Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 43, NO. 6
MARCH 25, 2013

■ *Alternative Energy Markets Update*

Challenges & Opportunities in Solar

Succeeding in solar requires a deep understanding of local markets

Energy generated from solar has increased dramatically in the last decade, even as the industry has seen some significant wins – increased state requirements – and losses – several high-profile bankruptcies. This article looks at the current state of the solar industry and the roles distributors are playing.

This article is the first in a series examining the alternative energy market in the U.S.

By Jenel Stelton-Holtmeier

Thirty states have standards in place that require a certain percentage of energy generation to come from renewable sources by a given date, according to the U.S. Energy Information Administration.

The specific standards vary widely, but they have had a significant impact on the adoption of alternative energy sources across the U.S.

As such, people looking for consistent information on the U.S. market may be out of luck. "I tell them there is no U.S. market," says Michael Barker, senior analyst with reasearch firm NPD Solarbuzz. Thanks to the wide-ranging requirements in each state and the added complications of municipal requirements, the U.S. market is really thousands of markets. And to be successful, you really have to understand them at the local level, Barker says.

In a recent survey from MDM and Robert W. Baird & Co., two-thirds of respondents – primarily distributors and manufacturers – said they had some involvement in alternative energy markets today. That level of involvement is little changed when compared with a survey from MDM in 2009.

But for those who said they had moderate or high involvement this year – 27 percent of respondents – most said that involvement had increased over the past two years.

Forty-one percent of respondents said they were involved in the solar energy market. (MDM will be examining other alternative energy markets in future issues.)

Solar requires a clear understanding of the market you wish to be a part of, says Andy Behr, director of marketing and business development for Hisco Inc., a distributor based in Houston, TX. Hisco launched a corporate initiative to serve manufacturers of solar modules in 2007.

The Battle over Subsidies

In today's economic climate, the alternative energy industry often comes under fire for its reliance on subsidies and incentives to survive. But that is a bit disingenuous, Behr says. "There are hidden subsidies in traditional energy generation, as well," he says. "We're just not talking about them as much."

In most markets in the U.S., solar energy generation has not reached "grid parity" yet – the point at which the cost of generating energy from an alternative source is equal to or less than generation from traditional sources. But it is getting close in certain markets, such as California and New Jersey.

The average residential rate for electricity in Long Island, NY, is more than 20 cents per kilowatt hour, says Gabe Wilson of Clean Energy Distribution, Denver, CO, meaning that market is pretty much at grid parity. Savings from solar generation can pay off an installed system within seven or eight years, he says, well short of the 25-year warranty that most systems come with.

It's not true in all markets, of course. Low-cost states such as Montana, where

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INSIDE

PERSPECTIVE ■ Commentary by Lindsay Konzak

Challenge Assumptions to Uncover New Opportunities

Organizational memory can be a heavy burden for established businesses, according to a recent Harvard Business Review blog post, "When Organizational Memory Stands in the Way." It can result in outdated mindsets and assumptions, obsolete policies and practices, and underperforming products and services.

The authors cite Blackberry as an example; the company continued to focus on the physical keyboard when the market had moved to a touchscreen. As a result, its previously strong market share fell to single digits. It only recently launched a smartphone lineup to compete with Apple and other device-makers. But analysts are saying that it may be too little, too late.

Another example in business is e-commerce. I'm not sure anyone predicted how quickly e-commerce would become a normal part of our everyday lives. Many distributors big and small are working to catch up, realizing they can't move forward without having some level of e-commerce functionality in place.

In this issue, we look at other shifts in our industry: I discuss the challenge of losing knowledge to baby boomer retirees in "The Hiring Disconnect in Distribution." Many distributors are seeking younger employees and implementing training or mentoring programs to counteract the knowledge loss.

Jenel Stelton-Holtmeier's interview with Bishop-Wisecarver Group's Pamela Kan highlights the need to change the way we think about education as it relates to future careers in manufacturing if we want to continue to innovate as a country. Too often we get too focused on what the market looks like now, but according to Kan, the future is here in the form of 3D printing and other innovations that are changing the face of manufacturing. What are the implications for distributors?

And our feature article examines an industry – solar – that barely existed as a viable growth option 15 years ago. The industry is still evolving, and distributors, manufacturers and installers are trying to figure out their roles in it.

How can companies jolt themselves out of routine so that they recognize trends or new markets that might affect their future growth plans? One solution is to bring new voices to your planning process, including key customers, suppliers and youth.

Internal knowledge of markets and company strategy is no doubt valuable, but outsiders or the next generation of employees may highlight trends and ideas that may not have been considered – challenging assumptions and potentially opening up new sources of revenue and growth for your business.

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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

Solar Markets
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average cost was less than 10 cents per kwh in 2011 (the latest data available), have a bit more work to achieve grid parity.

