Modern
DISTRIBUTION MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 43, NO. 4
FEB. 25, 2013

■ *The Shifting Competitive Landscape Series*

Global Competition on a Local Level

European distributors increase focus on U.S. as growth market

Cross-border M&A in wholesale distribution has accelerated in recent years, adding to an increasingly busy competitive landscape. The U.S. market continues to be attractive to Europe-based distributors seeking growth outside of their traditional markets. This article looks at this trend and the impact it has had on the market.

This article is part of an ongoing series looking at The Shifting Competitive Landscape in wholesale distribution. Read this and other articles in the series at www.mdm.com/shiftinglandscape.

By Lindsay Konzak

In recent years, Europe-based distributors have accelerated their expansion in the U.S. As a result, local and regional distributors are increasingly facing local competitors backed by resources they did not have access to previously.

"As Thomas Friedman says, the world is truly flat," says Robert Stolz, who leads Wurth Group's North American industrial and fastener distribution operations. "We really compete in a worldwide marketplace – not just products and sales, but for people."

Netherlands-based industrial distributor ERIKS more than doubled its sales in North America over the past two years via acquisition and has called North America its most important growth market. The distributor, with more than 65 companies in 27 countries, is a subsidiary of family-owned SHV Holdings N.V., which had sales of US$24.1 billion in 2011.

UK-based Wolseley plc has continued to invest in acquisitions through its U.S.-based Ferguson Enterprises despite paring some of its European operations.

"Cross-border is becoming a larger part of distribution M&A," says Jay Greyson, managing director and principal of investment banking firm Vetus Partners and a principal for distribution-focused Supply Chain Equity Partners.

Most of the cross-border acquisitions are strategic – large distribution companies, private or public, looking to new markets for growth.

Drivers of Expansion

European distributors have targeted the U.S. for growth in part due to the weakened economic state in their traditional markets. "They're not getting the growth they need from that market," says Brad Keyworth, director and senior member of investment bank Lincoln International's distribution team. "Distributors need to look outside of their domestic market to generate growth."

The U.S. is in recovery and a number of economic indicators are trending up, including housing starts, consumer spending and business investment. Combined with growth in emerging markets, North America is an attractive market for these companies, he says, and interest continues to grow.

Many have also followed European manufacturers that have moved into the U.S. and other markets beyond their traditional borders. "They need a sales channel and presence in multiple countries to support global customers," Greyson says.

And just as U.S.-based distributors have followed customers overseas, many European distributors have cross-border customers, so they are following the food chain to the U.S. The end goal: to increase wallet share.

"These are formidable competitors that

continued on page 3

INSIDE

mdm.com

PERSPECTIVE ■ Commentary by Jenel Stelton-Holtmeier

Shifting Landscape, Shifting Relationships

If there's anything I've learned in my time covering the wholesale distribution industry, it's that distributors hold one thing above all else: relationships. Even in the shifting competitive landscape, relationships have an important role in this industry.

Sure today's distributor may look a lot different than distributorships of the past. Once-local businesses are being bought up by larger national or international companies – a trend that Editor Lindsay Konzak covers in this issue. In addition, more emphasis is being placed on e-commerce and mobile transactions.

The shifts have also changed how the relationships are started. While the face-to-face introductory meetings still happen, more customers are doing research on distributors and bringing their business to them. They come into the relationship knowing what they want and how they want it. And if you don't give them a reason to keep coming back to you, they're also willing to do research on who else will.

So in this new competitive landscape, relationship maintenance has become even more important. The "buddy system" isn't nearly as effective anymore, because customers can do more of their own research and find out what you're not providing them. It's all the more important to listen to what they're not telling you so that you can meet the needs they didn't know they had.

Rather than the relationship becoming a secondary value, it's become even more important. As Ken Jacobson of Principia told MDM staff writer Angela Poulson, for many contractors, if a distributor truly is adding value beyond product and price to the relationship, that relationship may trump the brand loyalty that we hear so much about in this industry.

Eric Hills, chief evangelist and senior vice president of pricing optimization software provider Zilliant, recently told me: "People will still work with people. They will come up with big new ideas. They will solve problems when inevitably they arise." But distributors have to be willing to embrace the new landscape and find ways to really add that extra value to the relationship.

Hills was featured as part of the latest MDM Executive Briefing, E-Commerce in Distribution: Why It Can't Be Ignored, available at mdm.com/executivebriefing. As a special bonus this month, subscribers can listen to an extended interview with Hills or download a transcript to get his insight on how e-commerce has changed distribution and where the industry has to go in order to succeed. Access this exclusive content at mdm.com/premium-extra.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Konzak
lindsay@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Jenel Stelton-Holtmeier
jenel@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
3100 Arapahoe Avenue, Ste 201, Boulder, CO 80303
Tel: 303-443-5060 Fax: 303-443-5059
Website: http://www.mdm.com

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

Subscriptions are available by online delivery and/or first-class mail. Ten years of archives of MDM are available online to subscribers.

Published twice monthly; $395/yr., $415 U.S. funds other countries. Six-month and two-year terms are available. For group subscription rates and site licenses, please contact Hadley Fable at 303-443-5060.

