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Intelligence for Wholesale Distribution Professionals

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■ *MDM Special Report: Private Label in Distribution, part 1*

The Evolving Role of Private Label

Higher quality, shifting competition fuel growth of private label

About 40 percent of distributors in a recent MDM survey said they offer private label. This article examines the growth of private label in B-to-B markets, shifts in the private label landscape and what's driving distributors to offer private label brands to their customers.

This is the first in a series of articles from MDM on private label in the wholesale distribution industry. Future articles in this series will examine the distributor's balance between national and private label brands; challenges for distributors who pursue private label; and how distributors approach the production and marketing of their brands.

By Lindsay Konzak

Distributors are increasingly looking to private label products as another weapon in their arsenals in a rapidly changing competitive landscape.

"I don't see distributors shifting to an entirely private label portfolio and essentially becoming manufacturers or brand-owners of contracted manufacturing product," says Guy Blissett of IBM, author of the National Association of Wholesaler-Distributors' *Facing the Forces of Change: Reimagining Distribution in a Connected World.*

"But I do see much more attention being paid to private label and the role that private label products can play in (distributors') value proposition, allowing customers to pick and choose the price point and quality and value proposition of product that they want to buy across different categories."

Large, national distributors have invested heavily in their own private label brands in recent years. Grainger has grown its exclusive brand SKU count by more than 200 percent since 2007. About 22 percent of MSC Industrial Supply's new SKUs in its September 2013 catalog were MSC private brands. And Fastenal's private label brand, focused on non-fastener product lines, now makes up 10 percent of its total sales.

But it's not just the nationals that are investing in private labels, also known as exclusive brands, own brands or store brands. More than 40 percent of distributors in a recent MDM survey said they offer private label brands.

Of the 59 percent that said they don't offer a private label, 13 percent said they had plans to offer one. About a third said they weren't sure.

Acceptance of private-label brands in B-to-C markets has bled into B-to-B, bringing with it both opportunity and tremendous challenges. The opportunity, when done right, can translate to margin expansion, a stronger distributor brand, increased customer loyalty and a better selection for end-users in an era of growing choice thanks in part to the Internet.

But distributors should also beware the side effects of private label, including the chance for channel conflict with national brand suppliers, the challenge in finding new skill sets to produce and market their own products, and an increased responsibility for product liability.

Growth of a Segment

Private label growth has been strong since the start of the recession in the U.S. JB Steenkamp, author of *Private Label Strategy: How to Meet the Store Brand Challenge*, says that as a share of the Consumer Packaged Goods market, for example, private label moved from about 17 percent of units to nearly 22 percent in the wake of the economic crisis; it now sits about 21 percent.

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INSIDE

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PERSPECTIVE ■ Commentary by Jenel Stelton-Holtmeier

Business Lessons from the Broncos Blowout

Most of the sporting (and betting) world expected the Denver Broncos to beat the Seattle Seahawks in this year's Super Bowl. Seattle was expected to put up a good fight, with the end result a close game between the team with the best offense in the league and the team with the best defense.

None of that came to be. Instead, the Seattle Seahawks won an extremely lopsided game that left a lot of commentators wondering: Where were the Broncos?

While there are likely many factors that contributed to the loss, one of the main factors may have been an inability to adapt on the part of the Broncos. While Peyton Manning is well-known for his effective audibles (Omaha!), he was forced to switch to hand signals during this game due to the noise in the stadium. And according to Seattle's Richard Sherman, the Seahawks figured those out. Manning and the Broncos were slow to figure out what was going wrong and missed the chance to adapt.

That lack of awareness was detrimental to the Broncos, and the same thing can happen in business. In a rapidly changing marketplace – thanks to technology and changing customer demands – distributors must keep a keen eye on how those changes could affect their businesses.

If sales suddenly decline in a particular product category or end-market, it makes sense that you would analyze and make changes to adapt to the new reality, just as Manning changed from audibles to hand signals. If suddenly those efforts aren't paying off, you may need to adapt again.

For example, if your sales team is effective at convincing a customer to buy a specific product, but the customer then takes that information to another seller who carries that same product, but for less – an example shared by Ted Stark of Dalco Enterprises in the article on private label in this issue – figure out a way to prove your value-add to that customer and show them why they get more from you at that higher price. (As we've said often in these pages, racing to the bottom on price is not a good response.) Dalco has also used its private label products effectively to fight showrooming.

Adaptation is an essential skill in today's marketplace, but you must first be aware of the changes that could affect your business.

