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Behind the Deal: MSC & Barnes

Deal will give MSC an established presence in Canada, expand VMI

In February, MSC Industrial Direct Co. announced plans to buy Barnes Distribution North America, which has a footprint throughout the U.S. and Canada. This article takes a look at the impact of the deal, both on the individual companies and on the industrial distribution landscape.

By Angela Poulson

MRO distributor MSC Industrial Direct Co. Inc., Melville, NY, has agreed to acquire the North American distribution business of the Barnes Group Inc., for $550 million. The acquisition, which is expected to close in late March or early April, will add fasteners and other high-margin consumable products and services to MSC's portfolio. MSC also gains Barnes' vendor managed inventory solution.

The deal does not include the Associated Spring Raymond portion of Barnes Distribution North America.

The transaction will contribute to MSC's goal of reaching $4 billion in revenues by 2016, according to MSC President and CEO Erik Gershwind.

Deal Drivers

"Barnes Distribution North America brings to MSC a complete vendor-managed inventory solution, which strengthens MSC's value proposition to its customer base," says Tom Lange, managing director and head of Robert W. Baird & Co.'s Distribution Group, which advised Barnes Group on the divestiture.

"Second, Barnes Distribution and MSC have very little customer overlap and very little product overlap, with MSC focused on A and B industrial MRO items and Barnes focused on class C items, so this represents a significant cross-selling opportunity," he says.

Barnes Distribution North America's more than 31,000 customers and its coverage of all 50 U.S. states and 10 Canadian provinces adds to its appeal. The company's strong supplier relationships and its experience in transportation and natural resources end-markets are also plusses, Lange says.

According to the news release announcing the deal, MSC's sales force will nearly double with the acquisition, another major driver.

The largest initial benefits will likely come from back-office and distribution center consolidation and product purchasing savings, says Wunderlich Securities analyst Brent Rakers.

Ryan Merkel, an analyst for William Blair, says MSC bought the distribution business from an OEM – Barnes Group – that viewed the business as non-core, providing opportunity for more investment. In January 2012, Barnes Group also sold its Barnes Distribution Europe business, including Kent, BD France and Toolcom, to Berner SE for $33 million.

MSC also gains a huge opportunity for expansion. "In one fell swoop, MSC added new products, entered new end-markets and added a new geography in Canada," Merkel says. "Most distributors are making massive investments in Canada, and MSC couldn't wait too much longer." Merkel says he expects MSC to move to expand quickly in Canada, starting with existing BDNA customers.

Impact on Barnes Group

Barnes' acquired segment will benefit from the deal, Lange says, because of MSC's position in the market. "This acquisition gives Barnes Distribution North America and its employees an opportunity to continue the strategic plans and initiatives that have

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INSIDE

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PERSPECTIVE ■ Commentary by Thomas P. Gale

This Year, Talent is the Biggest Differentiator

So far 2013 has been somewhat turbulent. M&A activity has continued (MSC's planned acquisition of Barnes, for example), as does overall economic/market uncertainty. It provides distribution executives with some choices to make about priorities and where to invest in initiatives that will produce the best return in 2013.

That's the fancy way of posing the question: "How do we protect the revenue we have, and where are we going to find growth this year?"

Based on the top 12 distribution trends identified by MDM for 2013, there's no single right answer. It's indicative of the current state of distribution markets that there are so many cross-currents and competitive drivers. There aren't just one or two big things shaping the competitive environment.

The two core areas where strategic investments are being made are improving internal accountability and creating better ways to stay connected with customers. That's nothing new.

What is new is where and how companies are placing their bets across what I like to think of as the three pivot points that form competitive differentiation for wholesale distribution companies – talent, technology and analytics. Many companies tend to do well in one or two of these areas; it is the rare company that continues to innovate across all three.

Many distributors are investing in sales resources. That's supported by an MDM survey last week that shows 70 percent intend to hire new employees in 2013, and most are focused on filling outside and inside sales positions.

Based on more than 170 responses with 70 percent from distributors, we feel that is a significant indicator that the industry is getting past the drag of economic uncertainty that politics played a large role in creating the last half of 2012.

But there's a critical competitive gap emerging. Some companies will invest in sales resources the same way they have for years – people with traditional outside sales skills. Others will look hard at the skill sets they need to better engage with customers with very different needs than even a few years ago in terms of information, sales process and methods of support. Investments in creative people, backed by solid analytics and technology, will be where companies will gain real competitive advantage this year.

MDM's top trends indicate how markets are getting more complex. This environment will test the abilities of distribution management to help their teams be selective, adaptive and proactive in pursuing the best opportunities for improvement.

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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

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MSC & Barnes Distribution North America
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been developed at Barnes in partnership with a strong industry player," he says.