ISSN 0544-6538

Global M&A

Continued from page 1

can bring resources to the market that aren't going to go away," says David Gordon of Channel Marketing Group and the blog ElectricalTrends.com.

Impact on Competitive Landscape

European distributors have primarily used acquisitions as their tool for expansion in the U.S. One of the most obvious impacts on the competitive landscape has been the infusion of additional resources that allow acquired companies to compete more effectively.

"We don't buy companies that are broken," Wurth's Stolz says. "We only bring companies into the group that are healthy performing and profitable. … Our strategy is to provide more capital to the businesses." The focus is on encouraging innovation and improving technology, he says. "We want them to expand."

When private equity-owned industrial rubber products distributor Lewis-Goetz and Co., Pittsburgh, PA, was acquired by Netherlands-based industrial distributor ERIKS in 2011, it had $400 million in annual sales, more than doubling ERIKS' presence in North America. The acquisition put Lewis-Goetz in a stronger position financially and strategically, Lewis-Goetz CEO Jeffrey Crane told MDM at the time. ERIKS has already made two acquisitions in the U.S. in 2013, adding reach for its subsidiaries Industrial Controls and Rawson Inc.

Greyson says that the impact of more distributors expanding in the U.S. should be considered on a sector-by-sector and market-by-market basis. For example, in the electrical distribution sector, two of the top three electrical distributors on MDM's Top 25 Electrical Distributors list for the fiscal year 2011 were based in Europe. Both Paris-based, Rexel ($4.8 billion in North America) and Sonepar (est. $6.7 billion in North American sales) have continued to expand in the U.S. in the past couple of years.

Rexel bought Platt Electric Supply, Beaverton, OR, in 2012, adding nearly $400 million in sales and 111 branches in seven states to its U.S. portfolio. At the time, Rexel said that the acquisition supported one of Rexel's top growth priorities: strengthening its market share in mature markets where it is already present.

"We think it made a very strong statement to the world and other North American distributors as to their commitment to the U.S. and North America as a broader scope," Greyson says.

Platt Electric Supply was already a strong player in the Northwest U.S. But, Greyson says, the acquisition put Rexel's advantages behind Platt, including buying power, service offering capabilities and the potential to serve global accounts. "If you're a smaller distributor you have to sit back and look to refine your value proposition as the competitors in your local neighborhood are getting larger and stronger."

Pricing competition may ramp up in markets where global distributors have made acquisitions. MDM heard from industry observers that some acquired companies have become much more aggressive on the pricing front than they could have been pre-acquisition, allowing them to win more contracts and attract more customers.

Distributors that have the backing of larger global organizations such as Sonepar, Rexel and Wurth, may also have the resources to shift what the M&A landscape looks like. "There are few opportunities that they could not afford to go after," Gordon says.

Another impact: Organizations have also turned their eyes to Canada. "All of a sudden, the national chains are no longer just national," Gordon says. "Certain customer segments could be exploited in this way." For example, customers in oil and gas, as well as the automotive industry, may find a distributor's presence in the U.S. and Canada attractive. Many U.S.-based distributors have also made Canada a prime target for growth in recent years.

Best Practices

Another potential benefit global distributors expanding in the North American market bring is a deeper trough of best practices to tap. Wurth, with more than US$11 billion in global sales and 400 companies in 84 countries, has set up a network to do just that.

"If they are doing something innovative, within 45 days that innovation can be spread all over the company," Stolz says. The network includes online forums where employees share information and ideas.

More informal structures have also been set up, including the use of YouTube, for example, to show how a product can be used in a different way. Stolz says that the use of social media usually results in good ideas "spreading like wildfire."

And new companies that join Wurth jump right into learning from and contributing to

To order reprints, reference article #4302-1. Learn more about reprint options at www.mdm.com/reprints.

this pool of ideas. Take New Orleans, LA-based Oliver H. Van Horn Co., which was acquired by Wurth in 2010. CEO Lee Eagan traveled to Norway to present new sales initiatives to Wurth's worldwide oil and gas division. "He did that this fall, and I don't think his telephone has stopped ringing," Stolz says.

"That's an example of someone fairly new to the group who brings a 109-year tradition of Oliver Van Horn and is able to spread it throughout the world."

When done well, training is also a strength for many of these global companies. Wolseley's Ferguson is well-known for its management training programs. Wurth has developed a young professional training program, which provides not only functional training but also training on how to work across cultures. "The reports I get back is that they just can't get enough of it. They really enjoy that," Stolz says.

Supplier Impacts

Access to new product lines is another edge newly acquired companies may have when they join global distribution companies.

"Because we're sourcing such a large dollar amount around the world, when someone joins the group they can jump right into that sourcing pool," says Wurth's Stolz. He says that working with manufacturers is critical to their global expansion success. "Working with our partners may be the most important aspect of bringing companies into the group."

On the other side, manufacturers have to consider how they'll respond when one of their distributors is acquired. Depending on the sector, do they continue to authorize them as a distributor or do they pull line?

But some manufacturers are starting to consider the impact of this beyond just the local markets they are trying to reach. If they were to pull the line, it may affect what could happen for the business globally.

Global Expansion, Local Impact

Most distributors and industry observers would argue that distribution in most segments remains a local business, no matter where the owners are based. This means there is opportunity for both the large and the small in any particular market.