The other complicating factor when discussing incentives is that "we've nurtured a culture of subsidies," Wilson says. "If you look at the prices today without subsidies versus the prices five years ago with subsidies, today is a better deal – with no subsidies. We have developed a mentality for ourselves that without subsidies it's too expensive. You have a lot of potential customers who just turn away if they hear that either there are no subsidies or that subsidies have been reduced, not knowing what the actual cost of the system is."

Over the past two years, the industry has seen a significant decline in the cost of polysilicon – the primary component in traditional panels. This decline has pushed the price of panels down significantly. "It can't go much lower at this point," Wilson says. According to Bloomberg New Energy Finance data, the price of polysilicon fell 40 percent in 2012. This year, producers have reduced output to offset the oversupply, and prices are rising to reflect that change, but they remain low.

In addition, there is a glut of solar panels on the market today, as supply has far outstripped demand. And that oversupply is expected to be in place for at least the next 18 to 24 months, unless something dramatic happens.

The Role of Distribution: Manufacturers

While the solar industry has been around for a long time, distribution's role in the U.S. is still relatively small for solar modules, Barker says, especially when compared with other countries. In 2011, only 10 percent of solar modules in the U.S. went through the distribution channel; in Japan, more than 50 percent went to market through distribution.

The oversupply of panels and components and its impact on prices may be good news for the end-user, but it is wreaking havoc on manufacturers within the industry – and the distributors that supply them.

One of the most infamous manufacturing failures within the solar industry was the bankruptcy of thin-film solar technology manufacturer Solyndra in 2011. More recently, China-based Suntech Power Holdings announced it would file for bankruptcy.

"We've definitely moved from peak to trough," Hisco's Behr says. "We've seen an incredible amount of consolidation. Probably half of the companies that were manufacturing or pre-manufacturing in the U.S. have gone out of business in the last two years."

As such, the role of the distributor in this space is becoming "more problematic," Behr says. There's more competition for customers. And you have to be very clear in demonstrating your value-add. "It's not an artificial pressure, it's really there," he says. "So if you're going to depend on it, you really have to understand the market you're participating in.

"It's a very tough market in which to be a generalist type of distributor." To that end, Hisco focuses on providing "mission critical materials" with a value proposition of making sure their customers can keep production running efficiently. You have to make sure you're reducing the manufacturer's price per watt with everything you do, Behr says.

The Role of Distribution: Installers

While the manufacture of materials is facing significant challenges, installations have increased significantly in the past two years. The U.S. is currently the third largest single-country market in the world, Barker says, accounting for about 10 percent of total global demand for solar energy generation. California accounts for more than one-third of that demand.

As a result, distributors serving the installation and integration market have also seen a boost in business. But where they fit within the industry is still evolving.

"In many ways, we're still trying to find our niche," Clean Energy Distribution's Wilson says. While solar components are often lumped in with electrical distribution, many of the components are actually electronic.

And then there are the dynamics of the installation, which may involve more roofing expertise. "In fact, the third largest installer in California – by far the most mature market in the U.S. for solar – is a roofing company," Wilson says.

Wilson has also seen interest in the solar market from HVAC and plumbing houses because the product lines are closely tied to other efficiency products that they carry. Growing interest in solar water heating systems ties it even more closely to that sector.

Clean Energy Distribution is a distributor of solar products, from photovoltaic panels to inverters to solar thermal components. The

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company founder, Jesse Stubbs, started out with an interest in being an installer but couldn't find a consistent supplier of the necessary materials and decided to fill that need instead.

"Right now we are absolutely a separate sector," Wilson says. "Compared to other sectors, solar is a very immature industry made up of a lot of very excited and amazing people. But for the most part, we don't have a lot of distribution background. We don't have a lot of intelligence as far as how did electrical do this 80 years ago? How did the plumbing and pipe-fitting guys do this 100 years ago? All the little things that they went through when they began, that's exactly what we're going through right now. And I think solar can benefit immensely from sharing best practices from some of these other industries and trade groups."

The oversupply of product currently on the market is also creating challenges for distributors to installers and integrators, as manufacturers are selling more direct to move the product off their shelves. As a result, it's imperative that distributors prove their value-add to customers and potential customers.

Distributors can play several roles that manufacturers may not want to bother with, according to Wilson. The first is providing a consistent product line. "Right now, anybody can get just about anything from anywhere," Wilson says. "But if you want to plan for any sort of consistency for the long-term, you need a consistent supply of materials for the long-term."

Buying into the "fire sales" from manufacturers or jumping on lot closeouts may get you a cheaper price right now, but will you be able to get those same products – or compatible products – in the future?

Another important role distributors can play is in financing. In the current market, some smaller installers may not be able to get financing, Wilson says. Have an expert on staff that can help arrange the financing and educate the customer on what they need.

Distributors can also provide shipping expertise and other ancillary services that don't come with product line liquidation elsewhere.

The Future of Solar

Since 2004, global demand for solar-generated power has doubled every two years, according to NPD Solarbuzz. Global solar demand is expected to increase 7 percent in 2013. With more states implementing more comprehensive renewable standards, demand in the U.S. is expected to remain "consistently positive," Barker says, and will maintain its position as the third largest single-country market, behind China and Germany.