Barnes' remaining manufacturing segments will also profit. "The sale of Barnes Distribution North America allows Barnes to continue its focus on building its aerospace and specialty manufacturing businesses with the benefit of a strong balance sheet," Lange says.

Rakers says the selling price probably contributed to Barnes' decision to divest. "Given the day-of-announcement move in Barnes' stock price, I believe management and investors consider the sale price to be a highly attractive price for the entity. This deal is an example where the earnings power of Barnes Distribution looks more valuable as part of MSC," he says.

VMI and Vending

MSC's Gershwind said about 95 percent of Barnes' business comes through its vendor-managed inventory channel.

Acquiring Barnes' VMI programs will add to MSC's already successful efforts in vending, Gershwind said. Although vending Barnes' class C products may not make sense because of their low-dollar value, Gershwind said Barnes' VMI program will broaden MSC's reach into different segments of each customer facility, further entrenching MSC into those accounts.

"Adding the BDNA sales force, with their VMI expertise, can only further that effort and lead to MSC embracing their customers even more strongly," says Dave Manthey, an analyst with Robert W. Baird & Co.

Manthey says companies like MSC are well-positioned to address the inherent challenges associated with vendor-managed inventory programs, such as high initial investment and logistics challenges. It gives them an edge over smaller distributors, which have a harder time competing on this front.

"Some of the feedback that we get from the Baird-MDM survey is that some smaller distributors don't have the capital to invest in some of these supply chain solutions," Manthey says. "But broadline national distributors like MSC already have a set of solutions that are attractive to a certain set of customers to begin with, and vending just adds to that.

"Despite the challenges, the good small- and medium-sized distributors continue to focus on technical knowledge and customer service, and they continue to be a factor and thrive in this market by targeting customers that put a high value on those types of services."

Deal Details: MSC Industrial Direct to Acquire Barnes Distribution North America

Purchase Price: $550 million
Expected Close: Late March or early April

Barnes Distribution North America reported unaudited sales of $300 million for calendar year 2012.

Key Drivers for MSC:
- Vendor-managed inventory system that complements its vending options
- Increased offerings of class C product lines and minimal customer overlap
- Barnes Distribution North America's 31,000+ customers and coverage of 50 U.S. states and 10 Canadian provinces
- Better access to transportation and natural resources end-markets

Valuation

While the transaction price of $550 million is public, Lange could not comment on the multiple MSC will pay. "What we can say is that the valuation reflects the substantial combination benefits between Barnes Distribution North America and MSC, as well as a significant tax benefit for MSC due to the structure of the transaction as an asset purchase," he says.

Barnes Distribution North America had unaudited sales of roughly $300 million for the calendar year 2012. Industry analysts say it's not possible to calculate a straight EBITDA multiple because not all data is available due to the deal's structure.

"Looking at the segment reporting of BDNA, we believe that there are costs allocated to that segment that will not transfer via an asset sale, plus there are cash flow benefits that offset the purchase price," Manthey says. "So from an enterprise value to EBITDA basis, which is normally how we would evaluate the purchase price of a distribution company, there are just too many variables right now for us to make a call on that."

Generally, company size continues to affect distribution valuations, according to Jason

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Kliewer, also with Baird. "Larger platform transactions, such as Barnes Distribution North America, tend to trade at a premium to smaller transactions," he says. "And when you look at opportunities where there is a strategic acquirer, such as is the case here, and where synergy values due to combined entity are significant, you can make a case for a stronger-than-average valuation."

Rakers says he attributes increases in valuation multiples over the past five to 10 years, which are more pronounced for larger companies, to improving margins. "While the multiple appears higher than we would have anticipated, other recent distribution transactions have also been completed at proportionately high levels," he says.

Impact on the Competitive Landscape

The industrial distribution market remains highly fragmented, despite recent deals, but Rakers says he has noticed a pattern emerging where large distributors are entering each other's primary markets sooner than he expected.

Following the MSC-Barnes deal, MSC will become a larger player in fasteners. Fastenal, unconnected to this deal, added Kennametal's WIDIA line in recent years, pushing itself further into MSC's main market of metalworking.

"Arguably, these two growth companies, who have largely avoided each other for the past decade, will now be competing more head on with one another in each company's most important product category," Rakers says.

Merkel says the deal won't initially change the competitive landscape much. "BDNA needs to be integrated, and the sales force has to be trained and a strategy formalized," he says. "For the foreseeable future, share gains will come at the expense of mom and pops who can't match the combined service package and one-stop shop."

How to Get Customers to Fight for You

Adding value isn't enough if you forget to tell your customers about it

Tim Underhill of Underhill & Associates says distributors often struggle with proving value to their customers. He provides best practices on implementing a formal system that can help retain and get more business from existing customers.

By Lindsay Konzak

Customers are willing to pay more when they recognize value beyond the short-term. For example, manufacturers have done a good job providing data on the dollar impact of buying energy-efficient light bulbs, including the new bulb's life expectancy and wattage, says Tim Underhill, president of Underhill & Associates.