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Private Label
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Steenkamp is also a professor of marketing at the University of North Carolina's Kenan-Flagler Business School.

No figures were readily available in other segments, but distributors and manufacturers across sector lines say they've seen continued growth and interest in private label product lines.

Distributors have more options these days to add a private label to their product offerings. Some distributors develop their own product specifications, playing a big part in the design of a private label product either in-house or with a branded or contract manufacturer. Others put their names on what a contract manufacturer has already designed.

Some master distributors – selling only to distributors – offer white-label products, allowing distributors to brand or co-brand products in their local markets. Many distributor marketing groups offer private label branded products to their members, giving members a cost-effective way of offering a brand that competes effectively on a national scale, especially for national accounts that are looking for consistency across locations.

"We're seeing a pretty dramatic move to private label," says Beau Walter, sales and marketing manager for Athea Laboratories, which contract-manufactures more than 400 private label specialty chemicals and cleaning products for retailers and distributors. "I think largely because of what's happening on the consumer side, there's been a growing acceptance on the B-to-B side for private label."

Private brands have been a growth segment in the pharmacy channel for distributors like Cardinal Health, according to Shaun Young, Cardinal's vice president of consumer health.

"(The growth) has been in the high single digits for the last several years," Young says. "A lot of it is really driven by the value that the consumer is finding when they go to the shelf, and they find a national brand product. They see a private brand sitting next to it at a much better value for their dollar. One of the big pushes that retailers – our customers – have seen is the gross margin dollars are much greater on a private label product than on a national brand product. … Not to mention consumers' acceptance of these options has been at an all-time high."

Playing Defense

For many distributors offering their own brands in the MDM survey, private label was perceived as a margin opportunity, as well as an opportunity to offer a product at another price tier. In some cases, the goal was to recapture lost sales opportunities due to price.

But distributors cited more reasons than price and margin for diving in.

For some, it was a defensive move against new competitive forces in the market. "We know it brings higher margins and is less likely to be cross-referenced to Grainger or Amazon," said one distributor, who added that it plans for 25 percent of its product offerings to be private label in 2014.

"You really ensure that reorders are going to come to you," Walter says. "… Today many of the professional brands that our industries are used to selling and buying, those can be purchased at big-box stores now. That makes it particularly challenging for a given distributor to keep that business when the product that they might be selling can be purchased anywhere."

Ted Stark, president of janitorial and sanitary supplies distributor Dalco Enterprises, New Brighton, MN, says private label helps the distributor fight showrooming, when reps consult on products and services to the customer who then gets quotes from other distributors and outlets carrying the same products. "That becomes a motivator to sell the private-branded product because if we go out and do all the sales and marketing for a Dalco product, nobody else is going to come in and show the exact same product," Stark says.

Some distributors, including Dalco, are fighting converging channels, where their products are now being sold by a broader array of traditional distribution competitors.

"There really aren't any exclusive distribution arrangements anymore," Stark says. "And we've seen the national manufacturers increasing their distribution. We've seen them add not only additional independent jan-san distributors, but they're also adding on the big-box guys, and distributors from other industries are carrying our product."

Distributors are also using private label to fill holes in their lines or to provide custom parts to customers. One distributor wrote it has a private label offering "to protect our engineering efforts vs. the 'me too' … distributors. Essentially protect ourselves vs. those willing to drop price."

In some segments, distributors are introducing private label to compete against low-quality imported goods. "For us more than anything it is a defensive posture to respond to competitive distributors that import non-branded Chinese goods," says Michael Flink, president of ADI, a security and low-voltage products distributor with more than 200 branch locations.

He says customers want a "cost-effective" solution that they can trust. The distributor's private label products are positioned on the good end of the good-better-best spectrum, with national brands filling the better and best buckets.

Other reasons distributors said they offered private label included: avoiding geographic restrictions on branded products; responding to suppliers' "attempting to control the customer"; consolidating third-tier suppliers; and preventing the "excessive discounting of premier suppliers."

A Demand for Higher Quality

The demand for higher-quality private label is growing, providing more opportunity to add value for distributors.

"Years ago in the industry, private label was considered a low-end, low-cost solution," says Greg Polli, vice president of product management and global sourcing for MSC Industrial Supply, Melville, NY. "Customers' expectations have evolved, and they expect more. Our customers are counting on us to help them cut cost out of their operations, so presenting strong quality products at an effective price point is absolutely critical for our customers."