Even the large companies recognize this dynamic. "One of our core beliefs is that business is done locally," Stolz says. "When we go to California or Washington state, our business is set up with Californians and Washingtonians running the business. We believe in local autonomy."

Sonepar also approaches acquisitions this way, retaining local names and management when it acquires new companies.

Gordon, who focuses mostly on the electrical distribution segment, says that if distributors focus on their local markets and invest in the right resources – what's needed to service their customers – they can survive and even thrive.

"This industry is more driven not just by relationships but around local needs and local support and knowledge," he says. "… If these companies don't make those investments and have quality people, that will leave an opportunity for someone else.

"It's going to come down to people, it's going to come down to technology and it's going to come down to utilization of those resources."

Greyson agrees. "Strengthen that value proposition and make it as deep as you can to serve customers to protect yourself against the economies of scale that are being developed today."

Disintermediation & Channel Conflict

How the building materials sector is responding to a changing marketplace

Principia Consulting's Building Products Distribution 2012 study identifies the best growth opportunities in the sector through 2014 and provides strategies for value creation and competitive advantage.

Ken Jacobson, partner at Principia, spoke with MDM staff writer Angela Poulson about the study's findings, including increased disintermediation and how distributors can stay competitive despite e-commerce's role in accelerating this trend.

MDM: In Principia's 2011 survey, 50 percent of building products distributors expected industry-wide growth of at least 5 percent in 2012. What are distributors' expectations for 2013?

Ken Jacobson: It depends on the day of the week that you're asking. It depends on the still-looming status of the fiscal cliff beyond the tax-side issues already addressed with the American Taxpayer Relief Act of 2012. It depends on what new economic or housing industry report has just been released.

In new residential construction, though, generally people are expecting that this year will be up by 20 percent. While new construction can be volatile, the peak-to-trough and trough-to-peak range on the remodeling side is narrower, and it depends on the nature of the remodeling.

There are certain remodeling and repair jobs that are considered essential, like roofing. When you have a roof leak, you generally don't wait, so those are consistent performers.

Then there's the impact of natural disasters like Hurricane Sandy that help the building products industry, although we'd all prefer solid growth from pent-up organic demand. Nonetheless, there are a lot of repair and remodeling projects in the area affected by the storm.

In general, with more funding available, and as we put the financial crisis more in the rear-view mirror, there will be greater consumer optimism, a relaxation of the purse strings and increased activity in remodeling. So it's quite possible that remodeling expenditures will also exceed 10 percent growth this year.

MDM: Principia's Building Products Distribution 2012 report indicates that high materials and energy costs are hurting distributors. Has this issue improved at all since Principia reported on it in the 2011 survey?

Jacobson: I think it's still an issue. Anytime costs increase and finances are tight, you're going to have constrained spending. Raw material prices have not dropped very much if at all, and energy costs have come down a little but are still high.

In response, one thing multi-branch distributors are doing is they won't carry all the SKUs of a particular line at all locations. They'll then trans-ship from one location to another to ensure a high fill rate. Some of that depends on how close their operations are together and how far those commodities can generally be shipped, but many distributors are rethinking their stocking positions at different locations and thinking differently about the geographic range of their service and operations.

MDM: The 2012 report also indicates that the building materials supplier base has seen some consolidation. How do you see this affecting distributors, and what strategies can distributors use to counter challenges presented by the trend?

Jacobson: In most of the categories we track, there are typically five or fewer suppliers that comprise the largest part of the supply base, which means distributors have fewer choices from which to attract and retain top suppliers.

So distributors have to think strategically about which suppliers have the products customers want most, which have the products that present the greatest earnings potential and which have demonstrated an understanding of the value that the distributor brings, from services like specification selling, contractor training, and marketing and promotion support.

In turn, distributors can then present a value proposition to suppliers to demonstrate that they're the right distributor for that supplier's products because there will be many distributors vying for the same supplier's attention.

MDM: Tell me about the disintermediation you see happening between suppliers and distributor customers.

Jacobson: What's happened over time is that because the industry has compressed on both the supply side and on the distributor side, the overall margin pool in the industry has contracted with the downturn. So everyone from the supplier to the dealer is looking to capture more share of the margin pool, and many suppliers have already restructured their own organizations to maximize margins.

Suppliers think they can capture even more margin by disintermediating their distribution networks and going down channel. This can be in the form of selling directly to builders and contractors, going from two-step distribution to one-step distribution or acquiring distributors. There are examples of disintermediation in many categories, including siding, trim, decking and insulation.

What distributors have to do to counter this trend is to provide value-added services beyond just transportation and logistics, and become a sales and marketing extension for the manufacturer. Because if distributors are performing the exact same functions as the supplier, the supplier will recognize that as redundant and say "There's no sense in paying for it twice. Let's just do it for ourselves."

MDM: How has e-commerce played a role in the development of disintermediation?

Jacobson: Online shopping, as we know, plays a role in nearly all consumer purchasing decisions nowadays. The biggest role it has played in building products is that consumers are now very well-educated about products for the home, more so for remodeling, but even for new home construction.