The price can be several times that of an incandescent. But their popularity is a testament to the fact that the customer recognizes long-term value that is more than the difference in price.

"That's what selling value is all about," Underhill says. "… Are you willing to pay more for a product when it's proven that it will save you more? The answer for most companies is yes."

The Challenge of Differentiating

Most distributors are showing more interest in developing better ways to prove value. The challenge, Underhill says, is that while they likely already provide a lot of value, they don't always do a great job documenting it.

"Most of the documentation is around price savings and a little bit of inventory savings," Underhill says. "What's happening is you're telling customers that your real value-add is the lower price if that is all you're documenting." And with inventory, the savings is usually one-time.

Documenting lower price and inventory savings is easy. But documenting benefits like technical support and problem-solving is much harder. Many distributors have not developed the skill set and processes to be able to do that well, he says.

As larger distributors implement value-documentation processes and more customers demand it, distributors who aren't providing it may fall behind. As MDM has reported over the past few months, the competitive landscape is not getting any simpler. With e-commerce's increased impact on B-to-B markets, the global nature of distribution and growing collaboration in local markets, distributors need to implement a formal process for documenting the value they provide to customers.

It can be hard to differentiate yourself. Everyone is offering the same products and in some cases, services like VMI, and focused on offering them for less. But price can only get you so far. "It's difficult to keep that competitive advantage," Underhill says, "unless you can show the customer the value, and the other guys can't provide the value you're bringing."

Another challenge: One distributor may come and offer a product that costs more but has more benefits. A competitor may say: "Me too." "A lot of the value you have gets diluted even if the other distributor can't really do it – they're going to say they can," Underhill says.

The idea behind documenting value is proving the savings and building a more integrated relationship with the customer. "What I tell people is you're providing solutions, and you're letting most of the business go somewhere else," he says.

"The customer is the smartest person in the world. They're getting all of one distributor's value, and they're getting a lower price somewhere else. If you're going to provide solutions, you want to draw a line in the sand. If we're going to help you, we need the business."

Building Better Relationships

Technology, including the solution Underhill designed to help distributors sell value more effectively, is helping. And mobile devices have increased the mobility of the sales force, making it easier for salespeople to document the value they add and have conversations with customers on-site.

Customers are one of the main drivers for documenting value-add, according to Underhill. "Customers are under tremendous pressure to reduce operating costs," he says. "The easiest way to do that is to go to the supplier and ask them to reduce the price. A lot of us have given up price, but you get to the point where you can't give up anymore."

Some customers are demanding a set percentage savings each year in their contracts with distributors. Many distributors are already providing a lot of value, Underhill says, so the ability to document those savings is critical to meeting these upgraded customer requirements.

When you can prove that value, the customer gets excited. "If I can show the customer real-dollar savings," Underhill says, "I can change the conversation from 'You have to lower the price.' to 'What else can we work on together?' That is a great conversation to have."

It's about building a different relationship, he says. "You want to be a supplier of choice based on the fact they really can't afford to go anywhere else, because you're helping them so much."

Best Practices

Underhill's approach is a simple application that asks salespeople a series of questions based on the type of solution being offered. The worksheet then provides a bottom-line savings based on a number of variables that go beyond price. The benefits may include increased production rates, decreased downtime, lower energy costs, reduced disposal costs for rejects, decreased payroll or contractor expense, or reduced accounts payable time.

The critical piece, Underhill says, is the write-up that results from that worksheet. "This is where you get buy-in from the solution," he says. The write-up outlines customer needs and what the distributor has done to meet those needs and save that customer money.

The customer must agree with the need, whether it be the need to reduce energy costs or inventory carrying cost. "Share credit with the customer," Underhill says. If the maintenance manager knows what the distributor is doing, but his boss' boss does not, it will not help the relationship. "If I share credit, he's far more likely to pass that around the organization because it's making him or her look good," Underhill says.

Even more critical is sharing the value you add immediately. "That value diminishes over time," Underhill says. "… If you wait six months to document or you wait a year, you'll be lucky to get that value."

It's also important to document cumulative value, so that when the contract is up for renewal or you do a quarterly business review, that data is readily available.

"Demonstrate what you've brought to them for the entire relationship, as well as what you've done for them lately," Underhill says. "… Most (distributors) will bust their rear ends to get customers up and running and then just walk away. They never beat their own drum and remind their customers what they do for them."

The importance of this comes when a competitor offers to do the same thing for less. "When you don't document (what you've done), it typically gets equated to 0," Underhill says. A customer is most likely to remember only what the distributor has done for it lately.

"There's a low perceived risk of jumping suppliers," Underhill says. But if the value is documented over time, and the customer signs off on those cost savings, the risk to switching becomes much higher.

