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■ *The Shifting Competitive Landscape: Introduction*

Think Differently About 'Competition'

A new series on widening your competitive focus

Most have heard the classic tale of Blockbuster, once the king of the video rental market, not responding to online rental service Netflix until it was too late. Or Sony's failure to recognize the shift to digital music from tapes and CDs, moving Apple into mobile music market leadership with the iPod.

These stories remain some of the clearest examples of what can happen when your competitive focus is too narrow.

No company should outright ignore its traditional and long-standing competitors. But an ever-increasing pace of change, thanks in part to technology, dictates that distributors think outside of the competitive box when considering their next moves.

Many companies view the market from the top down, by looking at the flow of goods through the channel, according to David Gordon of Channel Marketing Group. In other words, they think in terms of a product moving from manufacturer to distributor to the end-user. This could be considered the "traditional" channel.

But when you view the markets through the eyes of the customer, Gordon says, it may reveal multiple ways to market and a much different competitive landscape. "Customers may be buying from multiple channels or entities that are easier to buy from for various reasons," Gordon says, including ease of use, technical expertise, convenience or end-market expertise.

Take newer technologies, such as LED lighting. Gordon says the niche suppliers of LED products are more likely to sell direct to the end-user or even sell through alternate distribution channels, including the seemingly unrelated sectors of medical supply and petroleum. "That distributor is focusing on a particular customer segment," Gordon says. "He's asking his customer 'What else do you need?' The customer wants to order on the path of least resistance." That's a challenge to the electrical distribution channel.

For years, distributors have been expanding their products and services reach beyond their traditional expertise. But the idea of a shifting competitive landscape goes beyond converging channels, though that is part of the story. As MDM Publisher Tom Gale wrote back in 2005, there are enough diverse customer segments to support a range of models. This is even truer today, thanks to the rise of e-commerce, which has had a profound impact on the channel.

No matter the decision you make on how to react to an emerging trend or competitor, it should be based in the reality of the markets. It shouldn't be viewed as a threat; it should be an opportunity to rethink how you can better serve the customer.

In a new monthly series, MDM is going to take a look at the shifting competitive landscape and what it means for independent distributors.

Topics we're going to cover in this series through the first quarter 2013 include:

- Competing and non-competing distributors collaborating in local markets (featured in this issue)
- The impact of the Internet and online transactions on the competitive landscape
- How Amazon's model has and will continue to challenge the traditional distributor
- The impact of international distribu-

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INSIDE

PERSPECTIVE ■ Commentary by Thomas P. Gale

Adapting for 2013

As we approach the end of the fourth quarter, it is useful to review the year and think through scenarios for next year.

The first half saw manufacturing markets strong with some recent tapering or at least increased month-to-month volatility. Construction markets have been gaining momentum through the year. Specific energy markets continue to skyrocket.

Overall, many distributors are reporting good to very good years. Next year looks to stabilize with continued moderate or tapering growth in industrial markets. But it has become increasingly more difficult to use the past as a reliable predictor of success.

Be sure to register for our 2013 Economic Outlook webcast on Dec. 13. Andrew Duguay, senior economist for the Institute for Trends Research, will provide a detailed review on what's happened over the past year in the U.S. and Canadian economies and present his forecast for 2013 in this popular annual webcast from Modern Distribution Management. Register online at mdm.com even if you can't attend and we'll send you a link to the recording.

There are fundamental shifts reshaping North American markets; I've argued that the two key drivers have been the Great Recession and explosion of technology. We are transitioning into markets where different and more refined analytics are required to identify and exploit opportunities to stay competitive. The same is true of skill sets required to compete and serve customers and customer segments effectively.

You'll find MDM continuing to adapt as well to provide more in-depth coverage and insight into the ways markets are changing, as noted in this issue's article on the shifting competitive landscape.

This is the first in a series in 2013 that will report MDM's ongoing research on the emergence of e-commerce platforms, alternate distribution channels, increasing international M&A and other factors reshaping traditional distribution markets.

This marks the 20th year since I became an owner of MDM and have had the privilege to shepherd its growth. I anticipate many more years of engagement in this industry (and not just because I have a 14-year-old daughter in the house!).

As the article notes, we are really in a new phase of industry re-fragmentation, one that is providing great opportunity to those companies positioned in the right place. ■

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Think Differently
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tors expanding in the U.S. market

- Entrepreneurs building their own businesses to serve a piece of the traditional distributor's market
- How distributors can prove value to their customers despite the changing landscape

According to Stuart Mechlin of Stuart Mechlin Advisors, former senior vice president of Affiliated Distributors' Industrial Supply Division, when it comes to thinking about nontraditional competition, companies need to think beyond just Amazon.

