate our service and product. They all recognize it, whether they're very large customers, who get to this answer analytically, or the very small customer who just sees it in front of them and the productivity of their maintenance mechanics. They all come to the same answer, which is, "This is the lowest cost choice that I have." It's a very simple model, but it is a cost-based value proposition, not a price-based value proposition.

MDM: It's an interesting twist on a traditional distribution model.

DeCata: It is, and we believe that again, because of the service-intensive model, it is the lowest cost alternative our customers can have.

MDM: You had a really strong third quarter in 2018. What's your outlook?

DeCata: We'll see more of the same. There are a number of market dynamics which we see continuing. I don't know how they could get better than they were in 2018, so we don't see a change for better or worse versus 2018, which is actually great. Our ability to execute continues to improve. As we've traveled this path around holding costs, around delivering technology which enables our sales reps to be more productive, as we've integrated acquisitions, as we have changed, very slowly, aspects of our culture, we believe that in a stable market we can do better. We demonstrated that from '17 to '18 and we believe that from '18 to '19 we will continue to do better. We will continue to improve our bottom-line results, in absolute dollars and%, and with even modest topline sales growth we can become much more profitable.

Our message internally and externally has been, "Stay the course," which means winning share, and differentiating ourselves with service. We believe our shareholders will be well rewarded as a result of staying the course and most importantly, we believe our customers will continue to be well rewarded and we will continue to differentiate the quality and service intensity of our business to the benefit of the profits of our customers.

MDM: Beyond the "stay-the-course" theme for 2019, what's your biggest initiative this year?

DeCata: There are so many. The continued rollout of analytics is an initiative. We continue to expand our inside salesforce. We continue our commitment to Lean Six Sigma and reengineering non-value-added work out of every aspect of the company – whether it's distribution centers, sales processes or accounts receivable or accounts payable. Our goal is to optimize cost, productivity and quality of work life for all of our teammates and enable sales reps to do more in a given period of time.

All of these are initiatives, but all of them are a continuation of things that we've been implementing for years. We continue to accelerate. I would always like to go faster no matter how fast we go. Faster is better. And that continues to be the goal for the year.

NAW 2019 Board Projects Plan of Positivity and Growth

Incoming chairman says board of directors will focus on training, recruitment and D.C. lobbying presence

By Declan Joyce

George Pattee wants his tenure as 2019 Chairman of the Board for the National Association of Wholesaler-Distributors to be upbeat and positive. "This year we will be talking a lot about how business is good and the economy is good," he says. "I'm extremely bullish on wholesale distribution."

The chairman and former CEO of Parksite Inc., a wholesale distributor of building materials based in Batavia, IL, has spent his entire career with Parksite, beginning as a truck loader 47 years ago.

"Ever since I got involved in it, I've heard people say, 'One day you're going to be disintermediated. You're going to get taken out because we don't need a middleman.' Well, I heard that 30-plus years ago and we're still here."

The NAW held its annual Board of Directors election Feb. 4 during its Executive Summit in Washington, D.C. Pattee has been involved with the NAW "since the pre-internet era," including as a member of several sub-committees, and became a member of its board five years ago.

"Part of my reason for accepting the invitation to join the board was wanting to give back," he says. "I wanted to thank them and try to make it a better organization for the next generation of companies."

The NAW's mission is to work for the betterment of its members, who are composed of direct member companies and a federation of national, regional, state and local associations accounting for more than 30,000 employers in all 50 states.

The 10-member board, says Pattee, takes its responsibility to these companies very seriously.

"It's extremely hands-on," he says. "It's very much a working board. I think one of the ultimate benefits to the association is the years of experience that the people on the board bring."

Taken together, the board members have more than 240 years of experience in wholesale distribution. Board members, Pattee says, are typically drawn from different industry verticals, which has the benefit of providing a broad range of perspectives and experiences.

Education and Training

One of the board's main focuses in recent years is to provide education and training for its members. "It's vitally important that you train and develop your people," Pattee says. "It's critical that you make them better, stronger employees. Invest in your people and they'll stay and make your business stronger."

The NAW board's outgoing chairman, Joseph Nettemeyer, president and CEO of San Jose-based technical solutions provider Valin Corporation and who this year will move into the position of Past Chairman, agrees that helping member organizations train and retain employees is a critical issue.

In addition to regularly publishing books, research and white papers, many of which are developed through the NAW's sister board, the NAW Institute for Distribution Excellence, the NAW also partners with colleges, including Texas A&M and Ohio State University, to sponsor programs that train and develop employees in wholesale distribution.