Obstacles

One obstacle to adopting formal processes for

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documenting value is making sure that the system you adopt is consistent company-wide and is easy. Also, salespeople must be incentivized to do the work. "It adds up," says Underhill. "It shows the customer everything I'm doing."

Underhill offered three areas distributors should focus on:

Skill Set. Building the necessary skills starts with training, but it doesn't end there, Underhill says. "The best thing to do is practice it," he says. Have salespeople do one documentation a week, and start simple.

Focus on the write-up and get customers engaged. Then move to more common solutions such as VMI. "Repetition helps," he says. "You can copy and paste a record and change a few numbers."

Build skills at the lower level before moving to more complicated value documentations, such as technical support or improved production rates. "Where the dollars are bigger, it will take more skills to do."

Support. Underhill recommends tapping one person that salespeople or others can go to if they are struggling with value-add. "That person has to be able to answer questions," he says.

Accountability and recognition. This piece may also be overseen by the same person tapped for support, Underhill says. "He holds them accountable for doing the documentation and then he gives them recognition," he says.

The bottom line for accountability: "Candidly if you're not asking about it, it must not be important," Underhill says. "That happens with value-add. Management likes it, they do some training, they think it's done and walk away."

The value-add documentation needs to be integrated into a company's key performance indicators and, in turn, compensation plans for salespeople to recognize the importance to the company.

Customers Fighting for You

It's not that distributors aren't providing value-add, Underhill says. It is that they're not telling their customers about the impact of the relationship on their bottom lines. The ability to document and communicate value can help retain and even get more business from current accounts.

In the end, distributors want customers on their side. "You want the people in the customer's organization fighting for you because you're fighting for them," Underhill says. "You're helping them so they'll help you."

Customers don't document value well, if at all, he says. It's the distributor's responsibility.

"If you can document what you've done, and you can take that information to the user, then they have something to fight for when purchasing says you can get it cheaper over here."

Minding the Gap Between Data & Action

Mike Marks on how to translate data into measurable results

Business intelligence does not necessarily translate into executive intelligence, and often the gap between the two is large, according to Indian River Consulting Group's Mike Marks. Marks recently spoke about that "reality gap" and how to overcome it in a recent MDM Webcast, The Link Between Business Intelligence and Profitability, available at mdm.com/business-intelligence.

By Jenel Stelton-Holtmeier

When it comes to distribution technologies, a lot of attention is frequently paid to the latest and greatest, such as e-commerce and mobile.

While these may pay off for distributors in the long run, the most immediate return on investment may come from technologies that have been around for a while – solutions that help distributors profit from the data already in their systems. Still, business intelligence does not necessarily translate into executive intelligence.

The key is leveraging these tools effectively and efficiently, according to Mike Marks of Indian River Consulting Group.

The gap between knowing something and effectively doing something with that knowledge is often large, Marks says in the recent MDM Webcast, The Link Between Business Intelligence and Profitability. As a result, much of the opportunity available from business intelligence tools is lost.

That doesn't have to be the case, Marks says. But it does take work and a change in the way distributors think about the data they have and the way they sell.

Minding the Gap

Translating capability into action requires two simultaneous drivers, according to Marks: quality insight and the ability to absorb it. Too often the solution to a business problem is to buy new tools and hope that one of them resolves the issue, Marks says. "I've seen companies spray a money hose at it, and it just ends up ugly" because they don't have the data needed to apply those tools.

In other words, if your leadership is saying brilliant things, but no one really understands how to use those brilliant things, the value to your business is minimal. By the same token, if your team is willing to try something new, but there's nothing new coming at them, there's no value in that either.

So how can a company develop quality insight? Marks advises getting the right tools – software and training – in place at the beginning of the evaluation process. "You don't have to … buy all of these intergalactic things," he says. Instead, it's about choosing something that makes your business more effective – and implementing it a little at a time.

It is also important to make sure those tools are measuring the right information, and not just the easy-to-measure information. Simply looking at what's easy to measure may create a gap between what's important to your customers and how you measure your success.

For example, Marks says, the way airlines determine their on-time departures is by the time the airplane door closes. While the aircraft may not be ready to depart, the chosen measurement keeps the company's on-time record in line with its goals. Never mind that they may have shut the door on some passengers, leaving them disgruntled, Marks says. Or that the passengers on the airplane may still have to sit on the tarmac, sometimes for hours. It's an easy measurement, but it makes the business blind to the real problems.

The third component of quality insight is making sure the data being used is clean – and that processes are put in place to ensure continued cleanliness of the data. "If you don't lock the system down, within six months it will be a mess again," Marks says.

The second driver of translating knowledge into action – the ability to absorb quality insights – is often the "critical constraint for a distributor," Marks says. This driver requires a structural alignment that creates clear accountability and the willingness to consider new ideas rather than just focusing on doing the same things better.