"You're going to have people becoming competitors in this field who are coming from very different disciplines," Mechlin says. As an example from another industry, he referenced successful businessman Richard Branson's diverse group of companies, which started with a focus on music and record stores but now includes a cell phone business and an airline, Virgin Atlantic Airways.

Look beyond the product to the other elements of the distributor's value proposition, including logistics, process, expertise and financial services. Just as logistics was taken over by UPS and FedEx decades ago, Mike Marks of Indian River Consulting Group says that technology has fueled a "refragmentation" of traditional distribution functions, allowing someone to sell products or services and compete without ever having to carry inventory. "There's a whole economy going on that a lot of distributors are clueless about," Marks says.

While no distributor can predict what might happen next, it's critical to take a closer look at what could affect your business in the next five to 10 years and what you're doing to remain relevant in an increasingly busy marketplace. "If you're out there innovating, it's an opportunity," Marks says. "If you're not, it's a threat."

■ *The Shifting Competitive Landscape: Collaborations*

Collaboration Builds Local Value, Influence

Distributors work together to strengthen their positions in local markets

The case studies starting on pages 5, 7 and 8 of this issue, the first articles in MDM's series on the shifting competitive landscape in wholesale distribution, feature distributors who are collaborating to compete more effectively.

These distributors are adding value to customer relationships by partnering with competing or complementary distributors to meet customers' needs more effectively and efficiently. The collaboration includes integration across a wide spectrum, from selling another distributor's inventory to opening branches together.

This growing interest in collaboration among distributors is changing the competitive landscape. If done right, it builds on the distributors' value propositions and expands their influence in their local markets. This can pose a threat to competitors who may underestimate the impact such collaboration can have, not only through greater efficiencies, but also through increased revenues and greater stickiness with customers.

On a broader front, partnerships on a local level potentially take the edge off national distributors' advantages of scale and product diversity.

In fact, interest in collaboration has grown enough that one of the largest marketing groups in the industry – Affiliated Distributors – is starting a program called Co-Ventures, playing match-maker for AD distributors across sectors. The poster child for that effort is a partnership between plumbing supplies distributor APR Supply, electrical distributor Schaedler Yesco and PVF distributor Industrial Piping Systems in Pennsylvania. In the article starting on page 5, Associate Editor Jenel Stelton-Holtmeier provides a closer look at that effort and the factors that have made it successful.

Evan Rosen, author of *The Culture of Collaboration*, says that there seems to be a growing realization across industries that people must work together to create value, whether working for the same organization, a complementary one or a competitor. "Organizations are waking up and realizing that they can create infinitely greater value by collaborating toward a common goal rather than working at cross purposes," he says.

Rosen has done extensive research on the interplay of culture, environment and technology to support collaboration. In an interview with MDM, Rosen talked about the benefits and challenges to consider before forming an alliance with another business.

MDM: You write that value creation opportunities should drive any collaborative efforts. Is there a framework that companies should follow when deciding whether to collaborate with another company?

Evan Rosen: Value creation should drive any collaboration whether it's internal or external. Collaborating with partners and competitors requires mutual creation of value. If only one party derives value, the collaboration will fail. The framework for collaboration must be built on trust and common goals. Why share ideas, information and data with another company if there's suspicion and hidden agendas?

MDM: What are the challenges that companies face when they collaborate with a competitor or with a non-competing but complementary business? Are there different challenges in each situation?

Rosen: Collaboration among competitors or with partners makes sense only if the collaboration creates value for all parties. Collaboration among companies can reduce costs by eliminating redundancy and increasing efficiency.

The key to collaborating with a competitor is to identify non-differentiating processes. These are processes that are not part of the perception of a company's products or brand. Non-differentiating processes include packaging, delivery, order fulfillment, purchasing and warehousing.

For a hot sauce company, the non-differentiating process might be bottling. Two competitors can achieve cost savings by combining their bottling operations. Bottling is a non-differentiating process because how the hot sauce gets bottled is not obvious to the customer. For collaborating competitors in the automotive industry, many parts under the hood are non-differentiating. In the aerospace and automobile industries, there are consortiums for purchasing. Purchasing is a critical process, but it's non-differentiating in the marketplace in that it's typically not part of the product or brand perception.

MDM: Which types of collaboration in your experiences seem to be most successful?

Rosen: Well-defined collaboration is the most successful. Some companies put out a joint news release about cooperating, and they call this collaboration. The goals and roles of each party are murky, and very little collaboration happens. Instead, identify specific processes that through collaboration will create value for both parties. Build trust, develop common goals, and the collaboration will likely succeed.

MDM: What's the potential impact on the culture of organizations when you collaborate with either a competitor or with a complementary business? Are there considerations to keep in mind on the culture front?