While most of the renewable portfolio standards across the U.S. allow for a variety of renewable sources, solar is a common key component of many of those plans. In New Jersey, for example, solar is required to account for 4.1 percent of energy generation by 2028.

Distributors that can identify their niche in the diverse market can capitalize on the continued growth.

The Hiring Disconnect in Distribution

More companies are hiring, but struggle to find qualified talent

About 70 percent of readers in a recent MDM survey said they had plans to hire in 2013 due to growth in their businesses, new initiatives and the need to replace retirees. But many cited challenges in finding qualified candidates to fill positions. According to industry HR experts, part of the challenge is in recognizing that a high unemployment rate does not always mean that a high number of qualified candidates are looking for work. This article looks at the recent MDM survey and provides insight on the current talent market.

By Lindsay Konzak

The recession cost many distributors a couple of years of sales growth, and many have just recently returned to pre-recession levels.

During the recession, many distributors were forced to cut staff. Even those who were able to avoid layoffs worked to do more with less so they wouldn't have to hire as they climbed out of the recession.

Industrial distributor Western Tool & Supply, Livermore, CA, was one of many distributors that invested in technology to increase productivity and reduce staffing needs. "Before the downturn, we hired people who weren't that qualified, but we needed bodies to answer the phones," says Ken Schuman, vice president of sales and support for the distributor of metalworking tools. "We were between a rock and a hard place, but needed people to process orders."

So the distributor developed its own software for consignments and tool cribs. Customers reorder through the software, which is attached to their cabinets and linked to Western Tool & Supply. The distributor gets orders for about 4,000 line items a month through the system. Employees check each order, but the setup means the distributor no longer needs as many people to take orders manually.

Over the past couple of years, strong growth returned for Western Tool and Supply, who is looking to hire this year due to the acquisition of a branch in Colorado.

Nearly 70 percent of respondents to MDM's recent hiring survey said they are planning to hire new employees in 2013. Despite uncertainty, gains in productivity are no longer enough for many distributors.

"There are a lot of companies that are burning people out," says Skip DeVilling, president of DeVilling & Associates LLC, a Sarasota, FL-based executive employment search firm. "It's not intentional. … If they are going to move forward, they have to do one of two things: They have to cut back on initiatives, or they have to increase their innovation initiatives by hiring more people."

Hiring Plans

Of those survey respondents that are planning to hire, 70 percent are planning to hire in outside sales and 43 percent plan to hire in inside sales. (Respondents could choose more than one job function.)

For some distributors MDM spoke with, the percentage planning to hire surprised them. Others were not as surprised. "I think the white-knuckle phase is over," says Prudence Thompson, senior partner and director of distribution for Egret Consulting Group, referring to companies doing more with less for several years. Thompson is a long-time recruiter in the electrical distribution sector.

In the survey, respondents who are planning to hire cited growth in business, new initiatives including e-commerce and channel coverage, developing new sales territories, replacing retirees, upgrading talent and expanding into new verticals as reasons to add staff.

"There is a movement to add more specialized talent to break into new markets. I've seen companies that are going completely nontraditional – moving into new spaces they've never played in before," Thompson says.

Another 16 percent in the survey said they were unsure whether they would hire in 2013.

"Hopeful to hire," wrote one respondent. "Depends on the next few weeks. Obamacare and additional taxes are a consideration." Another wrote: "We will be reviewing 2013 circumstances to determine if additions are necessary."

The 15 percent not planning to hire said they could not justify new hires yet due to ongoing uncertainty in their markets and slow business in key customer segments.

The Candidate-Driven Market

Industrial distributor Falcon Metals, Charlotte, NC, is hiring in two areas. One hire was after it expanded its footprint in Kentucky. The other hire was to bring a trainee into the company.

"We are making an investment," says Don Nowak, owner and president of Falcon Metals, whose core business is vendor managed inventory focused on production components.

He says the company is focused on knowledge transfer. "We have a lot of long-term people. We have little turnover," he says. "So every year we get a year older. You need to infuse other folks into the organization."

The market for talent was strong during the recession and the years that followed, as unemployment climbed and qualified candidates were suddenly without jobs. Many distributors in the survey said one of the biggest challenges now is finding qualified talent to fill positions; that is not a new development but the economic turnaround may have amplified the problem.

Nowak says that his company's potential talent pool seemed to have shrunk when the distributor sought candidates for its more recent hires. "I was surprised it was a narrow pool of qualified candidates given the amount of unemployment," he says.

Top talent is typically being sought by more than one company, raising prices and requiring more work on the part of the recruiting company to draw them in. "That's how it was before the recession, and now it's getting back to it for the best talent," says John Salveson of executive search firm Salveson Stetson Group.

What's more, top talent is often already employed and may not be actively looking for a change, something many survey respondents noted when asked about their top challenges in finding qualified employees.