When the Business Fights Back

The problem with considering new initiatives is that businesses are a lot like the human immune system, Marks says. "White blood cells protect the status quo," he says. If an infection or something new is introduced into the body, the white blood cells attack that foreign body to maintain the intricate balance that already exists.

In much the same way, "anytime you try to introduce change into an organization, you're going to be met with a very strong white-blood-cell reaction," Marks says, because there's an underlying assumption that if something needs to be changed, it must be because something is wrong.

"If there's something wrong, it's because someone did something wrong," he says. And suddenly the sales team is put on defense, with typical responses of "It is not my fault." or "It won't happen again."

The reality is that the world changes, Marks says. As a result, how business is done needs to evolve, as well. It's not always about something being wrong. Existing strategies may have been the best approaches a few decades ago, but they are not necessarily the best choices in today's market.

Allow everything to be on the table for change. Assuming that incentive or organization structures are fixed or untouchable can keep executives from seeing new opportunities.

But don't try to change everything all at once; that will guarantee a violent white-blood-cell reaction, Marks says. Instead, figure out the one thing that would make the biggest improvement in overall performance and focus on making that change.

"Do not go win-lose to force the change," Marks says. "Instead, just persistently share and remember that data is our friend."

Access the entire MDM Webcast, The Link Between Business Intelligence and Profitability, including practical examples of leveraging business intelligence in your business and a real world action plan, at mdm.com/business-intelligence.

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Customer Intimacy is Operational Excellence

Grover: Why distributors need both in their business strategies

The following is an excerpt of Brent Grover's latest distribution management book, The Little Black Book of Strategic Planning for Distributors, published by Modern Distribution Management. In this article, Grover argues that distributors need to focus both on operational excellence and customer intimacy, rather than choosing one over the other.

In *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market*, authors Michael Treacy and Fred Wiersema adapted the three Michael Porter strategies into a choice of customer intimacy, operational excellence or product leadership. If you agree that product leadership isn't a viable option for most distributors, the authors leave distributors with two alternatives: operational excellence or customer intimacy. In the following paragraphs I will argue for a third option.

Strategic choice No. 1 in *The Discipline of Market Leaders* is operational excellence, keeping costs down while making the customer's life easier. Operationally excellent distributors use metrics to manage their businesses, monitor and control their processes, and strive to improve quality and minimize costs. In the interest of efficiency, these distributors encourage their customers to accept a limited assortment of products and service options.

Strategic choice No. 2, customer intimacy, as defined by Treacy and Wiersema, is exemplified by distributors that are extremely close to their customers and are eager to customize their business processes and services to strengthen the relationship.

The Discipline of Market Leaders states that the demands on financial resources and management time make it unrealistic to try to focus on more than one of the basic value disciplines. The authors contend that failure to focus on one value only results in lack of market differentiation and poor results. They argue the need to go "past operational competence to reach operational excellence" and "past customer responsiveness to create customer intimacy."

I disagree about these values being mutually exclusive for distributors. Our experience with strategic planning for distributors demonstrates that operational excellence is no longer optional – it's a requirement. Operational excellence is taken for granted by the customers distributors want most.

Customer expectations have risen markedly since the Treacy and Wiersema book was published in 1993. Distributor gross margins in most lines of trade have lost ground in recent years. There is less room for bloated operating costs. Both from the vantage of customer expectations and operating margins, mere operational competence is not enough to compete for business and make adequate profits.

What we see as the imperative of operational excellence would leave customer intimacy as the only choice of discipline for wholesale distributors. Not only do we see the operational excellence as compatible with customer intimacy, for distributors we see them as inseparable. They are interdependent, and they are both essential.

Let me take that one step further: Customer intimacy equals operational excellence for wholesale distributors. We have left the age of mass markets. In the words of Jonathan Byrnes, senior lecturer at MIT, we have entered the age of precision markets. Distributors make most of their operating profits from a small number of large customers (and most lose a good amount of those profits doing business with a handful of large customers).

The discipline of customer intimacy requires you to be close with your major accounts at multiple levels. The discipline of operational excellence mandates that you align all aspects of your operation to the current (and foreseeable) needs of your most profitable accounts. Helping your best customers increase their profit makes both you and your customers more effective and efficient.

If every distributor chose customer intimacy as the basis of its business strategy, how would the individual businesses be distinguishable from one another? What could the companies do to be distinctive in the eyes of their customers? Could we jump to the conclusion that all distributors are simply trying to do the same thing – be intimate with their customers – but some execute better than the others?

If every distributor knows how to get operational excellence right (a faulty assumption of course) you might surmise that they all look alike to customers, and the only difference from one company to another is price. That is a scary notion, and we need to negate it. Execution is so difficult that even if every competitor pursued identical strategies there would be major differences from one company to another.