Rosen: I wrote a book called *The Culture of Collaboration* that discusses the huge role of culture in collaborating. The internal culture of each collaborating organization impacts cross-organizational collaboration. If a company promotes hierarchy, information hoarding and internal competition internally, what are the chances that the company will collaborate effectively externally? Zero. Companies with collaborative cultures are far more likely to collaborate effectively with partners and competitors. So a company that wants to create value through collaborating with partners and competitors should begin by collaborating internally.

MDM: Are there any legal liabilities that companies should be aware of when they decide to collaborate?

Rosen: When two lovers move in together, often there is no plan for the length of the relationship and each person's role. To avoid a similar situation, collaborating organizations need structure and clarity at the outset. The collaborators must determine how they will use each other's intellectual property and how, when and for what purpose each collaborator will use any jointly-created intellectual property. Also, guidelines and agreements should spell out the tools the collaborators will use and how and when to terminate collaboration. There is too much at stake to leave guidelines to chance.

Evan Rosen is the author of The Culture of Collaboration. Learn more about Rosen and the book at www.thecultureofcollaboration.com.

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Case Study: Sharing Branches, Best Practices

APR Supply, Schaedler Yesco & Industrial Piping Systems inspire AD program

One of the most popular examples of a collaboration between distributors that has worked is that of APR Supply, Schaedler Yesco and Industrial Piping Systems in Pennsylvania. The three have 11 locations together, and continue to uncover new opportunities to benefit from the arrangement. They've inspired a new program from Affiliated Distributors called Co-Ventures. This article looks at why the distributors' collaboration has worked and what to consider when going down a similar path.

By Jenel Stelton-Holtmeier

Jim Hoffman saw a common thread in his first three clients after he launched his consulting business. "By the end of my first year working in those three companies, I thought, 'Except for what's in the boxes, they're in the same business,'" he said. If he could get them to work together, he thought they could accomplish great things.

More than six years later, the co-venture between plumbing supplies distributor APR Supply Co., electrical distributor Schaedler Yesco and PVF distributor Industrial Piping Systems continues to grow. The three distributors also continue to uncover new ways to benefit from working together.

Today, the companies have 11 shared branches in Pennsylvania – some housing two of the partners, others with all three – and more planned.

Inspired by the success of its three affiliates, marketing group Affiliated Distributors announced a new Co-Ventures initiative in October, with Hoffman in the position of director. Through the program, AD will become a matchmaker of sorts, pairing companies in common markets across industries and providing support for the collaborations.

"There's no question that these companies are significantly stronger, bigger and more successful than they would be (without this co-venture)," says Bill Weisberg, CEO of AD. "And this isn't a pet project of one or two people at their companies. Their Co-Venture drives strategy and delivers everyday value for their entire organizations."

The Original Co-Venture

Jim Schaedler, CEO of Schaedler Yesco, Harrisburg, PA, and Scott Weaver, president of APR

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Supply Co., Lebanon, PA, agree that Hoffman instigated the plan. But both were intrigued by the possibilities.

"Selfishly we thought it would be a beneficial concept in growing our business at a location where we currently were not," Schaedler says. "It would be a less expensive, easier geographic expansion than it would have been to do on our own."

But everyone quickly learned they had to check their egos at the door. "If you think of it just in terms of what's best for you, we wouldn't have gone past that first venture. It wouldn't have worked," Schaedler says.

The "courting process" – as Hoffman refers to it – began in early 2006, with Schaedler Yesco, APR and Industrial Piping Systems, York, PA, officially opening their first joint location in Chambersburg, PA, in November of that year.

The biggest challenge in some ways was getting everyone to slow down, Hoffman says. "If you rush into it, I wouldn't be surprised if you have a bad result."

The relationship is not a formal joint venture; no legal documents bind the companies together beyond lease agreements at the individual locations. And the three companies often refer to the arrangement as cohabitation. "We're not married, we just live together," is one of the sayings the companies use to describe it.

In some ways, this kind of alliance is "more than a marriage," says Brent Grover of Evergreen Consulting. In a marriage you decide who takes out the trash or who does the dishes, he says. "This is a lot more complicated than that." Grover has no direct connection to this alliance, but is an expert on strategic planning in wholesale distribution and has worked with several companies to develop ways to improve their competitive edge.

Lessons Learned

APR, Schaedler Yesco and IPS have managed to keep lawyers out of the arrangement for the most part, but the model of continuous communication between the parties keeps them working together. The lack of binding contracts to continue doing business together means that getting out can be as simple as letting a lease expire and moving on, Weaver says.

"Because we have agreed to disagree at any time, we've also agreed to listen to each other and trust each other all of the time to make it work," Weaver says. "Because it's so easy to get out, it keeps us in."

"I don't want to sugarcoat it too much, but there really haven't been that many challenges," Hoffman says, "probably because we spent so much time in the beginning really getting to know each other."

The process laid out by Hoffman starts much like a dating process: "You have lunch together, then you have breakfast together, then you start visiting their locations and talking with their management teams," even sharing financials with each other, he says. "You have to take the time to build trust."