They are informed about the products' features and benefits, and oftentimes the information they find online will lead them to a specific type of product, which can lead them back to the manufacturer where they have the opportunity to order product directly.

The Internet has also made consumers very aware of building product prices. Whereas consumers would formerly get bids with materials and labor built in together and weren't really conscious of what they were spending for each, there is now a mentality among a growing portion of consumers that they are buying materials and, separately, hiring a contractor for the labor portion.

It has made the industry much more transparent in terms of what consumers are paying for.

MDM: Is there anything distributors can do to avoid losing business through disintermediation? Can business that's already been lost be reacquired?

Jacobson: The key to customer retention and reacquisition is to understand consumer demand and contractor behavior. That sounds simple, but it can be very complex.

For a distributor to understand consumer demand, it has to reach one step beyond its typical customer, i.e. the contractor or builder, to understand what the trends are for particular product categories as far as styles, colors, textures and performance, and to be able to stock the right products at the right time and in the right place.

To keep contractor customers, distributors and dealers really have to think like a contractor, who is concerned with growing his or her business, increasing proposal win rates and reducing callbacks. For distributors and dealers, that means having products with strong warranties and a strong track record of minimal product failure.

It also means having the right promotional materials to help contractors win projects, such as product brochures, sample boards and the proper training. We've seen in many product categories that contractors are more loyal to the distributor or dealer than they are to the brand. If the distributor or dealer switches brands, often the contractor will stay with its current relationship and migrate to the new brand.

MDM: How have big-box stores played into the creation of channel conflict, and how can distributors avoid or counter that threat?

Jacobson: There's no doubt that big box has become more of a factor in many categories. Consumers can go in and see and touch a wide array of products and get immediate pricing online or in the store.

Big box stores have also increased their installation services and help desk capabilities, so they're acting more and more like a pro channel distributor or dealer.

Big-box stores typically carry a broad range of products, but not a very deep selection. So in a category like siding, a big box may carry one or two brands and only a few colors. Distributors and dealers, on the other hand, are much more knowledgeable on the product categories they carry and have a deeper selection.

So there's a role for both. Contractors shop at big box for the immediate availability and a wide range of locations, but they still look to distributors and dealers for special services, training, support, job site delivery, house packs and more. There are a lot of things that pro dealers can do that the big box still cannot do.

MDM: Can distributors use vendor-managed inventory programs or other services to differentiate?

Jacobson: Vendor-managed inventory is a tactic a lot of companies are advocating, but it's a double-edged sword. It can give the appearance that the distributor is nothing more than a transportation and logistics warehouse, because the supplier will see every transaction that's occurring and just refill the pipeline.

The distributor may or may not be using their sales and marketing to manage that inventory.

MDM: What strategies are most effective for distributors looking to increase wallet share?

Jacobson: That relates back to CRM and understanding what that contractor is doing on a daily basis: which products they are buying and which ancillary products can be provided to capture more share of wallet.

The contractor doesn't want to go to multiple locations to fill his truck to do the job, so the more you can understand what the contractor needs, whether it be tools, fasteners or other components, the better you can satisfy his needs, retain him and increase your share of his wallet.

Contact Ken Jacobson at 610-363-7817 or kjacobson@principiaconsulting.com.

To order reprints, reference article #4302-2. Learn more about reprint options at www.mdm.com/reprints.

MAPI Report: China Increases Global Manufacturing Lead

China displaced the U.S. as the world's largest manufacturing nation in 2010 and widened its lead in 2011, according to recently published data from the United Nations, but a new Manufacturers Alliance for Productivity and Innovation (MAPI) report notes that China faces a difficult long-term transition that requires major structural economic and political reforms.

In "China Is the World's Largest Manufacturer, and by an Increasing Margin," Daniel J. Meckstroth, Ph.D., MAPI chief economist, writes that the country's ascent in manufacturing importance has been in the making for decades. Based on the dollar value of manufacturing value-added, China was the eighth largest manufacturing economy in 1991, third in 2001, and first in 2011.

Manufacturing value-added in China totaled $2.35 trillion in 2011 while U.S. manufacturing value-added was $1.9 trillion, according to figures estimated by the United Nations based on the international classification of manufacturing. China accounted for 20.7 percent of world manufacturing in 2011, an increase from 18.9 percent in 2010. Conversely, the U.S. share of global manufacturing declined from 18.4 percent in 2010 to 16.8 percent in 2011.

"China attained this ranking through a combination of price increases, exchange rate appreciation, and an extremely fast growth rate in the physical volume of manufacturing value," Meckstroth said. "Over the 10-year period ending in 2011, these changes produced an 18.8 percent per year change in the dollar value of Chinese manufacturing value-added compared with 2.8 percent annual growth of U.S. manufacturing value-added."

Meckstroth warned that such a disparity should be expected given that China is a large, rapidly emerging, densely populated country while the U.S. is a large, advanced, lightly populated country growing at a relatively modest pace.

To make more relevant comparisons between disparate economies, the report noted a dramatic reordering of the rankings when using per capita manufacturing value-added as the metric. With this measurement, the most manufacturing-intensive economies are Germany ($8,874 per capita), Japan ($8,780), Korea ($6,477), and the United States ($6,082). China ranks 11th ($1,772).