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Industrial & Construction Markets Update

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Report: HD Supply Preparing to Go Public

The private equity owners of HD Supply, Atlanta, GA, are preparing to take the distributor public, Reuters has reported. Bain Capital, Carlyle Group and Clayton, Dubilier & Rice, which purchased HD Supply from Home Depot Inc. six years ago for $8.5 billion. They are reportedly hoping to raise $8.5 billion in the proposed initial public offering.

According to Reuters, Bain Capital, Carlyle Group and Clayton, Dubilier & Rice plan to interview investment banks next week to select underwriters for the IPO.

HD Supply is No. 3 on MDM's list of top industrial distributors and also appears on the electrical and building materials/construction lists. Reuters attributes the move to an "attempt to capitalize on the rebound in the U.S. housing sector."

As part of the buyout, Home Depot maintained a 12.5 percent stake, worth $325 million at the time of the deal.

For the nine months ended Oct. 28, 2012 – the latest data available – sales increased 12.4 percent year-over-year to $6 billion. The distributor reported a loss for the period of $466 million.

The company has been streamlining and reorganizing over the last year in order to focus on its core businesses.

In August 2012, HD Supply merged its electrical and utilities businesses under the HD Supply Power Solutions banner.

In March 2012, the company sold its industrial pipes, valves and fittings business to Shale-Inland Holdings.

Distributor News

MSC Industrial Direct Co., Inc., Melville, NY, has signed a definitive agreement to acquire the North American distribution business of the **Barnes Group** Inc. The acquisition's purchase price will be $550 million. For analysis of the broader impact of this deal, see the article in this issue.

F.W. Webb Co., Bedford, MA, has agreed to acquire **Bergen Industrial Supply**, Elmwood Park, NJ. Bergen distributes industrial pipe, valves and fittings to manufacturing companies across northern and central New Jersey.

Crescent Electric Supply Co. has purchased Storm Lake, IA-based **Lake Electric Supply**. Lake Electric is a privately owned independent electrical distributor serving a diverse customer base in Storm Lake and the surrounding area. Lake Electric will operate under the same name.

UK-based distribution and outsourcing group **Bunzl** plc has acquired **Labor Import Comercial Importadora Exportadora** Ltda in Brazil. Based near São Paulo, Labor Import distributes private label medical and healthcare consumable products to redistributors, as well as to hospitals, clinics, laboratories and care homes. Revenue in 2012 was R$49.5 million (US$25 million).

Bunzl reported sales for 2012 of £5.4 billion (US$8.2 billion), up 5 percent from 2011. Operating profit was £293.8 million (US$443.9 million).

The Fastenal Company of Winona, MN, reported February sales of $254.9 million, an increase of 3.1 percent compared to February 2012. Daily sales were $12.5 million, an increase of 6.7 percent year-over-year. February manufacturing customer daily sales grew 8.2 percent and non-residential construction customers grew 4.3 percent.

Kaman Corp., Bloomfield, CT, reported sales for 2012 of $1.6 billion, up 7.8 percent over sales in 2011. Profit increased 7.6 percent to $55 million. Fourth-quarter sales were $399.3 million, up 6.8 percent year-over-year. Profit grew 42 percent to $14.2 million.

Kaman Industrial Technologies – Kaman's industrial distribution segment – reported sales from continuing operations for 2012 of $1.01 billion, an increase of 8.8 percent from 2011.

Houston-based **DXP Enterprises** Inc. reported sales for 2012 were up 35.9 percent to $1.1 billion. Profit was $51 million. For the fourth quarter, DXP's sales were $293 million, up 34.2 percent from the prior-year period. Profit was $14.1 million.

Airgas Inc., Radnor, PA, has appointed William Sanborn president of the Airgas Northern Pacific region. Sanborn replaces Edward Richards, who has taken another position within Airgas.

Beacon Roofing Supply, Inc., Peabody, MA, has appointed Joseph M. Nowicki to the position of executive vice president, CFO and treasurer, effective March 25. Nowicki will oversee finance, information technology and investor

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News Digest
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relations.

Economic News

Construction spending in January was estimated at a seasonally adjusted annual rate of $883.3 billion, according to the U.S. Census Bureau. That rate is 2.1 percent below December and 7.1 percent above January 2012.

The **Chicago Fed National Activity Index** decreased to -0.32 in January from 0.25 in December. Three of the four broad categories of indicators that make up the index decreased from December, and only two of the four categories made positive contributions to the index. The index's three-month moving average, **CFNAI-MA3**, increased to 0.3 from 0.23 in December.

Real gross domestic product – the output of goods and services produced by labor and property located in the U.S. – increased at an annual rate of 0.1 percent in the fourth quarter of 2012 sequentially, according to the second estimate released by the Bureau of Economic Analysis. Third-quarter real GDP increased 3.1 percent.