When it comes to decision making, "We compromise hundreds of little decisions because the big decision to be business partners is so much more important," Weaver says. And that value must be communicated throughout the entire organization.

Employees have an inherent desire to protect the company they work for, Weaver says. "Their inclination is to make decisions that are best for us. But if everyone makes decisions that way, it just doesn't work," he says. "The partnership will disappear as quickly as it began."

It may not be an intentional decision, but it happens. And it needs to be addressed quickly. There were two cases of employees who weren't entirely on-board with the collaboration early on, Hoffman says. But management stepped in and made it clear: "This partnership is more valuable than any one person in any of the organizations. It's more important than me, it's more important than you," Hoffman says. "It was a not-so-subtle message of get on-board or you may not have a place here."

In addition to trust and communication, culture has to be aligned. "All companies service their customers; that's what they're in business for," Schaedler says. "But the truth is, some distributors view servicing customers differently than other distributors. You have to make sure that you all have the same philosophy about it."

Grover agrees: "It takes a pretty unusual set of circumstances to make this work."

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The Measures of Success

But if you can make it work, as these three companies have for six years, the benefits may exceed expectations.

"We had two goals when we entered this venture: entrance into a new market and, if the partnership worked, finding other ways to improve our efficiency by working together," Schaedler says.

Savings come from shared buildings, shared equipment in the warehouse, even shared coffee service in the lobby, Hoffman says. And the expense of expanding into a new market can be cut nearly in half by sharing the start-up costs between partners – and by needing to have fewer of your employees at the new location "to cover lunches and breaks and the like," Hoffman says.

While all of the companies have seen financial benefits from sharing overhead costs, "those are dollars and cents," Weaver says. "But it pales in comparison to the other benefits."

One of the greatest benefits is the ability to share – and build – best practices based on the experiences of the other companies, Weaver and Schaedler say. Through an all-day "management exchange program," managers from different departments can get together with their counterparts at the other companies to discuss best practices.

"We started it two years ago," Weaver says, "but we should have started five years ago." In addition to developing best practices, the discussions have accelerated the understanding between the companies and helped to build the trust.

Another benefit for APR Supply was its introduction to Affiliated Distributors by the other two partner companies. "That was one of the examples of best practices that came out of this for us," Weaver says. Previously, APR had been part of another group and hadn't thought of looking elsewhere until it became part of this venture.

The companies are also looking at ways to further cut costs by improving joint logistics, Schaedler says. "We're not a transportation company, and we don't want to be a transportation company," but covering deliveries for partners in select geographies is one of the newest pieces of this co-venture.

Looking Ahead

In the month following the announcement of the new AD Co-Ventures initiative, 40 companies signed up to be a part of the AD database. "And we already identified three potential matches," Hoffman says. The goal is to have six co-ventures in place by the end of 2013 and to keep building from there, he says.

The announcement of AD's Co-Ventures program garnered mixed responses from Schaedler and Weaver.

"If it's something that can benefit the industry as much as it's benefited us, then it's a great move," Schaedler says.

Weaver is more measured in his response. "It's just so powerful, it's just been so good for us," he says. "How much of that do we really want to share? Now that it's in print, someone can buy a manual and take our experience, and potentially become a competitor with us someday. We don't have control over who gets that information."

That said, it also creates motivation to keep innovating and to always stay ahead of that potential competition, he says. "We've had six years of experience with this already. If we rest on our laurels and let them catch us, shame on us," he says.

"Even after six years, I don't think we've uncovered all the value that can come out of a co-venture," Hoffman says.

Case Study: Expanding Product Mix

Labbatt Food Service, Ace Mart alliance strengthens position in market

To expand the products it could sell without the expense of carrying inventory, San Antonio-based Labbatt Food Service collaborated with Ace Mart, a restaurant equipment and supplies distributor. This case study looks at how the two approached the collaboration and the challenges that have gone with it. It also looks at a second collaboration Labbatt has built with other distributors to serve customers that have moved to geographic areas it does not serve.

By Angela Poulson

Restaurant equipment and supplies distributor Ace Mart's original relationship with San Antonio, TX-based Labbatt Food Service was as a traditional supplier and an occasional provider of special-order items. About six years ago, Ace Mart, which is based primarily online, proposed a way to simplify how customers can order Ace Mart products through Labbatt.

Labbatt's customers are now able to browse and select Ace Mart items through Labbatt's online catalog, consolidating their orders from the two distributors.

Labbatt Food Service President Blair Labbatt says this enables his company to offer customers a wider array of products "without us actually having to stock those products and be in that business. We've outsourced it," he says. Ace Mart primarily sells restaurant equipment and supplies, which complements Labbatt's foodservice offerings.