China has many characteristics that make a growth slowdown likely, including a rapidly aging population, volatile inflation rates, undervalued exchange rate, and low consumption shares of GDP.

"Eventually, growth will depend more heavily on an expanding service sector, where difficult structural changes are necessary to promote productivity growth," Meckstroth said. "The Chinese will eventually exhaust the easy productivity gains from imported technology and technology transfer, and they will have to rely more on their own R&D.

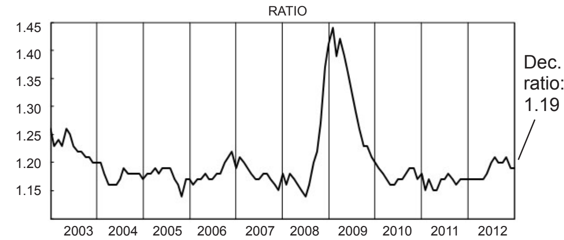
"The growth rate in China is bound to slow – what remains to be seen are the magnitude of change and the timing," he concluded.

Monthly Wholesale Trade Data

Wholesale trade revenues for December 2012 were virtually unchanged from the November level, but were up 3.7 percent from December 2011, according to the U.S. Census Bureau. December sales of durable goods were down 0.9 percent from last month, but were up 0.9 percent from a year ago. Sales of nondurable goods were up 0.8 percent from November and were up 6.1 percent from last December.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2003-2012

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories. December inventories of durable goods were up 0.2 percent from last month and were up 7.7 percent from a year ago. Inventories of electrical and electronic goods were up 2.6 percent from last month. Inventories of nondurable goods were down 0.6 percent from November, but were up 2.4 percent from last December.

Inventories/sales ratio. The December inventories/sales ratio for wholesalers was 1.19. The December 2011 ratio was 1.17.

Sales and Inventories Trends: December 2012

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 11/12-12/12	Percent Change Sales 12/11-12/12	Percent Change Inventory 11/12-12/12	Percent Change Inventory 12/11-12/12
42	**U.S. Total**	**418,855**	**497,651**	**1.19**	**0.0**	**3.7**	**-0.1**	**5.5**
423	**Durable**	**186,289**	**295,448**	**1.59**	**-0.9**	**0.9**	**0.2**	**7.7**
4231	Automotive	33,546	43,795	1.31	-0.7	5.8	-3.8	-1.7
4232	Furniture & Home Furnishings	4,270	7,149	1.67	-2.4	-2.4	-2.5	0.4
4233	Lumber & Other Construction Materials	10,086	13,848	1.37	3.6	13.9	2.1	15.7
4234	Prof. & Commercial Equip. & Supplies	31,656	33,446	1.06	-2.3	0.5	1.0	6.4
42343	Computer Equipment & Software	15,750	12,754	0.81	-2.8	-2.1	0.9	8.7
4235	Metals & Minerals	12,963	27,510	2.12	1.4	-4.7	0.9	7.3
4236	Electrical Goods	32,635	43,141	1.32	0.0	3.1	2.6	5.8
4237	Hardware, Plumbing, & Heating Equipment	9,064	18,964	2.09	-0.3	2.3	1.8	6.6
4238	Machinery, Equipment & Supplies	32,178	82,718	2.57	-0.1	-1.9	0.2	17.3
4239	Miscellaneous Durable	19,891	24,877	1.25	-5.4	-6.9	0.2	1.5
424	**Nondurable Goods**	**232,566**	**202,203**	**0.87**	**0.8**	**6.1**	**-0.6**	**2.4**
4241	Paper & Paper Products	7,141	7,759	1.09	-0.3	0.2	3.1	3.2
4242	Drugs	37,241	34,151	0.92	4.8	3.2	-4.3	-0.2
4243	Apparel, Piece Goods & Notions	12,207	21,773	1.78	-0.2	4.0	3.4	-1.8
4244	Groceries &Related Products	48,759	35,770	0.73	-0.4	1.6	0.0	5.7
4245	Farm-product Raw Materials	20,209	22,523	1.11	-6.1	18.2	-6.0	9.9
4246	Chemicals & Allied Products	10,297	12,367	1.20	1.2	6.5	3.8	5.9
4247	Petroleum & Petroleum Products	65,402	27,062	0.41	1.5	8.2	-0.2	0.2
4248	Beer, Wine & Distilled Beverages	10,550	13,887	1.32	1.8	5.8	1.4	9.7
4249	Miscellaneous Nondurable Goods	20,760	26,911	1.30	1.8	8.7	1.0	-3.7

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

mdm.com®

Industrial & Construction Markets Update

VOL. 43, NO. 4 | FEB. 25, 2013

ERIKS Completes Three Acquisitions in U.S., Europe

Dutch industrial distributor ERIKS has announced three acquisitions over the past month, expanding in the southern U.S. and Poland.

Through its subsidiary Industrial Controls, ERIKS acquired IEC Control Shop, a Texas-based distributor of HVAC controls. IEC Control Shop has branches in Fort Worth and Dallas, TX, complementing Industrial Controls' network of 18 branches and extending its footprint into the Southwest and Gulf Coast.

The addition of IEC Control Shop broadens Industrial Controls' coverage with existing product lines and expands its capabilities.