"The best candidates are A players working for competitor or related industries," said one respondent. "Cannot find unemployed A players – must recruit from competition." Another agreed. "It is best to look for employees currently working who are looking for a change; currently unemployed workers do not seem to be seeking employment."

Since the recession, the market has slowly turned from a company-driven market to a candidate-driven market, Thompson says. "It's

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costing good companies good people because they are acting like they have a plethora of people to choose from – but that number is dwindling."

For Schuman, the technical nature of the distributor's business – focused on machine shops – has made it more difficult to find the right candidates. "The business is so technical it takes a long time if you hire someone outside the industry to get them up to speed," Schuman says. Word of mouth and industry networking is one way Western Tool & Supply finds talent, but Schuman says some talent actually left the industry during the recession after being laid off one too many times.

Tips for Hiring

Some companies view the high unemployment rate as a sign that it should be easier to find talent. "I think there's a fallacy out there that's growing because unemployment is high, and there are online tools like LinkedIn. The next step in that logic is that it should be easy to find someone to fit a job. It's harder than you think," Salveson says.

Distributors should focus on more than just finding candidates for a position, he says. He outlined a five-step process:

1. Define the position and understand what you will need to fill that position.
2. Make sure everyone who will interact with that position agrees with that definition.
3. Find people to interview for that position.
4. Interview and assess the candidates.
5. Hire the right person.

One of the most important pieces of this process, he says, is the initial definition. Assessment is also important. Salveson has found that the most common reason a new hire fails in a new job is due to lack of cultural fit rather than skills and experience.

"If that's the case, when you are hiring them, you ought to pay a lot of attention to that part of the equation," Salveson says.

"The expectations along with the definition of the musts and preferreds are really important," DeVilling says. It's also critical to keep your criteria consistent throughout the process for every candidate.

The time to hire needs to shrink, as well, to keep a strong candidate's attention, Thompson says. "If a company doesn't seem interested, they will look at other options. That's happening a lot," she says. Being slow to react or not being engaged in the recruiting process with people they are interested in on an ongoing basis may cost distributors talent.

The market for talent will continue to be tight, according to experts, but qualified candidates are out there. Distributors should prioritize human resources on a strategic level going forward.

"I would argue that distributors who are going to be most successful will invest more in talent," Salveson says. "My most progressive clients have very sophisticated human resources people at all levels of their organizations that are finding the best talent and bringing them in, and intensely developing the people on the inside to bring them up to the next level."

■ *MDM Interview*

Learn & Adapt or Be Left Behind

Bishop-Wisecarver's Pamela Kan on the shifting manufacturing industry

Manufacturing has seen significant significant shifts in techology and skill needs in recent years. Pamela Kan, president of Bishop-Wisecarver Group, a manufacturer of linear and rotary motion products, spoke with Associate Editor Jenel Stelton-Holtmeier about what those shifts mean for the industry and what manufacturers and distributors need to do to respond.

MDM: There have been some big advances in manufacturing technology in recent years. How is this changing the industry?

Pamela Kan: We're in a time and place where I think we're going to see more rapid expansion of technology. I don't even know if we can even think about the total impact just yet. From the things that are happening with materials and coatings and nano and additive manufacturing ... And when you add pure technology layers like augmented reality, it's huge. Everything that's coming down the pipe with sensors – from sensors in your production floor to sensors in your product – the amount of data feedback loops that we'll start to have around our production and our customer usage of products is amazing.

That kind of stuff gets me going; it's all really exciting. I think we're right on the edge of a whole new way of making things. And this is where America really excels, in taking these types of innovations and really exploiting them. It's a great time to be in manufacturing.

MDM: It seems that these advancements have changed the workforce needs of the industry, as well.

Kan: Yes. You hear a lot of talk about STEM and STEM education – science, technology, engineering and mathematics. But the Rhode Island School of Design is now promoting a STEAM-based education, which is science, technology, engineering, arts and mathematics. And I see that being referred to more and more now.

When you're creating things virtually, you have to have a greater creative, artistic sense to really visualize these things when it's happening in multiple dimensions and layers. It's a whole different thinking process that we need.

If you take it back to the question of how is this changing the workforce, I think there's going to be a big shift in the type of skill sets that we're going to need – not just the purely technical sense and skill set of the workers, but their ability to have that creative, artistic, innovative way of thinking. That's very hard, and I don't even know how you teach that in some ways.

MDM: What role do you see manufacturers and distributors playing in this?

Kan: Manufacturers and distributors need to start playing a role. They have to get engaged, and they have to get involved in working with the schools, working with their state governments and actually voicing the importance of a STEM-based education to creating graduates with employable skill sets.

It's starting to get out there; you're seeing it more. But especially in our industry, we tend to be a little bit passive at times. We're not as vocal and we're not as engaged in the political and educational channels. We all have to get involved, and we all have to start speaking up. We need to be really clear about what is going to be required.

MDM: The flip side of all this is that some people have been reporting a challenge in recruiting and retaining the talented workforce that does exist. Are you seeing that problem?