The alliance helps Labbatt be more competitive with larger distributors without incurring the expense of carrying more products. Ace Mart picks and ships each order placed on the shared site directly to Labbatt, who through an "in-and-out" cross-docking system delivers the products to customers.

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Labbatt says it makes sense to use a business that is a specialist to be able to offer more products, but the alliance formed between the two companies hasn't been without its challenges. Labbatt says orders that incorporate Ace Mart products tend to have a higher level of returns, which has increased Labbatt's handling costs. "That's the biggest difficulty in doing it ... so that's something we've had to monitor really closely," he says.

There were also challenges to establishing systems that worked for both companies. "Getting something like that off the ground is an IT issue more than anything else," Labbatt says. "You've got to get the two software systems to work together." Labbatt gives Ace Mart credit for committing substantial resources toward the development of the system.

Whether a similar alliance could work for other companies is, Labbatt says, "the classic question of whether a distributor should grow by expanding product lines, by vertically integrating or by outsourcing."

For companies considering an alliance, Labbatt says "there needs to be a top-to-top contact, but there also need to be multi-strand relationships to make sure things stay on course day-to-day." An Ace Mart representative works at Labbatt essentially full-time, and other workers at all levels are in "continuous contact."

The rapport between business leaders is also a key ingredient. "All of that is essential to any supplier 'marriage,' if you like, particularly if it's a close one like this."

In a separate alliance, Labbatt collaborates

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with other distributors to meet customers' needs nationwide. When a customer expands to a new region that Labbatt doesn't serve, the distributor connects with a distributor in that region to serve the account.

Though Labbatt doesn't take a cut of partners' profits serving the same accounts, the distributor says it benefits because the move helps retain customers.

To police pricing among distributors delivering to the same accounts, Labbatt helped create Distribunet. The software enables Labbatt to line up distributors with common items and pricing for customers that extend outside of Labbatt's geographic reach, and to set and monitor the pricing they offer.

"Instead of us trying to be a national firm and build bricks and mortar all over the country, we've basically done it virtually with other independent companies that we don't own," he says.

Distributor partner programs facilitated by Labbatt involve as many as 10 different independent distribution companies and span as many as 25 states.

More Collaboration Case Studies

PM Industrial Supply: Sharing Inventory with Competitors

Collaboration with competition can be a sensitive area, but for some distributors, it can help them serve their customers more effectively and efficiently. PM Industrial Supply Co., Chatsworth, CA, works with two "friendly competitors" in the area to get products they don't carry, such as certain cutting tools.

"It really helps us compete with larger distributors, because it helps us be more of a one-stop shop for our customers," says Zack Gerin, IT and marketing manager.

The service is not an advertised benefit to customers, but it allows the distributor to respond quickly when customers call looking for something that's not normally stocked. The arrangement means that PM Industrial doesn't have to place special orders with manufacturers for those items and doesn't have to send that customer to another distributor.

The companies don't share resources, only product. Gerin says PM Industrial actually places daily orders through the arrangement. The participating companies have a verbal agreement for how much they will pay above cost for the products they order.

It's a seamless transaction for the customer. Customer information isn't shared among the cooperating companies, and the customer only receives one invoice.

As with all collaborations, trust is the key to success, Gerin says. "Make sure you work with a company with integrity, and be sure to stick to the terms you originally agreed to," he says. Even though the prices are based on a verbal agreement, honor that as though it were in writing, he says.

There are no plans to expand this arrangement right now, because the companies have been able to fulfill customer needs. In addition, the three companies have an established relationship that doesn't exist with other distributors in the area, Gerin says.

EDGE Investment Partners: Expanding Global Reach

Demand has increased for distributors to have global reach. That's not always possible if a distributor has to do it alone. In June 2012, 11 electrical distributors joined together to form EDGE Investment Partners LLC to meet this demand.

The focus of the group is to "build a network of distribution company partners outside of North America," according to the press release announcing the group's formation. The group is based in Milwaukee, WI.

EDGE, an acronym for Electrical Distribution Global Enterprise, completed its first acquisition in July when it took a majority interest in Brazilian distributor Ladder Automação Industrial LTDA. Ladder operates primarily in the Brazilian states of Sao Paulo and Rio de Janeiro.

The acquisition provided EDGE with a foundation for growth in Latin America, an area that has experienced significant growth in recent years.

"We are excited to create this new opportunity for the members while taking advantage of our strengths to work with potential distribution partners and suppliers to advance our industry globally," said board member John Burke, president, Kirby Risk Corp.

EDGE includes French Gerleman Electric Co.; Gerrie Electric Wholesale International Inc.; Horizon Solutions LLC; Kendall Electric Inc.; Kirby Risk Corp.; McNaughton-McKay Electric Co.; North Coast Electric Co.; Revere Electric Supply Co.; The Reynolds Company; Van Meter Industrial Inc.; and Werner Electric Supply Co.