Over the past decade, Valin has sponsored a dozen master's degrees in industrial distribution at Texas A&M, most of them for millennials who now work for the company. "I never felt like I could stand before the membership and say, 'You should do this,'" Nettemeyer says. "I wanted to say, 'I've done it, and it works.' Lead by example, and not by words."

Education and training are crucial not only to retain qualified employees but also, says Nettemeyer, because the industry is changing at a record pace. "I entered the workforce in 1973, and from 1973 till about 10 years ago things moved along at a very slow and easy pace. Change was minimal," he says. "Now, it's estimated that 10,000 boomers retire every day — a huge demographic shift. We had to look at the millennial generation and ask ourselves, 'What are we going to do to attract, train and retain those people?'"

Lobbying Efforts

Another NAW priority for Pattee is to continue its active presence in Washington, D.C. Goals

Continued on the next page

include ensuring that the industry does not become over-regulated and that the benefits of any legislative changes are felt by both major industry players as well as small- and mid-size businesses that are the backbone of the distribution industry. "Through our presence on Capitol Hill and our political action committees, we want to be part of the process and not somebody sitting on the side," he says. "Businesses, especially small businesses, drive our economy, pay their taxes, and create the economic engine that encourages growth."

New board member Rick Long, EVP and general counsel for the Tulsa, OK-based Petroleum Equipment Institute, a nonprofit trade association representing 1,600 manufacturers and distributors of fuel-marketing equipment, agrees that political engagement is vital to the health of the industry. "Wholesale distributors play a huge role in the nation's economy," says Long. "The number I often see is that $5.7 trillion is connected with wholesale distribution. So the NAW is focused on supporting public policies that encourage a robust free enterprise system, to help people understand that free enterprise is the best possible option for a healthy economy."

Long is one of three board members who represent the roughly 70 wholesale distribution associations that are part of the NAW. These three are collectively known as the Association Executives Council (AEC) and, as with the regular board members, they join at the most junior level and typically progress year by year through the various offices. Long joins the board this year as Chairman-Elect of the AEC.

"The great thing about the AEC," he says, "is that we can come together as association executives and share with each other the opportunities and challenges that we are facing in our industry and maybe within our associations. We're able to say to our peers, 'Have you experienced anything like this in your industry and in your association?' It's a great support system, it's a great idea-generation system. It's almost like a networking group."

New Faces

A third focus of the NAW board this year will be membership recruitment. Pattee wants to work to raise awareness of the benefits that companies can receive by joining the NAW. For example, the NAW's employee training programs and political action can benefit not just the smaller companies, says Pattee, but also the $100-million and billion-dollar ones. "We're working on an interesting program now with a company that helps our members with negotiating credit card fees and setting up e-commerce programs. You just don't send in a check — you get to be part of something that makes your business stronger."

Nettemeyer believes that chairmanship of the board is in good hands for 2019. He and Pattee spent eight years together on the NAW Institute board with Pattee joining the board of directors the year after Nettemeyer. Both men are Midwesterners, a background Nettemeyer believes gives them both a pragmatic approach to problem solving.

"George is not enraptured with the moment or the idea of the week," he says. "He's willing to wrestle with what will keep the NAW relevant tomorrow and next year and the year after that. He's very engaged in trying to help the industry wrestle with change that is taking place at a pace we've never experienced before. He could just punt the can down the road and let others deal with it, but that's not in his DNA."

Wholesale Distributors Expect Increasing Demand Volatility

Reported challenges for 2019 reflect similar concerns from the previous year, Blue Ridge survey shows

By Elizabeth Galentine

While new products and technology designed to assist and enhance the wholesale distribution industry have continued to evolve in the last couple of years, wholesalers report their top challenges remain the same. The short-term problem they most expect to face in 2019 is the increasing volatility of demand due to new competition, new customers and digital e-commerce (79%), according to supply chain solution company Blue Ridge.

For the second year in a row, Blue Ridge surveyed its customers as well as readers of NAW SmartBrief to understand the business challenges they face in its State of the Wholesale Supply Chain Industry report. Increasing demand volatility also led the 2018 survey as the top concern, at 75%.

"One of the first things I noticed was the top challenges mirrored the previous year within a few%age points," says Rod Daugherty, vice president of product strategy at Blue Ridge. "In particular, I think the respondents to the survey are realizing that increasing demand volatility and complex patterns of customer demands are two biggest concerns by quite a significant margin. That seems to be very top of their mind."