The U.S. manufacturing sector expanded in February, according to the latest **Manufacturing Report on Business** from the Institute for Supply Management. The PMI registered 54.2 percent, an increase of 1.1 percentage points from January's reading.

Average **U.S. HVACR average distributor sales** snapped back from a 1.8 percent decline in December 2012 with a gain of 19.4 percent in January, according to Heating, Air-conditioning and Refrigeration Distributors International's Monthly Targeted and Regional Economic News for Distribution Strategies report. The improvement was widespread with six of the seven reporting regions registering double-digit gains.

Compared with December 2012, the **European industrial producer price index** rose by 0.6 percent in both the euro area (EA17) and the EU272 in January, according to Eurostat. In December 2012 prices fell by 0.2 percent in both zones. Compared with January 2012, industrial producer prices gained 1.9 percent in January in the euro area and 1.8 percent in the EU27.

European GDP fell by 0.6 percent in the euro

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Calculation of MDM Inflation Index for December 2012

		BLS Price Indices Dec. '12	BLS Price Indices Nov. '12	BLS Price Indices Dec. '11	% Sales Weight	Weighted Indices Dec. '12 (1)X(4)	% Change Dec. '12 Nov. '12	% Change Dec. '12 Dec. '11
1136	Abr. Prod.	549.5	549.2	543.2	19.1	104.95	0.05	1.15
1135	Cutting Tools	487.5	487.5	486.7	18.9	92.14	0.00	0.17
1145	Power Trans.	781.6	776.0	765.1	15.4	120.37	0.72	2.16
1081	Fasteners	498.3	498.8	498.3	9.0	44.84	-0.11	0.00
1149.01	Valves, etc.	934.1	940.3	906.6	7.6	70.99	-0.65	3.03
1132	Power Tools	347.6	347.0	343.0	6.5	22.60	0.19	1.36
1144	Mat. Handling	561.4	561.4	541.3	6.2	34.80	0.00	3.71
0713.03	Belting	864.3	853.3	778.0	6.1	52.72	1.28	11.09
1042	Hand Tools	762.5	764.5	742.4	8.1	61.76	-0.27	2.71
108	Misc. Metal	473.8	474.6	472.1	3.1	14.69	-0.18	0.36
"New" December Index		323.9	December Inflation Index			619.87	0.15	2.39
"New" November Index		323.4	November Inflation Index			618.94		
			December 2011 Inflation Index			605.39		

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

MAPI Quarterly Forecast: U.S. Economy Faces Political, Global Headwinds

A number of positive signs are starting to emerge regarding the U.S. economy, but there remain political and global headwinds that could slow growth, according to a new report.

The Manufacturers Alliance for Productivity and Innovation (MAPI) Quarterly Economic Forecast predicts that inflation-adjusted gross domestic product (GDP) will expand by 1.8 percent in 2013 and by 2.8 percent in 2014, showing no change from MAPI's November 2012 report.

Manufacturing production, however, is expected to show growth of 2.2 percent in 2013 and 3.6 percent in 2014. The 2013 figure is an increase from 2 percent and the 2014 estimate is up from 3.2 percent from the November forecast.

There are mixed signals regarding employment prospects. Manufacturing is expected to see a net increase in hiring, with the sector expected to add 87,000 jobs in 2013, below the November forecast of 163,000 jobs. The outlook is for an increase of 289,000 jobs in 2014, a slight increase from the 270,000 previously forecast.

"There are several reasons to be optimistic about continued economic growth in 2013 and 2014," noted MAPI Chief Economist Daniel J. Meckstroth, Ph.D. "Consumer deleveraging is close to an end; there are definitive signs of improvement in the housing market, especially on the supply side; and there is moderate job growth, pent-up demand and the potential for spending that was previously postponed."

Meckstroth warns, though, that consumers will still be restrained somewhat in 2013 by the 2 percent payroll tax increase, and government at all levels – federal, state and local – is in an austerity mode. Business investment could be sluggish because of a confluence of factors: the recessions in Europe and Japan have hurt foreign affiliate earnings and limited U.S. exports; the deceleration of growth in China, Brazil and other developing countries increases risks of a global slowdown; and there remains a level of uncertainty about federal policy and the resolution of policy deadlines.

Production in non-high-tech industries is expected to increase by 1.8 percent in 2013 and by 3.5 percent in 2014. High-tech manufacturing production, which accounts for approximately 10 percent of all manufacturing, is anticipated to grow 4.3 percent in 2013 and 9 percent in 2014.

The forecast for inflation-adjusted investment in equipment and software is for growth of 5.1 percent in 2013 and 6.3 percent in 2014. Capital equipment spending in high-tech sectors will also rise. Inflation-adjusted expenditures for information processing equipment are anticipated to increase by 6.3 percent in 2013 and by 7.7 percent in 2014.