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Wolseley Sales Up 0.9% in Fiscal First Quarter

European distributor Wolseley plc reported sales for the fiscal first quarter ended Oct. 31, 2012, of £3.3 billion (US$5.4 billion), an increase of 0.9 percent over the same period a year ago. Organic sales increased 2.1 percent. Trading profit increased 7.6 percent to £198 million (US$318.7 million).

U.S. sales, including Ferguson Enterprises, were £1.7 billion (US$2.7 billion), an increase of 9.6 percent year-over-year. Organic sales increased 7.1 percent. Trading profit increased 23 percent to £122 million (US$196.4 million). Wolseley completed two bolt-on acquisitions in the U.S. during the period: Davis and Warshow, a Blended Branches business in New York, and Power Equipment Direct, an online retailer of generators and power equipment. The businesses had combined annual revenue and trading profit of £125 million (US$201 million) and £10 million (US$16.1 million), respectively.

Sales in Canada in the first quarter were £247 million (US$397.6 million), an increase of 4.8 percent over the same period a year ago. Organic sales increased 3.1 percent. Trading profit increased 5.9 percent to £18 million (US$29 million).

In the UK, sales were £428 million (US$688.9 million), flat to the prior year. Organic sales decreased 0.3 percent. Trading profit increased 4 percent to £24 million (US$38.6 million).

In the Nordic region, sales were £532 million (US$856.3 million), a 10.1 percent decrease from the same period a year ago. Organic sales decreased 4.3 percent.

Sales in France were £250 million (US$402.4 million), a 17.1 percent decline from the same period a year ago. Organic sales decreased 8.2 percent.

Sales in Central Europe were £190 million (US$305.8 million), a 7.8 percent decrease from the same period a year ago. Organic sales increased 1.3 percent.

Distributor News

Industrial Distribution Group, Atlanta, GA, has agreed to acquire **Commercial Solutions** Inc., Edmonton, Alberta, for C$51.4 million (US$51.9 million). Commercial is an independent Canadian distributor of bearings, power transmission equipment, oilfield, industrial and safety products.

HD Supply Inc., Atlanta, GA, reported sales for the third quarter ended Oct. 28, 2012, of $2.1 billion, a 13.4 percent increase over the same period a year ago. Third-quarter losses of $50 million compared with a year-ago loss of $105 million. For the first nine months, sales were $6 billion, a 12.4 percent increase. The distributor reported a loss of $466 million, compared with a year-ago loss of $370 million.

Houston-based **GHX Industrial**, LLC, has acquired Phoenix-based **Express Hose & Fittings II**. Express Hose is a distributor of hose, fittings and other products to customers in the Arizona mining industry.

Interline Brands Inc., Jacksonville, FL, has agreed to acquire **JanPak** Inc., Davidson, NC, for $82.5 million in cash. JanPak has 17 distribution centers in the Southeast and South Central U.S.

McJunkin Red Man Corp., the U.S. operating subsidiary of **MRC Global** Inc., Houston, TX, has agreed to acquire **Production Specialty Services** Inc., Midland, TX. Production Specialty Services supplies pipe, valves and fittings as well as other MRO products to the oil and gas industry.

The Fastenal Company of Winona, MN, reported November sales of $253.5 million, 8.2 percent higher than November 2011. Daily sales increased 8.2 percent from the prior year to $12.1 million.

WESCO Distribution, Pittsburgh, PA-based distributor of electrical, industrial and communications MRO and OEM products, construction materials, and advanced supply chain management and logistics services, has launched a free data center application for the iPad in the App Store.

VWR International LLC, Radnor, PA, a global laboratory supply and distribution company, has acquired **Labonord SAS** and **Switch BVBA**, expanding the company’s cytology and histology portfolio in Europe.

Plastics distributor **Curbell Plastics**, Inc., Orchard Park, NY, is acquiring **American Plastics** and **Waggoner Plastics** in Texas. American Plastics/Waggoner Plastics will become one of Curbell’s 16 sales and distribution facilities in the U.S.

Beacon Roofing Supply, Inc., Peabody, MA, reported sales for the fourth quarter ended Sept. 30, 2012, of $598.1 million, a 3.9 percent increase over the same period a year ago. Organic sales declined 5.6 percent. Profit was $27.9 million. For the full year, sales were $2 billion, a 12.4 percent increase year-over-year. Organic sales increased 6.3 percent. Profit was $75.6 million.

Edgen Group Inc., Baton Rouge, LA, through its subsidiary, **Edgen Murray**

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News Digest
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MARKETS UPDATE SUPPLEMENT P. 2

Europe Limited, has acquired the profiling business of **Eterniti Steels Limited** to enhance its offerings to customers in the UK and Europe.