Through its subsidiary Rawson Inc., ERIKS acquired Regal-Brown Inc., an Alabama-based manufacturers' representative for instrumentation, filtration, analytical and valve products. This acquisition expands Rawson's coverage in the southeast U.S. Rawson is a distributor of instrumentation and valve products in the Gulf Coast in the U.S. and Mexico, which includes locations in Texas, Oklahoma and Louisiana with an additional branch in Mexico City.

ERIKS has also extended its network in Poland by the acquisition of VEGA in Myszkow, a technical distribution company supplying industrial seals.

ERIKS is an international industrial products and services provider whose business is divided into five core activities: flow technology, sealing technology, bearing and power transmission, including electromechanical services and condition monitoring, industrial plastics, and tools and maintenance products. ERIKS has more than 65 companies with branches in 27 countries.

ERIKS is a subsidiary of SHV Holdings N.V., a privately held family company with sales in 2011 of €17.3 billion (US$24.1 billion).

Distributor News

Wolseley plc company **Ferguson Enterprises** Inc., Newport News, VA, has acquired **Fluid Systems Hawaii** Inc. Fluid Systems Hawaii operates from a single location near Honolulu and distributes underground water supply and wastewater drainage products throughout the state.

DGI Supply, a DoALL Company, Wheeling, IL, has agreed to acquire **Merwin-Stoltz**, Menomonee Falls, WI, a distributor of cutting tools, abrasives and machine tools. DGI plans to move its local customer service team and inventory from West Allis, WI, to Menomonee Falls shortly after the closing.

Chicago-based **Lawson Products** Inc. reported sales for 2012 of $290.5 million, down 7.8 percent from 2011. Lawson reported a loss of $62.6 million, compared to a year-ago loss of $4.6 million. Fourth-quarter sales were $68.2 million, a 6.4 percent decline compared to the same period year earlier. Profit was $1.7 million, compared to a year-ago loss of $5.5 million.

Lawson Products launched a new e-commerce website designed to provide customers with more product choices, improved functionality and other user-friendly features.

Motion Industries reported sales for 2012 of $4.5 billion, up 6.7 percent compared to 2011. Fourth-quarter sales were $1.1 billion, up 2.1 percent from the same period a year earlier. Full-year sales for Atlanta-based **Genuine Parts** Co., the parent company of Motion Industries, were $13 billion, an increase of 4.5 percent compared to 2011.

Swiss fasteners distributor **Bossard** plans to acquire **Intrado AG** (Hünenberg), which sells electrical engineering products. Intrado AG is a subsidiary of Jacob GmbH in Kernen, Germany.

United Stationers Inc., Deerfield, IL, reported full-year 2012 sales of $5.1 billion, an increase of 1.9 percent from the prior year. Profit increased 2.6 percent to $111.8 million. Fourth-quarter sales were $1.2 billion, up 3.6 percent year-over-year. Profit increased 17.9 percent to $32.9 million.

HVACR distributor **Watsco** Inc., Miami, FL, reported sales for 2012 were up 15 percent to $3.4 billion. Sales were up 4 percent on a same-store basis. Profit for the year was $103 million, up 14 percent. Fourth-quarter sales were up 19 percent to $766 million; sales were up 7 percent on a same-store basis. Profit increased 10 percent to $15 million.

Airgas, Inc., Radnor, PA, plans to build a new liquid carbon dioxide plant in the greater Houston area to replace its plant at the Shell Deer Park Refinery complex that is expected to close late this year.

Global electrical distributor **Rexel**, Paris, France, reported sales for 2012 of €13.4 billion (US$18 billion), up 5.8 percent over sales in 2011. Profit increased 0.8 percent to €318.6 million (US$428.8 million). For the fourth quarter, sales were €3.4 billion (US$4.6 billion), up 2.9 percent year-over-year. Profit increased 37.4 percent to €82.2 million (US$110.6 million).

continued on p.2 of this section

News Digest
Continued from p. 1 of this section

Danbury Winsupply opened in Brookfield, CT, to serve plumbing and heating contractors in western Connecticut and southeast New York state. **WinWholesale**, Dayton, OH, is the majority shareholder in Danbury Winsupply.

EFC International, St. Louis, MO, opened a branch office and warehouse in Phoenix, AZ. The office will serve customers in the West and Mexico.

Arrow Electronics Inc., Englewood, CO, reported 2012 sales of $20.4 billion, a 4.6 percent decline from 2011. Profit fell 15.4 percent to $506.3 million. Fourth-quarter sales were $5.4 billion, up 0.7 percent from the year-ago period. Profit increased 0.3 percent to $174.7 million.

Chicago-based MRO distributor **Grainger** reported daily sales for the month of January 2013 were up 8 percent from January 2012, and included 3 percentage points from volume, 3 percentage points from price, 1 percentage point from sales of seasonal products and 1 percentage point from acquisitions.

HVACR distributor **Meier Supply** Co. Inc. has relocated its executive offices and primary distribution center to a new facility in Conklin, NY.

L&W Supply Corp. reported 2012 sales of $1.1 billion, an 8 percent increase from 2011. Net loss for the year was $33 million, compared to a loss of $68 million in 2011. Fourth-quarter sales were $282 million, up 6.8 percent from the prior-year period. Net loss was $10 million, compared to a $15 million loss in the fourth quarter 2011.