Other top challenges wholesalers expect to face in the short-term this year, according to the report, include:

- Complex patterns of customer demand (75%)
- Increasing supplier collaboration needs (42%)
- Managing new product introductions (41%)
- Long lead times (40%)
- Lack of internal processes and tools (35%)
- Handling event/promotional activities (21%)

A natural reaction to the top two concerns — increasing demand volatility and complexity of customer demand — is to want to stock up on inventory so that whatever the customer may need is readily available when they need it. The problem with this approach, says Daugherty, is it won't address the underlying issue of their inventory investment being out of balance. This is because items that sell well will continue to sell well. And those that don't, wont.

"They understand there's a problem, but the knee-jerk reaction is to spend more money on inventory," he says. "However, quite often they're buying too much of the wrong products, excess inventory of the items that don't sell well."

This unbalanced stock issue can be avoided through better demand forecasting and planning, says Daugherty, but distributors are often distrustful of new technology. They'd rather go with their gut, he says. "It's very difficult to get customers to trust the artificial intelligence," Daugherty adds.

Machine learning will look at environmental factors, international trends, events and more to generate a demand forecast based on observation and a continual feedback loop that learns from attributes associated with products and how they sell. "It creates a new algorithm. Rather than a person saying, 'OK, I want the solution to do this.' The solution says, 'This is what we need to do based on how this item sells based on external inputs and data that we've learned and observed,'" says Daugherty.

Even though many respondents to the Blue Ridge survey stated long lead times and lack of internal processes as big pain points, they're still hesitant to bring in technology that will analyze their hard data to make improvements, Daugherty says. "This industry continues to lag behind other industries in adopting new approaches to managing that problem," he says.

The%age of companies using machine learning techniques for forecasting rose slightly from 2018 to 2019, from 25% to 27%, but while only 10% said they weren't sure of its value-add last year, 15% reported such uncertainty in this year's survey.

Growing Costs and Concern

Looking at supply chain business trends, higher costs and increased lead times are top considerations for wholesalers in 2019, the survey found. "Increase in transportation costs is a big deal,"

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says Daugherty.

Nearly seven in 10 respondents (69%) report a higher increase in transportation/labor cost compared to recent year-over-year increases as the top trend. At the same time, 63% of wholesalers say they keep more than 60 days' supply on hand.

Customers who report the highest%ages of carrying inventory 60 days or more (between 64% and 68%) are most concerned about these four areas:

1) Increasing volatility of demand;
2) Complex patterns of customer demand;
3) Lack of internal processes and tools;
4) Managing new product introductions.

The%age of demand that couldn't be filled by inventory grew between 2018 and 2019, with the greatest rise in the top category: more than 4%. The% of respondents reporting more than 4% of demand could not be filled rose from 19% in 2018 to 26% this year.

"Human nature wants you to react to risk due to volatility in demand by carrying more inventory, but the problem that we see in reality, if they don't have a more evolved and optimized demand planning and inventory optimization solution, is that, despite them carrying more inventory, their service is still a problem," says Daugherty. "So they're not achieving the overall service goals they have in terms of stock for their customers. That also hurts their turns."

Other trends wholesalers predict for the year in the Blue Ridge survey include:

- A higher increase in item cost compared to recent year-over-year increases (63%)
- Increased lead time due to transportation capacity challenges (62%)
- Higher lead time variability (56%)
- Pricing power to pass on increased costs to customers (32%)

mdm Industrial & Construction Markets Update

VOL. 49, NO. 04 | FEBRUARY 25, 2019

Manufacturing Technology Orders Up in 2018

Manufacturing technology orders for December were $443 million, down two% compared with November and down 6% compared with December 2017. For the full year, manufacturing technology orders reached $5.5 billion, up 19% compared with 2017, according to the Association for Manufacturing Technology's (AMT) latest U.S. Manufacturing Technology Orders (USMTO) report.

The November-December drop was the fourth time in the USMTO's 23-year history that a year did not end with an uptick in orders from November, according to AMT. And though markets remain healthy, AMT leaders said trade issues and global economic concerns may cause moderating growth in the year ahead.

"We finished a fantastic run up in manufacturing technology orders during 2018, with most analysts looking for good growth in units and modest growth in revenue in 2019," AMT President Doug Woods said in a statement announcing the December and year-end results. "While our market looks healthy now, there are concerns that trade issues and slower manufacturing technology markets abroad will create headwinds in the U.S. later in the year."