"Now you can go into a Target or a Kmart ... and they all have their own brands. It's packaged nicely, priced more competitively, and the bottom line is you take it home and you say, 'this stuff isn't bad,'" says Ed Rossi, president of janitorial and sanitary supplies distributor DawnChem, Cleveland, OH. "It has evolved over the years to where it's not frowned upon as a generic product."

Retailers and distributors recognize the importance of nicer-looking packaging, supporting literature and better marketing. The bottom line, according to distributors that offer private label, is that the product has to work as promised.

Vince Phelan, director of trade marketing for United Stationers, a master distributor of office supplies, agrees. "I think customers are savvy today – they know they have a lot of choices," Phelan says. "And that product experience is so important."

Close to 20 percent of Dalco Enterprises' chemical products sales are from private label; as the quality gap between private label and national brands began to close over the past two decades, Dalco has promoted the products more and customers have been more receptive.

And the recession provided an opening for many distributors, including Dalco, to offer a quality alternative at a lower price point.

Blissett says distributors need to view private label with an eye toward quality to remain relevant. "If distributors only view private label as a low-cost cheap alternative to the branded product, then I think there is a potential risk for a race to the bottom," he says. "But if they think more innovatively about private label as having the potential to build a whole new brand of high-end product under the distributor's own brand name, or a subset of that brand name, that's a different mindset, and it takes private label in a whole new direction."

Phelan says United Stationers is in tune with the need to raise the bar on private label products. "We try to manage our brand like their national brands," he says. "We try not to let it become too commoditized. I think our distributors are savvy enough to understand that it can be a quick race to the bottom if you're not careful."

The Value of a Distributor's Brand

As distributors add private label to their product portfolios, it begs the question: What is a distributor's brand worth? Historically a distributor's brand – depending on the sector – was largely dependent on the national brands it carried. That mindset has shifted.

"I see distributors being more assertive in terms of their own branding, and understanding the power of their brand and the importance of getting their brand out there in the marketplace," Blissett says.

Take foodservice distributor Sysco, which recently partnered with the Food Network to promote its brand to the end-user through sponsorship of the television show Restaurant Impossible. Sysco has 40,000 Sysco-brand products, according to its Investor Fact Sheet. "This is the first time in the history of Sysco that we're going to formally introduce our brand and our company to the end-consumer," William Goetz, senior vice president of marketing for Sysco, said in February 2013 at the 2013 Consumer Analyst Group of New York Conference.

Steenkamp says distributors sometimes have market propositions over and above the national brands they may carry due to relationships in local markets or services they provide. Distributors often have a closer connection to the needs of end-users, giving them insights into products or customizations that will add value for customers. The presence of private label will likely continue to grow in distribution.

"I think there's definite upside for the market," MSC's Polli says. "Private brands will certainly not replace the stronger industry brands, but there could be some displacement of weak industry brands that aren't driving real value-add for their customers. I see us growing as a percentage of our revenue in the private brand area."

Jenel Stelton-Holtmeier and Angela Poulson contributed to this report.

2014 Economic Outlook: Building for the Future

Conditions ripe for internal investments in business

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This year distributors should focus on positioning for growth, according to Andrew Duguay, senior economist with the Institute for Trend Research. Duguay was featured in the recent MDM Webcast, The 2014 Distribution Industry Outlook. He advises distributors to leverage current conditions and invest in their companies. This article is an exclusive summary of Duguay's presentation.

By Scott Merrill

As businesses move on from 2013, a year of slow, uneven recovery, it is important to look toward the future and establish long-term growth plans, according to Andrew Duguay, senior economist with the Institute for Trend Research. Duguay was featured in the recent MDM Webcast, The 2014 Distribution Industry Outlook.

"We expect growth in 2014, but we expect better growth in 2015 and 2016," Duguay says. "When you look out to 2014, 2015, '16, '17, really think about growth and opportunities. On the back side of 2015 we should see more growth, and so we really want to plan to ramp up capacity, see where your needs are, cross-train your key staff and really prepare for economic growth ahead."

According to ITR, the U.S. economy will grow through 2017. While growth in 2014 will be slower, indicators currently show the economy will not slide back into a recession. Key indicators of this are the rebound of the construction market and retail sales increasing 3 percent year-over-year in 2013.

"2013 was a fantastic year for the consumer starting to feel more comfortable spending again," Duguay says. "This is important for distributors because this is the end channel where demand is driven."