USG Corp. , Chicago, IL, L&W Supply's parent company, reported 2012 sales of $3.2 billion, an increase of 10.8 percent from 2011. USG reported a net loss of $126 million, compared to a year-ago loss of $390 million.

Beacon Roofing Supply Inc. , Peabody, MA, reported sales for the first quarter ended Sept. 30, 2013, of $513.7 million, an increase of 4.9 percent compared to the same period a year earlier. Organic sales declined 4.6 percent. Profit fell 4.8 percent to $18.2 million.

BlueLinx Holdings Inc., Atlanta, GA, reported sales for 2012 of $1.9 billion, an 8.7 percent increase from 2011. Net loss for the year was $23 million, compared with a year-ago loss of $38.6 million. Fourth-quarter sales were $440.3 million, an increase of 12.6 percent year-over-year. Net loss for the quarter was $11.4 million.

Economic News

Industrial production edged down 0.1 percent in January after having risen 0.4 percent in December, according to the Federal Reserve. January manufacturing output decreased 0.4 percent following upwardly gains of 1.1 percent in December and 1.7 percent in November. **Capacity utilization** for total industry decreased in January to 79.1 percent.

Privately-owned **housing starts** in January were at a seasonally adjusted annual rate of 890,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This is 8.5 percent below December but 23.6 percent above January 2012.

The Conference Board **Leading Economic Index** for the U.S. rose 0.2 percent in January to 94.1. The **Coincident Economic Index** increased 0.4 percent, and the **Lagging Economic Index** increased 0.4 percent.

The **Producer Price Index** for finished goods advanced 0.2 percent in January, seasonally adjusted, the U.S. Bureau of Labor Statistics reported. Prices for finished goods declined 0.3 percent in December and 0.4 percent in November.

The **U.S. and Chinese trade imbalances** in manufactures continued to surge in 2012, with the U.S. deficit up by 8 percent to $498 billion, according to a new report from the Manufacturers Alliance for Productivity and Innovation. At the same time, the Chinese surplus increased by 15 percent.

European construction sector production fell by 1.7 percent in the euro area and by 2.7 percent in the EU27 in December 2012, compared with the previous month, according to first estimates released by Eurostat.

Europe remains in recessions, with **European GDP** falling by 0.6 percent in the euro area (EA17) and by 0.5 percent in the EU27 during the fourth quarter of 2012, compared with the previous quarter, according to flash estimates published by Eurostat.

In December 2012 compared with November 2012, seasonally adjusted **industrial production** grew by 0.7 percent in the euro area (EA17) and by 0.5 percent in the EU27, according Eurostat. In November production fell by 0.7 percent and 0.6 percent respectively.

The **power transmission/motion control industry** in the fourth quarter 2012 expanded at a slightly faster pace than the prior quarter, according to the PTDA Business Index. The fourth-quarter index produced a reading of 50.7, a slight increase over last quarter's reading of 50.3.

Manufacturer News

Illinois Tool Works Inc., Glenview, IL, is exploring strategic alternatives for its industrial packaging segment, including a possible sale or spin-off of the business.

Reliance Steel & Aluminum Co., Los Angeles, CA, has agreed to acquire **Metals USA Holdings** Corp., Fort Lauderdale, FL, for $1.2 billion.

Allied Motion Technologies Inc., Denver, CO, reported 2012 sales of $102 million, an 8 percent decline from 2011. Profit fell 22.5 percent to $5.4 million. Sales for the fourth quarter were $24 million, a 14.5 percent decrease from the same period a year earlier. Profit fell 59.5 percent to $1.1 million.

European building materials supplier **Saint-Gobain** reported sales for 2012 of €43.2 billion (US$57.4 billion), an increase of 2.6 percent compared to 2011. Profit decreased 40.3 percent to €766 million (US$1 billion). Fourth-quarter sales for Saint-Gobain were €10.7 million (US$14.2 million), a year-over-year increase of 1.6 percent.

Brady Corp., Milwaukee, WI, reported sales for the second quarter ended Jan. 31, 2013, of $324.2 million, up 1.1 percent year over year. Organic sales declined 3.1 percent. Net loss was $8.7 million, compared to a year-ago loss of $90 million. For the first six months, sales were $661.8 million, a decline of 1.3 percent. Organic sales decreased 2.5 percent. Net loss was $18.5 million, compared to a year-ago loss of $57.2 million.

Myers Industries Inc., Akron, OH, 2012 sales were $791.2 million, an increase of 4.7 percent compared to 2011. Profit increased 22.3 percent to $30 million. Sales in the Distribution Segment were $176.6 million for the full year, a decline of 3.9 percent compared to 2011.

Rexnord Corp., Milwaukee, WI, reported sales for the third quarter ended Dec. 29, 2012, were $471.7 million, down 3 percent from the same period a year ago. Profit was $9.2 million, down 62.3 percent. For the first nine months, sales were $1.5 billion, up 4 percent over the prior year. Profit grew 23 percent to $26.2 million. The manufacturer also announced it would review strategic alternatives for the business, including the possible sale of the company.