Geographically, the Northeast and West were the strongest markets in December, according to AMT, with each posting single-digit gains over November levels. AMT also said that while most of the key indicators for manufacturing were not available for December due to the government shutdown, those that were available point to continued growth, but at a slower pace in 2019.

The ISM Purchasing Managers' Index was up 2.3 points to 56.6 in January, for instance, indicating continued expansion in the manufacturing sector.

Distributor

North American buying group **Affiliated Distributors**, Wayne, PA, the member owned buying/marketing group, announced today the merger with **IDI Independent Distributors Inc.**, effective April 1, 2019. IDI brings 107 independent industrial Canadian distributors with more than 364 locations into the AD family. AD also welcomes 21 new employees and a distribution center located in Mississauga, Ontario, as part of the transaction.

Motion Industries, Birmingham, AL, a subsidiary of **Genuine Parts Company**, has agreed to acquire **Axis New England** and **Axis New York**, Danvers, MA, an automation and robotics company.

Endries International, Brillion, WI, a distributor of fasteners and related production components, has acquired **Industrial Products Company**, based in Lynchburg, VA.

Airgas Inc., Radnor, PA, an Air Liquide company and supplier of industrial, medical and specialty gases, said it will acquire **TA Corporate Holdings, Inc.**, an independent distributor of industrial gases and welding supplies.

Winsupply Inc., Dayton, OH, has acquired **Baron Distributors**, a wholesaler-distributor of irrigation products operating from four locations in west Texas and New Mexico.

Merfish Pipe & Supply Co. on Feb. 1 acquired **United Pipe & Steel**, combining under **Merfish Pipe Holdings**. The entity is majority owned by **One Equity Partners**. The deal creates the largest master distributor of standard pipe products in the United States, according to Gerald Merfish, chairman of Merfish Pipe Holdings.

Ferguson Enterprises, Newport News, VA, the largest plumbing distributor in the U.S., has acquired Kitchen Art, Coral Springs, FL.

Illinois-based distributor **Jon-Don** has acquired **Quest Building Products**, an Anaheim, CA, based distributor of concrete surface prep products, equipment and service.

Palmer Johnson Power Systems, Sun Prairie, WI, has acquired **Mill Log Equipment Co., Inc.** and **Mill Log Wilson Equipment Ltd.** from **Twin Disc, Inc.** The acquisition, which will close on March 4, encompasses all Mill Log assets, territory rights and inventory.

Safety product supplier **Protective Industrial Products, Inc.**, on Wednesday announced its intent to acquire **West Chester Protective Gear**. Established in 1978, Cincinnati-based West Chester provides personal protective equipment to both the industrial and retail channels.

Building products distributor **ABC Supply Co. Inc.**, Beloit, WI, has opened a branch in Gloucester, VA, giving the company 25 locations throughout the state of Virginia.

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News Digest
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Descartes Systems Group, Waterloo, Ontario, has acquired the businesses run by the **Management Systems Resources Inc.** group of companies operating under the **Visual Compliance**, **eCustoms** and **MSR** (collectively, Visual Compliance). Descartes previously announced the signing of the definitive agreement to acquire Visual Compliance on January 28, 2019.

Electronic components distributor **Arrow Electronics Inc.**, Centennial, CO, celebrated its 40th anniversary as a New York Stock Exchange-listed company.

Industrial gases distributor **Praxair Inc.**, Danbury, CT, said it will expand production capacity at its Neosho, MO, air separation plant.

Ohio Transmission Corporation, an industrial equipment service provider and distributor headquartered in Columbus, Ohio, has acquired **Filter and Coating Technology, Inc**., Grand Rapids, MI, an industrial distributor of finishing, dispense solutions and filtration products.

Winsupply Inc., Dayton, OH, has opened four new companies: Winsupply of El Paso, TX, Winsupply of San Antonio, TX, Winsupply of Frederick, MD, and Winsupply of North Canton, OH.

SRS Distribution has opened three new Greenfield locations in the Southeastern United States. These sites include Chipley, FL, Jacksonville, NC, and Summerville, SC.

Sales for HARDI distributor members increased by increased by 3.6% in December, according to the monthly TRENDS report. The average annualized growth for the 12 months through December 2018 is 11.4%.

Genuine Parts Co., Atlanta, GA, reported 2018 sales of $18.7 billion, up 14.7% from the previous year. Profit increased 31.5% over the year to $810.5 million. Sales for the fourth quarter for Genuine Parts were $4.6 billion, an increase of 9.4% over the same period in 2017. Profit increased 72.2%.