Arrow Electronics Inc., Englewood, CO, announced that Jeffrey Eastman will become president of Americas Components, effective Jan. 1, 2013. Eastman will succeed Vinnie Vellucci, who will retire in 2013 after nearly 44 years with Arrow.

Industrial pipes, valves and fittings distributor **Shale-Inland Holdings**, Houston, TX, has appointed Richard Lundgren as CEO. Lundgren most recently served as president of **Tyco Thermal Controls**, a subsidiary of Tyco International.

Economic News

Average **U.S. HVACR distributor sales** increased 11.6 percent in October, compared to a 4.7 percent decline in September, according to Heating, Air-conditioning and Refrigeration Distributors International. The gain was widespread, as evidenced in HARDI's monthly TRENDS report.

The **manufacturing sector contracted** in November, following two months of modest expansion, according to the latest Manufacturing Report on Business from the Institute for Supply Management. The **Purchasing Managers Index** registered 49.5 percent, a decrease of 2.2 percentage points from October.

Construction spending in October was $872.1 billion, 1.4 percent above the revised September estimate of $860.4 billion, according to the U.S. Census Bureau. The October figure is 9.6 percent above the prior year.

The **Canadian Industrial Product Price Index** was down 0.1 percent in October compared with September, largely the result of lower prices for petroleum and coal products, according to Statistics Canada. **The Raw Materials Price Index** was unchanged in October.

Real gross domestic product increased at an annual rate of 2.7 percent from the second to the third quarter of 2012, according to the second estimate from the Bureau of Economic Analysis. In the second quarter, real GDP increased 1.3 percent.

Economic activity expanded at a measured pace in recent weeks, according to reports from the 12 Federal Reserve Districts in the latest **Beige Book** report. All districts grew at a modest pace except St. Louis and Minneapolis with somewhat stronger increases and Boston reporting a slower rate of growth.

New orders for manufactured durable goods in October were flat at $216.9 billion, compared to $216.95 billion in September, the U.S. Census Bureau announced in its Advance Report. This followed a 9.2 percent September increase.

The Chicago Fed Midwest Manufacturing Index decreased 1.2 percent in October, to a seasonally adjusted level of 92.1. Revised data show the index was down 0.6 percent in September. The Federal Reserve Board's **industrial production index for manufacturing** moved down 0.8 percent.

Inflation-adjusted gross domestic product will expand 1.8 percent in 2013 and 2.8 percent in 2014, according to the Quarterly Economic Forecast from the Manufacturers Alliance for Productivity and Innovation. That's a slight increase from the 1.7 percent anticipated for 2013 in MAPI's August report.

Led by declines in production-related indicators, the **Chicago Fed National Activity Index** decreased to -0.56 in October from 0 in September. All four broad categories of indicators that make up the index decreased from September, and only two made positive contributions to the index in October.

The **Conference Board Leading Economic Index** for the U.S. increased 0.2 percent in October to 96, following a 0.5 percent increase in September and a 0.4 percent decline in August. **The Conference Board Coincident Economic** Index increased 0.1 percent, and **The Conference Board Lagging Economic Index** increased 0.3 percent.

Manufacturer News

Swedish manufacturer **Sandvik** has announced a plan to implement SEK 1 billion (US$150 million) in cost-saving measures by the end of 2013, including the reduction of more than 950 employees, the termination of third-party contracts with more than 350 workers and the elimination of 180 workers employed by third parties.

Grainger's Multichannel Model Builds Customer Loyalty, Stickiness

MARKETS UPDATE SUPPLEMENT P. 3

Grainger's multichannel model lets customers be served the way they want to be served, according to Court Carruthers, Grainger U.S. president. He was speaking at the $8.1 billion distributor's recent annual analyst meeting, available at grainger.com.

And it has allowed the distributor to adapt to changing economic conditions, Carruthers said.

At the annual meeting, Grainger's leaders provided an update on Grainger's growth drivers, homing in on the concept of a multichannel approach, or using a mix of sales force expansion, e-commerce, service centers, KeepStock inventory management services and branches to reach customers. This has resulted in a stickier customer relationship for Grainger, Carruthers said.

As an example of the value of the multichannel approach in serving customers the way they want to do business, Carruthers said that 25 percent of the transactions on the distributor's new mobile app are reservations for will call at local branches, compared with just 2 percent of transactions on grainger.com.

The distributor's branch network remains relevant for a key segment of customers, he said, but Grainger has seen a shift in the amount of business that has gone through the network, making a multichannel approach even more critical.

To stay ahead of that shift, Grainger has closed 70 branches in the past three years and increased the productivity of the labor and other assets in the remainder of the branch network.

It's invested the savings in sales force expansion, e-commerce and its other growth drivers, resulting in a more profitable branch network, Carruthers said. The distributor plans to adapt the network based on demand going forward.