Banks are also recovering and have started lending again, and interest rates are low, thanks to the actions of the Federal Reserve. In addition, unlike pre-recession times, businesses, consumers and banks are no longer over-leveraged. Delinquency rates are lower than at any time in recent history, according to Duguay. The low delinquency rates mean consumers will be better able to withstand outside shocks to the U.S. economy, helping to create a more sustainable recovery. It also means that banks, which planned for more loan defaults this year, now have more liquid capital than expected.

"Part of our outlook for a positive economy in 2014 and beyond is the fact that banks are lending today and that businesses are going out there and borrowing more today than they were before, because we need that in order to finance the future," Duguay says.

Businesses have about $1.8 trillion in liquid assets, a record high, according to Duguay. Pre-recession levels were between $1.2 trillion and $1.3 trillion, meaning companies are better positioned now to withstand an economic downturn or shock.

Planning for the Future

In a poll of the Federal Reserve System Federal Open Market Committee board members, the group in charge of making decisions on interest rates, only three members believe short-term interest rates will stay between 0 percent 0.25 percent through 2015. In the long run, most of the board believes interest rates will hold around 4 percent, a 400 basis point rise from where they are now.

"We're being lent a gift right here with the Federal Reserve keeping interest rates low, and it's really a by-product of the fact that our economy is not growing at full capacity, that we don't really have those inflationary pressures," Duguay says.

"What we expect is that interest rates are going to slowly move up over time, and so that means that if you have borrowing needs, really

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consider where you want your business to be five years from now. Then really consider borrowing and locking in interest rates because the Federal Reserve certainly has been artificially keeping them low."

Along with historically low interest rates, inflationary pressures have been mild. For his Consumer Price Index Forecast, Duguay projected price inflation for 2013 to be 2 percent to 3 percent, up from 1.7 percent in 2013. As the U.S. economy strengthens and other global markets (specifically China, Brazil and India) start to emerge from recession, inflationary pressures will become more of an issue.

"This is really where it comes down to what are the opportunities in this business cycle," Duguay says. "And one of them is certainly interest rates. Don't be afraid to borrow ahead of those rising interest rates and inflation."

Priorities for 2014

In 2014, distributors are prioritizing growing revenue from existing customers, according to MDM's 2014 Distribution Industry Outlook Survey. Two of the best ways to do this is through expanding product offerings and expanding sales teams, Duguay says.

"The focus in 2014 should be on your own company," he says. "You really want to take advantage of low interest rates and finance your future in terms of investing in your own people, buying more efficient equipment, looking to upgrade your CRM system, whatever it takes to make sure that when economic times are stronger you are fully able to take advantage of that growth."

4Q2013 Financial Metrics & Trading Multiples

Quarterly update is newly expanded with more data, added value

On the following two pages, we feature a new, expanded quarterly report with data on merger and acquisition trends and financial metrics for the largest publicly traded distributors across diverse sectors.

In partnership with Houlihan Lokey, an investment banking firm, we have added data on M&A activity trends across all industries (not just distribution), as well as valuation multiples for deals in all industries.

Why is this data valuable to you? This data can help distributors, manufacturers and others who serve the industry:

Gauge M&A activity. The data presented on the first page of this report provides insight into deal activity across industries. For example, in the fourth quarter 2012, deal volume spiked, largely due to expected tax changes in the first quarter 2013. Deal volume tanked during the recession, reflected in the low figures in 2009 on the graph.

Understand M&A transaction valuation trends. While there are many factors that go into how a company is valued, the graphs on the first page provide a high-level view of median EBITDA transaction multiples for those companies that report the data. This will largely reflect data from larger acquirers, and in many cases, public companies, but can still provide perspective on both overall trends year-to-year, as well as current-year multiples by size of deal. In general, the smaller the acquired company is, the lower the multiple. Note: The data on the top of the second page reflects trading multiples for the public companies in the table below it.

Benchmark your quarterly performance. On the second page of this report, you will see a number of balance sheet metrics for the largest publicly traded distributors, including margins, return on invested capital and working capital to sales.

Understand the differences in performance across industries. You'll notice differences in margin, sales performance and more between, for example, gases and hardgoods distributor Airgas (55.9% GM), building products distributor A.M. Castle (13% GM) and electrical and datacomm distributor Anixter International (22.6% GM), in part due to the differences in product mix and end-markets these distributors serve.