NOW Inc., Houston, TX, reported fourth-quarter sales of $764 million, up 14% compared with the fourth quarter of 2017. Net income was

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Calculation of MDM Inflation Index for January 2019

		BLS Price Indices Jan '19	BLS Price Indices Dec '18	BLS Price Indices Jan '19	% Sales Weight	Weighted Indices Jan '19 (1)X(4)	% Change Jan '19 Dec '18	% Change Jan '19 Jan '18
1136	Abr. Prod.	614.2	610.6	600.2	19.1	117.31	0.58	2.32
1135	Cutting Tools	529.3	528.5	516.0	18.9	100.03	0.15	2.57
1145	Power Trans.	864.7	862.2	837.3	15.4	133.17	0.29	3.28
1081	Fasteners	543.1	540.9	517.4	9.0	48.88	0.40	4.96
1149.01	Valves, etc.	1050.7	1048.1	1000.4	7.6	79.86	0.25	5.03
1132	Power Tools	392.6	389.0	390.2	6.5	25.52	0.91	0.62
1144	Mat. Handling	643.1	640.5	614.4	6.2	39.87	0.40	4.67
0713.03	Belting	922.9	919.0	902.6	6.1	56.29	0.42	2.25
1042	Hand Tools	825.8	818.7	799.9	8.1	66.89	0.87	3.24
108	Misc. Metal	500.9	498.9	477.2	3.1	15.53	0.40	4.97

"New" Jan Index	357.0	January Inflation Index	683.35	0.42	3.26
"New" Dec Index	355.5	December Inflation Index	680.47		
		January 2018 Inflation Index	661.80		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247

$16 million for the quarter, compared with a loss of $3 million a year ago. For the full year, the distributor reported $3.13 billion, up from $2.65 billion last year. The company reported net income of $52 million for the year.

Fastenal Co., Winona, MN, reported January sales of $446.9 million, up 13.3% over the year-ago period. The company reported daily sales of $20.3 million, also up 13.3% versus a year ago.

Cardinal Health, Dublin, OH, reported second-quarter fiscal year 2019 sales of $37.7 billion, up 7% compared with the same period a year ago.

MRC Global Inc., Houston, TX, reported sales for 2018 of $4.2 billion, an increase of 14.6% from the previous year. The company reported a profit of $50 million, as compared to $26 million in 2017. Fourth-quarter sales were $1 billion, an increase of 11.7% from the same period the previous year. The company reported a profit of $4 million, down from $29 million the prior-year period. U.S. sales in the fourth quarter were $778 million, up 8.8%. Canadian sales in the fourth quarter were $79 million, up 11.3%. International sales in the fourth quarter were $152 million, up 29.9%.

Beacon Roofing Supply Inc., Herndon, VA, reported sales of $1.72 billion for the first quarter of 2019, up more than 50% compared to the year-ago period. The company reported a net loss of $893,000.

Pentair plc, Manchester, UK, reported sales for 2018 of $3 billion, up 4.2% year-over-year. Profit was $347.4 million, down 47.9% over a year ago. Fourth quarter sales were $740.5 million, up 2.7% year-over-year. Profit was $92.9 million, down 51% over a year ago.

North American buying group **AD**, Wayne, PA, reported an 11% increase in member sales across 12 divisions in 2018, for a total of $41.1 billion in sales. Purchases from AD suppliers grew 13%, the group said.

Industrial distributor **MSC Industrial Supply Co.**, Melville, NY, has received a patent from the United States Patent and Trademark Office covering a technology system and business process to help its customers document various inventory and operational cost savings achieved through use of MSC's services.

The fourth quarter 2018 ***Sales History & Outlook Report*** released by the **Power Transmission Distributors Association** indicates the average PTDA distributors' index for total sales during 4Q18 was 5.4% higher compared to 2017. PTDA manufacturers' index annual average was also strong, up 7.3% year over year in December.

Rubix, Europe's largest industrial distributor, has won a three-year contract with **Owens Corning's European businesses**, covering eight countries. Rubix says it will help standardize the mechanical components used in Owens Corning's plants with the intent of streamline sourcing processes, improving productivity and increasing the efficiency of working capital.

Multinational plumbing and heating products company **Ferguson plc** has appointed Tom Schmitt to its Board of Directors as a non-executive director, effective Feb. 11, 2019.