Kan: This is one of the outcomes of having kids that have grown up playing Internet games, what people are starting to call the gamification of the workforce. There's a difference in our employees, especially those that are under 30. The attention span is different. There's a need for a constant feedback loop. They need to feel like they're always advancing, as if you're playing a game and getting an extra life or advancing to the next level.

For some of the younger employees, it's really hard if they're doing the same thing for too long or if they don't feel like they're making a difference or moving things to the next level. Keeping the younger generation engaged in their jobs is much tougher today.

MDM: How can the industry address that challenge?

Kan: We need to rethink how we run our companies and how we do work; for example, cross-functional groups to solve problems and work on projects.

Some traditional thoughts about career advancement may have to change. Instead of big career advancements, people are getting smaller more incremental advancements or title changes. I think that is what the younger generation needs to feel like they're staying engaged and staying on the right track with the company.

It's going to be tough for a lot of industries. Manufacturing and distribution isn't normally on the cutting edge of some of those HR changes. So it will be interesting to see how that ends up impacting our industries.

MDM: Changing direction, you've been identified by your peers as a leader in social media for business. So why do you think there's a hesitation in this industry to engage through social media?

Kan: Number one, they don't understand it. And if they don't understand it, they fear it. When the Internet came out, there was this fear about what it would do. When email came about, it was "Oh that will never be used in work." We're at that point with social media. It feels very overwhelming to a lot of companies; they don't know where to start, they don't know how to measure it or justify the expenditure of resources.

They need to understand that this is a different and new channel to the market, and they have to learn about it just like any other one.

It really goes back to trust and that overall lack of understanding. When I speak at confer-

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ences or at industry meetings, I hear, "I can't control what my employees are doing on social media." But you can actually know exactly what all your employees are saying. That's the power of it. You can know what all of your customers and your competitors are saying, as well, if you learn how to use it.

I find it really ironic that there's this sense of lack of control over the use of the medium. How much control do you really have of what your salesman says to a customer he's taking to lunch? You have no control of what that salesman is saying about you, your company, the product or the competition. You have no documentation of that conversation.

MDM: What kind of return have you seen from participating in social media?

Kan: That's something that we're continuing to refine and get better at. It's definitely great for brand awareness. But for us, it really is a lead-generating machine. The amount of traffic we're able to get to our website or our YouTube channel is outstanding. For a company our size, to have a YouTube channel with more than half a million hits is phenomenal. That's a scale I cannot get through any other advertising medium in our industry.

ROI is much easier to track on digital technologies than it is through print. Tell me what you get from doing a print ad; quantify that ROI for me. I can give you much more data around an electronic newsletter than I can over a printed page.

Hear more from Pamela Kan in the latest MDM 7 Minutes With ... executive interview, available at mdm.com/7minutes

MDM: What platforms are the best for manufacturers and distributors to explore?

Kan: I actually gave this question to my digital marketing person. And here's what she wrote: I can't really say which platform is best because every company will find their audience in different places. I think that's what people really need to understand: You have to spend the time to figure out where your customers are and where your customers are hanging out. And it might not be where you think they're hanging out. It's about quality not quantity.

MDM: What's your advice for how to begin developing a social media strategy?

Kan: It's no different than how you write your strategy for marketing in general for your company. It's part of your overall marketing campaign and your media campaign. They should be synergistic, they should have one voice. It's Marketing 101, you're just doing it through a different medium.

A lot of people are using a shotgun approach; they rifle off all this different stuff across different channels with no real plan behind it. They have no consistent voice to what they're doing out there, and they don't manage it like they would truly manage a marketing campaign even though that's what it is.

And they don't do it with the frequency required. If you open a Twitter account and you only tweet once a week, that's never going to have an ROI for you. Twitter is about instant news, about instant responses, and if you're only logging in once a week, don't even bother.

The expectations around the medium are unrealistic. I hear it all the time "We tried Twitter, and it didn't work," but when I ask them how long they did it, they say "a week." What in this life gives you a return in a week?

Social is about engagement. That's one of the biggest mistakes I see in our industry. Every time they put something out there, they're talking about themselves and their product. If you go to a party and you run into the guy that won't stop talking about himself, you move away.

This is no different. Someone who's a blowhard on social media is not going to get engagement because nobody wants to hear about your chain or your sprocket or your linear system all day long. You have to learn how to mix up your content, and you have to provide content that positions you as a thought leader. Not just about your product, but what's important to your constituents.

MDM: What do you see as the "next big thing" in this ever-changing industry?

Kan: The Internet with social technologies has truly put the customer in the driver seat. I see manufacturers and distributors who don't believe that this is the reality. And I think some of them are going to pay a really severe price for that.

When you have a culture that more and more is telling people that they should be able to have what they want, when they want it, how they want it, to have an industry tell the customer what they can buy, how they can buy it, that's going to be a rude awakening.

Ultimately the customer is going to dictate and those companies that create platforms that foster that type of relationship are the ones that are going to win.