Wausau Paper, Mosinee, WI, reported sales for 2012 of $822.2 million, flat to sales in 2011. Profit for the year was $676,000, compared with a year-ago net loss of $21.7 million. For the fourth quarter, sales were $190.9 million, a year-over-year decline of 6 percent. Net loss for the period was $2.5 million, compared with a year-ago net loss of $28.7 million.

ASAP Industries, LLC, Houma, LA, has been acquired by **American Capital**, Ltd., a private equity firm based in Bethesda, MD, for $89 million. ASAP is a manufacturer of high-pressure flow control products for the global oil and gas industry.

Weiler Corp., Cresco, PA, has acquired **Rei Abrasives**, a Brazilian company based in Vinhedo, Sao Paulo State.

Lincoln Electric Holdings Inc. , Cleveland, OH, reported 2012 sales of $2.9 billion, an increase of 5.9 percent from 2011. Profit increased 18.5 percent to $257.4 million. Fourth-quarter sales were $684.6 million, a decrease of 1.4 percent compared to the prior-year quarter. Profit increased 7.5 percent to $62.1 million.

Carlisle Companies Inc., Charlotte, NC, reported sales for 2012 of $3.6 billion, an increase of 12.6 percent from 2011. Profit increased 50.4 percent to $268.6 million. Fourth-quarter sales were $845.3 million, an increase of 7.1 percent compared to the same period a year earlier. Profit increased 24.3 percent to $47.5 million.

Louisiana-Pacific Corp., Nashville, TN, reported sales for 2012 of $1.7 billion, an increase of 21.4 percent. LP reported a profit of $28.8 million, compared to a year-ago loss of $181.3 million. Fourth-quarter sales were $458.7 million, a 46.9 percent increase compared to the same period a year earlier. Profit was $46.1 million, compared to a year-ago loss of $57.2 million.

continued on p.4 of this section

U.S. Manufacturing Technology Orders Up 2.6% in 2012

MARKETS UPDATE SUPPLEMENT P. 4

December U.S. manufacturing technology orders totaled $499.43 million according to AMT, The Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was up 17.8 percent from November but down 9.4 percent when compared with the total of $550.99 million reported for December 2011. With a year-end total of $5.7 billion, 2012 was up 2.6 percent compared with 2011.

These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTO program.

"Finishing 2012 with the highest order total in 13 years certainly confirms the renaissance of U.S. manufacturing," said Douglas K. Woods, AMT president. "This also shows the resilience of the industry in the face of GDP contraction in the fourth quarter, along with fiscal and political concerns that have been overshadowing much of the general economy."

The United States Manufacturing Technology Orders (USMTO) report, compiled by the trade association representing the production and distribution of manufacturing technology, provides regional and national U.S. orders data of domestic and imported machine tools and related equipment. Analysis of manufacturing technology orders provides a reliable leading economic indicator as manufacturing industries invest in capital metalworking equipment to increase capacity and improve productivity.

U.S. manufacturing technology orders are also reported on a regional basis for five geographic breakdowns of the United States.

Northeast Region

Northeast Region manufacturing technology orders in December stood at $74.02 million, up 10.1 percent from the November total of $67.24 million but down 25 percent when compared with December 2011. The $789.38 million year-end total was 9 percent less than the total for 2011.

Southern Region

Manufacturing technology orders in the Southern Region in December totaled $78.11 million, up 19.1 percent from November's $65.58 million but down 12.4 percent when compared with December 2011. At $835.28 million, 2012 was up 12.2 percent when compared with 2011.

Midwest Region

Midwest Region manufacturing technology orders totaled $166.19 million in December, a rise of 27.3 percent when compared with November's $130.54 million but 9.7 percent less than the total for December 2011. The year-end total of $1,814.51 is 1 percent more than the comparable figure for 2011.

Central Region

At $125.05 million, December manufacturing technology orders in the Central Region were up 14.6 percent when compared with the $109.1 million total for November but down 1.2 percent when compared with December a year ago. With a year-end total of $1,586.85 million, 2012 was up 4.7 percent when compared with 2011.

Western Region

December manufacturing technology orders in the Western Region totaled $56.06 million, up 8.6 percent from November's $51.62 million and up 6.8 percent when compared with the December 2011 total. At $679.56 million, the 2012 total was 6.9 percent more than the comparable figure for 2011.

News Digest

Continued from p.3 of this section

Regal Beloit Corp., Beloit, WI, reported 2012 sales of $3.2 billion, an increase of 12.8 percent from 2011. Profit increased 28.4 percent to $195.6 million. Fourth-quarter sales were $715.6 million, a decline of 1.6 percent from the prior-year period. Profit fell 10.7 percent to $29.9 million.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Questions, comments, article proposals, address changes or subscription service to: Gale Media, Inc., 3100 Arapahoe Avenue, Ste 201, Boulder, CO 80303. Tel: 303-443-5060. Fax: 303-443-5059. Website: http://www.mdm.com

ISSN 0544-6538

To subscribe to Modern Distribution Management, please call 888-742-5060, email info@mdm.com or **http://www.mdm.com.** Subscriptions are available by online delivery and/or first-class mail. Published twice monthly; $395/yr., $415 U.S. funds other countries.