MAPI expects industrial equipment expenditures to advance by 5.5 percent in 2013 and by 8.9 percent in 2014. The outlook for spending on transportation equipment is for growth of 3.1 percent in 2013 and 2.6 percent in 2014. Spending on nonresidential structures will decrease by 1 percent in 2013 before improving by 6.8 percent in 2014.

Inflation-adjusted exports are anticipated to improve by 2.5 percent in 2013 and by 5.1 percent in 2014. Imports are expected to grow by only 1.4 percent in 2013 but rebound to 5 percent in 2014. MAPI forecasts overall unemployment to average 7.7 percent in 2013 and 7.3 percent in 2014.

"Moderate economic growth will allow for some continued but relatively slow improvement in the unemployment rate," Meckstroth said.

The refiners' acquisition price per barrel of imported crude oil is expected to average $98.80 per barrel in 2013 and $89.40 in 2014.

MAPI 2013 Economic Forecast

GDP Expenditure Categories	Inflation-Adjusted Percent Change	
	2012	2013(F)
Gross Domestic Product	2.2	1.8
Total Consumption	1.9	1.8
Durables	7.8	5.6
Nondurables	0.9	1.4
Services	1.3	1.4
Nonresidential Fixed Investment	7.7	3.4
Equipment & Software	6.9	5.1
Information Processing Eqmt	3.8	6.3
Industrial Equipment	7	5.5
Transportation Equipment	17.8	3.1
Structures	9.6	-1
Residential Fixed Investment	11.9	13.8
Exports	3.2	2.5
Imports	2.5	1.4
Federal Government	-2.2	-2.5
State & Local Government	-1.3	0

Source: MAPI, February 2013

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area (EA17) and by 0.5 percent in the EU27 during the fourth quarter of 2012, compared with the previous quarter, according to second estimates published by Eurostat, the statistical office of the European Union.

Manufacturer News

Barnes Group Inc., Bristol, CT, reported sales for 2012 of $1.2 billion, an increase of 5.2 percent from 2011. Profit jumped 47.2 percent to $95.2 million. Fourth-quarter sales were $327.4 million, a 15.6 percent increase year-over-year. Profit was $29.7 million, compared to a year-ago profit of $100,000.

Atlas Copco (China) Investment Co. Ltd., Shanghai, China, a subsidiary of **Atlas Copco Group**, Stockholm, Sweden, has acquired a majority stake in **Shandong Rock Drilling Tools** Co. Ltd., a Chinese supplier of rock drilling tools. The acquisition strengthens Atlas Copco's position in the local market in mining and construction consumables.

National Oilwell Varco Inc., Houston, TX, has acquired **Robbins & Myers**, Willis, TX, for $60 per common share. Robbins & Myers is a supplier of engineered, application-critical equipment and systems in global energy, chemical and other industrial markets.

RBC Bearings Inc., Oxford, CT, has acquired **Western Precision Aero** LLC, Garden Grove, CA, for $2.6 million. Western Precision is a manufacturer of precision components and gears for the aerospace and industrial markets, with 2012 sales of $5 million.

RBC Bearings plans to consolidate and restructure its large bearing manufacturing facilities. Starting in March, the company will discontinue manufacturing large bearings in Houston, TX, and will consolidate the manufacturing into other RBC manufacturing facilities, mainly its South Carolina operation.

General Cable Corp., Highland Heights, KY, reported sales for 2012 of $6 billion, up 2.5 percent over sales in 2011. Profit was $3.7 million, compared to a year-ago profit of $65.7 million. For the fourth quarter, sales were $1.6 billion, an increase of 6 percent from the prior-year period. The company reported a net loss of $17.1 million.

The Home Depot, Altanta, GA, reported sales for the year ended Feb. 3, 2013, were $74.8 billion, an increase of 6.2 percent from 2011. Profit jumped 16.8 percent to $4.5 billion. Fourth-quarter sales were $18.2 billion, an increase of 13.9 percent. Profit increased 31.9 percent to $1 billion.

Survey: Midsized Manufacturers Expect Revenue Growth in 2013

Prime Advantage, buying consortium for midsized manufacturers, reported 68 percent of respondents to its recent semiannual Group Outlook Survey expect revenues to grow in 2013.

New product launches are the main reason for expected revenue increases, cited by 61 percent, followed by an expected increase in overall customer demand, cited by 57 percent.

High expectations were also reported for capital expenditure growth, with 87 percent of companies saying capital expenditures would either grow or remain constant this year.

More than 40 percent plan to hire more employees in 2013, and 52 percent plan to maintain current employee levels. Although the first number is slightly down compared with 2012, when 56 percent of respondents planned hiring, it remains above expectations in 2010, when only 24 percent of companies were hiring.

The cost of raw materials was noted as one of the top concerns for 90 percent of manufacturers in the survey. Other top concerns in the survey included health care costs and base materials for components.

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