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Industrial & Construction Markets Update

VOL. 43, NO. 6 | MARCH 25, 2013

Update on Grainger's Growth Drivers in 2013

Grainger's multichannel model gives it an edge over competitors like AmazonSupply.com, according to Ron Jadin, senior vice president and CFO, responding to a question on Amazon after his presentation at the Raymond James Institutional Investors Conference earlier this month.

Amazon launched AmazonSupply.com with more than 500,000 products targeted at business, industrial, scientific and commercial customers in April 2012.

"Ninety-five percent of our business is with the large and medium customers," Jadin said. "We think the greatest threat with an Amazon or anyone like them is with our small customers." About 75 percent of Grainger's sales are to large customers, and 20 percent to medium-sized customers, a market targeted in recent years with added salespeople and services to increase their share of spend with the distributor.

He said that small customers – on average five employees in a company – behave more like consumers. "Amazon has a great consumer model," he said. "We think our medium and large customers value our services we offer and having a sales rep call on them. There's more complexity in what they need. We think our model is relevant there."

From the pricing perspective, he said Grainger's pricing for medium and large customers is competitive. "We don't see a pricing threat [from Amazon] there," he said.

Grainger's focus on e-commerce and new approaches to reaching smaller customers make the distributor increasingly competitive on that end of the size spectrum, Jadin said.

In addition to the investments made in its traditional e-commerce platform at grainger.com and in mobile, investments in e-commerce-only businesses MonotaRO in Japan and Zoro Tools in the U.S.

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Distributor News

Interline Brands Inc., Jacksonville, FL, No. 15 on MDM's list of top industrial distributors, reported sales of $1.3 billion in fiscal year 2012, up 5.8 percent from 2011. Organically, sales increased 4.9 percent. The distributor recorded a net loss for the fiscal year of $15.6 million, compared to a year-ago profit of $37.7 million.

Interline Brands has tapped an interim CFO, David C. Serrano.

Grainger, Chicago, IL, reported daily sales in February increased 6 percent versus February 2012, including 4 percentage points from volume, 2 percentage points from price and 1 percentage point from acquisitions, partially offset by a 1 percentage point decline from foreign exchange.

ABC Supply Holding Corp., Beloit, WI, the parent company of American Builders & Contractors Supply Co. Inc. (ABC Supply), has agreed to redeem all of the shares held by its minority shareholders, an investor group led by Advent International. Upon closing, 100 percent of the shares of ABC Supply will be controlled by the company's co-founder Diane M. Hendricks.

Baldwin Supply Company, Minneapolis, MN, distributor of power transmission, electrical control, conveyor belt and other industrial products, has expanded into St. Cloud, MN, with the opening of a 3,000-square-foot branch office and warehouse.

Graybar, St. Louis, MO, a distributor of electrical, communications and data networking products has opened new branches in Carrizo Springs, TX, and Dickinson, ND, and a new sales office in Rockford, IL.

Graybar reported sales for 2012 of $5.4 billion, up 0.7 percent from 2011. Profit increased 6 percent to $86.3 million.

Border States Electric, Fargo, ND, will open a branch in Greeley, CO, in April 2013. The new branch will operate out of a 31,000-square-foot facility, with inventory to serve construction and industrial customers.

Genuine Parts Company, Atlanta, GA, has agreed to acquire the remaining 70 percent stake of **Exego Group**, Melbourne, Australia, for $800 million. Exego Group is an aftermarket distributor of automotive replacement parts and accessories with revenues of more than $1 billion and more than 430 locations across Australia and New Zealand.

Edgen Group Inc., Baton Rouge, LA, reported sales for 2012 of $2.1 billion, an increase of 23 percent from 2011. The distributor reported a net loss of $43.4 million, compared to a net loss of $4.2 million in 2011.

Creative Touch Interiors, a business of **HD Supply**, Atlanta, GA, announced the promotion of Lance Devin to president. CTI provides interior finish solutions to the residential and commercial construction industries.

Distributor-owned power transmission purchasing and marketing coopera-

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest
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tive **IDC-USA** has upgraded its website at IDC-USA.com.

Economic News

Wholesale trade revenues for January were $415.4 billion, down 0.8 percent from December but up 3 percent from January 2012, according to the U.S. Census Bureau.

January U.S. manufacturing technology orders totaled $370.62 million according to the Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was down 26.5 percent from December and down 12.2 percent when compared with the total of $422.33 million reported for January 2012.

Privately-owned housing starts in February were at a seasonally adjusted annual rate of 917,000, 0.8 percent above January and 27.7 percent above February 2012, according to the U.S. Census Bureau and the Department of Housing and Urban Development.

Construction employment expanded in two-thirds of all states in January as the industry showed signs of emerging from a six-year slump, according to an analysis by the Associated General Contractors of America of Labor Department data.

Builder confidence in the market for newly built, single-family homes paused for a third consecutive month in March, according to the National Association of Home Builders/Wells Fargo Housing Market Index. The HMI fell two points to 44.