But it's e-commerce that Grainger calls the "glue" that holds the multichannel model together.

"This is the one place the customer can go to get all the information related to transactions with Grainger whether or not (the transactions) are happening in e-commerce," Carruthers said.

E-Commerce Update

Paul Miller, vice president of e-commerce and customer information for Grainger, said Grainger is thinking beyond just the world of MRO when it comes to e-commerce leadership. "We're setting our sights on how we can be the top e-commerce destination. Period," he said.

The distributor, which had $8.1 billion in sales in 2011, is expecting that more than 31 percent of its 2012 sales will be from its e-commerce platform, or about $2.5 billion. The channel is Grainger's fastest growing. In October 2012, year-to-date e-commerce sales were up 17 percent, with the growth rate increasing each month, Miller said.

The goal of its e-commerce platform remains to increase integration with its customers, making it easier to do business with Grainger, Miller said.

Its newest feature on its website, auto reorder, is aimed at doing just that. Auto reorder allows customers to set a quantity and frequency to automatically reorder products online. The product is then delivered to them when they need it.

For example, one customer has paper towels automatically delivered every two months. "They don't have to think about it anymore," Miller said.

"That (loyalty) is hard for anyone to replace – especially competitors that deal in only one channel."

In addition to building out features that build loyalty, the distributor has been busy optimizing its e-marketing campaigns. It has significantly grown its investments in paid search marketing, going from managing 10,000 keywords two years ago to 5.6 million keywords now. As the distributor's product assortment goes up, that number will go up, Miller said.

The distributor sees an aggregate return on its ad spend of 6:1 on paid search marketing. Together, paid and organic search marketing are driving more than 25 percent of site traffic.

The distributor is also investing in a relatively new tool, remarketing, which is driving a 10:1 return on Grainger's ad spend.

Through remarketing, when you visit a company's website, you pick up a cookie and continue to see their ads on other websites you visit. "It's about timely and relevant messaging that goes out to our customers," Miller said. It's been so effective, he said, that vendors have helped pay for the strategy.

Recognizing the importance of e-commerce and mobile to its business, Grainger has created an "innovation center" for e-commerce in downtown Chicago to help attract and retain top talent.

"We're not close to being done," Miller said, referring to the distributor's recent developments. "When you think of the new opportuni-

Grainger

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ties in phone and tablet there's an incredible runway ahead for innovation." The distributor is now working on its next generation e-commerce platform.

Is the distributor concerned about rival e-commerce platforms from companies such as AmazonSupply? Miller said Grainger's multi-channel approach makes the distributor more valuable to customers, and that customers consider several factors when making a purchasing decision.

"When you add it all up, I look at this and say we are very well poised to continue winning in this space," Miller said.

Sales Force Expansion

While e-commerce has had great success for Grainger, sales force expansion continues to be a key part of the distributor's strategy in the U.S. "When we put feet on the street, and put sellers in front of customers, good things happen," Carruthers said.

The distributor has 2,400 sellers today, and continues to add corporate and commercial account managers.

Grainger says it has also had "great progress" with the mid-sized customer using territory sales reps, a newer effort that it has been refining, Carruthers said, by modifying the customer profiles they target, the profile of the territory sales reps they hire and the training they go through.

The distributor also made seller mobility a priority, with apps for smartphones that make salespeople more productive in the field.

The plan for 2013 is to add up to 100 sellers. If the economy is stronger, Carruthers said, the distributor may flex that number up to 200 or 250. The distributor is building up to 4,000 sellers over the next three to five years, covering the mid-sized and large customers throughout the U.S.

Inventory Management Services

Another critical piece of Grainger's multichannel puzzle is its KeepStock inventory management services. "This is not about a one-size-fits-all solution," Carruthers said.

KeepStock includes customer managed inventory, vendor managed inventory, automated mobile VMI technology for contractors and transportation companies, a vending program and a suite of on-site solutions that include having a full Grainger branch on site.

So far, the distributor has had 40,000 KeepStock installs, Carruthers said. It is aiming for 10,000 more in 2013, with 2,000 vending machines in 2013. Carruthers emphasized that vending machines are not the main focus. "We're not trying to put in as many vending machines as we can," he said.

The ultimate goal is 100,000 KeepStock installations. These customers are a priority, he said, because customers using KeepStock inventory management services are growing 15 percentage points faster than Grainger's overall business and accounted for more than $300 million in incremental 2012 revenue.

Results

According to Carruthers, Grainger's approach is working. The distributor has increased revenue by 28 percent with large and mid-sized customers, and through a combination of sales coverage, inventory management and e-commerce, Grainger says it is growing market share in a number of segments.

The focus on a diversified customer base also is helping despite uncertain economic conditions, he said.

And reaching those customers through several channels has built a more powerful and sticky relationship Grainger is counting on for continued growth.

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