All Integrated Solutions, Franksville, WI, a division of **MSC Industrial Supply Co.**, has named Nick Ruetz as its president. Nick Ruetz is currently chief operating officer for AIS. As part of a planned transition, Jim Ruetz will be stepping down as chief executive officer of AIS, effective Apr. 5, 2019.

SunSource, Addison, IL, a fluid power and motion control distributor in the U.S. and Canada, has announced the retirement of **United Distribution Group, Inc.** President and CEO Darrell H. Cole, effective Feb. 15, 2019.

Fortive Corp., Everett, WA, has named Jeannine Sargent as a director by the Board of Directors. Sargent has also been named to the Compensation Committee of the Board.

WESCO International Inc., Pittsburgh, PA, said that Sandra Beach Lin will retire from the company's Board of Directors when her term expires May 30, 2019.

Avnet Inc., Phoenix, AZ, announced two executive leadership changes. MaryAnn Miller, senior vice president, chief human resources officer and global marketing & communications, has been promoted to chief administrative officer.

Owens & Minor Inc., Richmond, VA, has named Edward A. Pesicka president and chief executive officer, effective March 4, 2019.

continued on the next page

Economic

Manufacturing sales declined for the third consecutive month, down 1.3% to $56.4 billion (US$42.4 billion) in December on lower sales of petroleum and coal products, according to new data from Statistics Canada.

Canadian municipalities issued $8.8 billion (US$6.7 billion) worth of **building permits** in December, up 6% from November and the fourth consecutive monthly increase, according to new data from Statistics Canada. The gain was largely due to higher construction intentions for multi-family dwellings and commercial buildings, with both components hitting record highs.

The U.S. goods and services deficit was $49.3 billion in November, as exports and imports both decreased, according to the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce. The previously published October deficit was $55.7 billion. The goods deficit increased $4.2 billion in July to $73.1 billion. The services surplus decreased $100 million in July to $23.1 billion.

Manufacturer

Pentair plc, London, UK, a leading water treatment company, has acquired **Pelican Water Systems** for $120 million in cash, subject to customary adjustments. Headquartered in DeLand, FL, Pelican Water Systems has 79 employees and provides residential whole home water treatment systems.

National Oilwell Varco Inc., Houston, TX, reported fourth-quarter sales of $2.4 billion, an 11% increase compared with the fourth quarter of 2017. Net income was $12 million, compared with a loss of $14 million in the year-ago period.

USG Corp., Chicago, IL, reported full year sales for 2018 of $3.3 billion, a 4% increase from the previous year. Profit was $196 million, up 123% over the previous year. For the fourth quarter, sales decreased 1% year-over-year to $819 million. Profit was $42 million, up 161% over the previous year's quarter.

Pump and compressor manufacturer **Gardner Denver** reported $713 million in revenues for the fourth quarter of 2018, up 7% over the prior-year period. Net income was $95 million, compared with $144 million a year ago. By segment, fourth-quarter industrial sales rose 8% to $338 million while energy segment sales rose 4% to $307 million and medical segment sales rose 17% to $68 million. For the full year, total company sales reached $2.7 billion, up 13% compared with 2017. Net income for the year was $269 million, the company reported.

The Timken Co., Canton, OH, reported fourth-quarter sales of $910 million, up 17% compared with the year-ago period. The company reported $60 million in profit for the quarter. Timken said the fourth-quarter sales increase was driven by continued growth across most end markets, as well as the favorable impact of acquisitions and pricing, partially offset by unfavorable currency.

Gates Industrial Corporation plc, Denver, CO, reported fourth-quarter sales of $792.1 million, up 1.3% over the year-ago period. Quarterly net income was $75.6 million. For the full year 2018, Gates reported sales of $3.35 billion, up 10% year-over-year. Net income was $245.3 million.

Snap-on Inc., Kenosha, WI, reported sales for 2017 of $3.7 billion, a 1.5% increase from the previous year. Profit increased 21.7% to $696.2 million. Sales for the fourth quarter were $952.5 million, a 2.3% decrease year-over-year. Profit increased 34.6% to $179.3 million.

Barnes Group Inc., Bristol, CT, has appointed Patrick Hurley to senior vice president and chief technology officer, effective immediately.

Johnson Controls, in partnership with **Johnson Controls-Hitachi**, is expanding its focus on its **Applied Systems** business to customers in Taiwan, the company said.

Modern Distribution Management

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Website: http://www.mdm.com
ISSN 0544-6538

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