In the **European construction sector**, seasonally adjusted production in the euro area (EA17) fell by 1.4 percent and by 1.3 percent in the EU27 in January 2013, according to the first estimates released by Eurostat.

U.S. **wholesale prices** increased 0.7 percent in February, according to the U.S. Bureau of Labor Statistics. On an unadjusted basis, the finished goods index moved up 1.7 percent for the 12 months ended February 2013, the largest 12-month increase since a 2.3-percent rise in October 2012.

Industrial production in the U.S. increased 0.7 percent in February after having been unchanged in January. Manufacturing output rose 0.8 percent in February, and the index revised up for the previous two months.

In January 2013 compared with December 2012, seasonally adjusted **industrial production** fell by 0.4 percent in both the euro area (EA17) and the EU27, according to estimates released by Eurostat. In December 2012, production grew by 0.9 percent and 0.8 percent respectively.

Economic activity among members of the Industrial Supply Association continued to expand in February, according to the latest ISA Economic Indicator Report. The February composite ISA Manufacturer Index reached 62.07 percent, continuing the expansionary trend started in January. The ISA Distributor Index also showed expansion, albeit at a slower rate, with the index registering 52.31 percent for the month.

Recent trends suggest a reason for optimism for the U.S. economy and its manufacturing sector, according to the quarterly **Manufacturers Alliance for Productivity and Innovation U.S. Industrial Outlook**, a report analyzing 27 major industries. While GDP declined at a 0.1 percent rate in the fourth quarter of 2012, manufacturing output grew at a 1.9 percent rate.

Manufacturer News

Saint-Gobain Performance Plastics, Aurora, OH, has acquired **Applied Bioprocess Containers**, Plymouth, MN, a supplier of single-use containers and fluid transfer systems for the biopharmaceutical industry.

Saint-Gobain has agreed to sell its U.S.-based PVC Pipe & Foundations business to **North American Pipe Corp.**, a subsidiary of **Westlake Chemical Corp.**, Houston, TX, for $175 million.

Swedish manufacturer **Sandvik** has agreed to acquire the drilling solutions business of **Cubex Ltd.**

The Timken Company, Canton, OH, has acquired **Interlube Systems Ltd.**, Plymouth, UK. Interlube is a manufacturer of automated lubrication delivery systems and related components to sectors including commercial vehicles, construction, mining, and heavy and general

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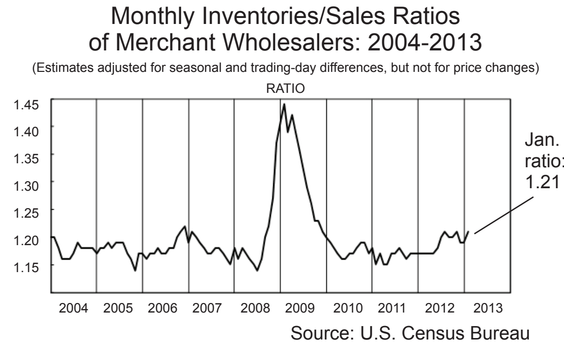
mdm.com

Monthly Wholesale Trade Data



MARKETS UPDATE SUPPLEMENT P. 3

Wholesale trade revenues for January were $415.4 billion, down 0.8 percent from December but up 3 percent from January 2012, according to the U.S. Census Bureau. January sales of durable goods were up 0.7 percent from the prior month and were up 2.3 percent from a year ago. Sales of nondurable goods were down 2.1 percent from December, but were up 3.6 percent from last January.

Inventories. Inventories of wholesalers were $504.4 billion at the end of January, up 1.2 percent from December and up 6.5 percent from January 2012. January inventories of durable goods were up 1.1 percent from the prior month and were up 8.3 percent from a year ago. Inventories of nondurable goods were up 1.2 percent from December and up 4 percent from a year ago.

Inventories/sales. The January inventories/sales ratio for merchant wholesalers was 1.21.

Sales and Inventories Trends: January 2013

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 12/12-1/13	Percent Change Sales 1/12-1/13	Percent Change Inventory 12/12-1/13	Percent Change Inventory 1/12-1/13
42	**U.S. Total**	**415,413**	**504,406**	**1.21**	**-0.8**	**3.0**	**1.2**	**6.5**
423	**Durable**	**188,004**	**299,727**	**1.59**	**0.7**	**2.3**	**1.1**	**8.3**
4231	Automotive	33,769	43,920	1.30	0.7	3.1	0.4	-2.6
4232	Furniture & Home Furnishings	4,194	7,261	1.73	-1.2	-6.7	0.9	2.1
4233	Lumber & Other Construction Materials	10,132	14,506	1.43	0.4	16.7	3.4	22.1
4234	Prof. & Commercial Equip. & Supplies	31,782	34,338	1.08	0.3	1.1	1.9	9.5
42343	Computer Equipment & Software	15,902	13,268	0.83	0.4	-1.2	3.2	13.4
4235	Metals & Minerals	12,375	27,438	2.22	-3.2	-6.3	-0.2	5.3
4236	Electrical Goods	32,365	43,152	1.33	-0.7	2.2	0.1	5.4
4237	Hardware, Plumbing, & Heating Equipment	9,416	18,935	2.01	3.2	8.2	-0.2	5.9
4238	Machinery, Equipment & Supplies	33,762	84,521	2.50	4.2	6.3	1.7	18.6
4239	Miscellaneous Durable	20,209	25,656	1.27	0.1	-4.2	2.5	2.1
424	**Nondurable Goods**	**227,409**	**204,679**	**0.90**	**-2.1**	**3.6**	**1.2**	**4.0**
4241	Paper & Paper Products	7,212	7,511	1.04	-0.7	3.3	-2.2	-1.5
4242	Drugs	36,514	36,342	1.00	-2.0	2.0	6.2	7.7
4243	Apparel, Piece Goods & Notions	12,172	21,483	1.76	-0.4	4.6	-0.8	-1.9
4244	Groceries &Related Products	49,609	36,537	0.74	1.0	4.9	2.1	7.9
4245	Farm-product Raw Materials	18,652	22,296	1.20	-7.2	8.1	-1.5	9.0
4246	Chemicals & Allied Products	10,384	11,887	1.14	0.8	7.5	-3.6	4.7
4247	Petroleum & Petroleum Products	61,797	27,627	0.45	-4.5	0.5	1.9	1.4
4248	Beer, Wine & Distilled Beverages	10,280	14,143	1.38	-3.0	2.2	1.5	9.4
4249	Miscellaneous Nondurable Goods	20,789	26,853	1.29	0.3	7.9	0.0	-3.1

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.

MARKETS UPDATE SUPPLEMENT P. 4

Grainger
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are targeted at small customers, and while they remain a small portion of Grainger's overall sales, growth is proving strong. Zoro, whose sales Jadin described as in the "low $10s of millions," had more than 500 percent sales growth in the U.S. in 2012 year-over-year. MonotaRO, with sales in the $300 million to $400 million range, saw growth of more than 25 percent.

Grainger will continue investing in the growth drivers that have driven its rapid growth over the past five years; Grainger reported $9 billion in sales in 2012.

Product expansion is one of those drivers. Grainger's 2013 U.S. catalog includes 570,000 in-stock products, which is six times that in 2005. In total, more than 900,000 products are available on grainger.com.

The distributor will continue to capitalize on its e-commerce investments, another growth driver, with plans to grow those sales to up to 50 percent of total Grainger sales by 2015. In 2012, e-commerce made up about 30 percent of total sales and grew at twice the rate of the rest of the business, Jadin said.

Mobile is also fast becoming an important part of Grainger's multichannel model, growing more than 50 percent quarter-over-quarter for the past three quarters; Grainger's mobile app was announced in August 2012.

Nearly all of Grainger's customers use multiple channels to do business with the distributor, Jadin said, including grainger.com, sales force, mobile, branches and inventory services, or KeepStock.

KeepStock accounted for $300 million in incremental 2012 revenue, he said. The distributor plans to continue adding vending machines to supplement its VMI and CMI services "where it makes sense," Jadin said. He said Grainger added about 1,000 vending machines in the past year and probably will add twice that in 2013. In comparison, Fastenal aims to have 30,000 new vending machines under contract by the end of 2013.

Grainger says it will continue to take advantage of cross-border service for customers, as it takes advantage of economies of scale through expansion in Canada and other international geographies. "That's powerful to our customers," Jadin said.

Jadin also said private label will continue to be an important part of Grainger's strategy to grow sales and improve operating margins. Jadin said average gross profit margin for branded product is about 40 percent, for private label is 50 percent, and for Asia-sourced private label is 60 percent. "Private label has become an opportunity to provide a lower-cost alternative for customers looking for low-priced items while helping us to improve our mix on gross profit margin," Jadin said.

Private label product accounted for more than 20 percent of Grainger's total U.S. sales in 2012. While that percentage is not up significantly from 2007, Jadin said the distributor is increasing its sourcing of product from Asia.

In its sales guidance, Grainger reported expectations of overall sales growth of 3 percent to 9 percent in 2013, which includes the effect of acquisitions. About 2 percent to 8 percent is expected in organic growth.

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industries.

Actuant Corp., Milwaukee, WI, reported sales for the second quarter ended Feb. 28, 2013, of $370 million, down 2 percent from the same period a year ago. Profit was $28.4 million. For the first six months, sales were $748 million, down 3 percent. Profit was $64.8 million.

Global investment firm **Kohlberg Kravis Roberts & Co. L.P.** has agreed to acquire **Gardner Denver** for $3.9 billion. Gardner Denver, with 2012 revenues of $2.4 billion, manufactures highly-engineered products, including compressors, liquid ring pumps and blowers, pumps used in the petroleum and industrial market segments and other fluid transfer equipment.

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ISSN 0544-6538

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