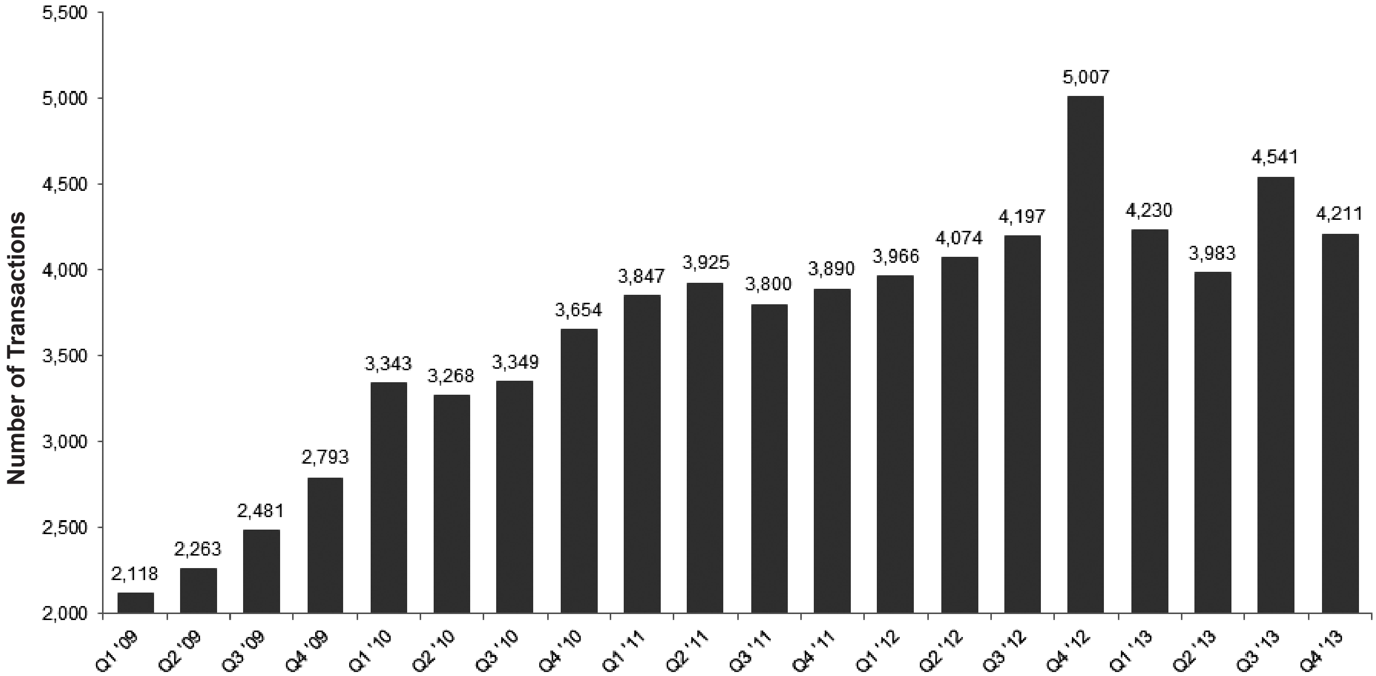
Track the industry's performance. The financial metrics presented on the second page of this report also provide a good way to scan sales growth figures for the past 12 months as of the end of the most recent quarter.

The materials on these pages are for informational purposes only. If you have any questions or feedback on the data on these two pages, please email me at lindsay@mdm.com.

– Lindsay Konzak, Editor

Domestic M&A Activity – All Industries

The chart below shows the number of transactions announced each quarter for the last five years.



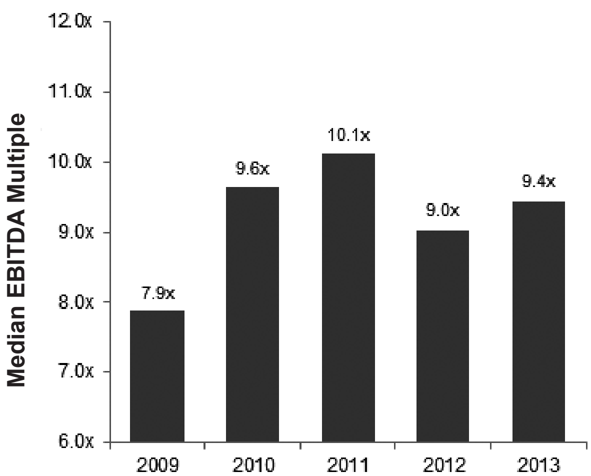
Data Source: Thomson Reuters, S&P Capital IQ, as of 12/31/2013

Notes: Represents reported M&A activity across all industries, not just distribution. Excludes debt tender offers, private placements, equity carve-outs, exchange offers, loan modifications and open market repurchases.

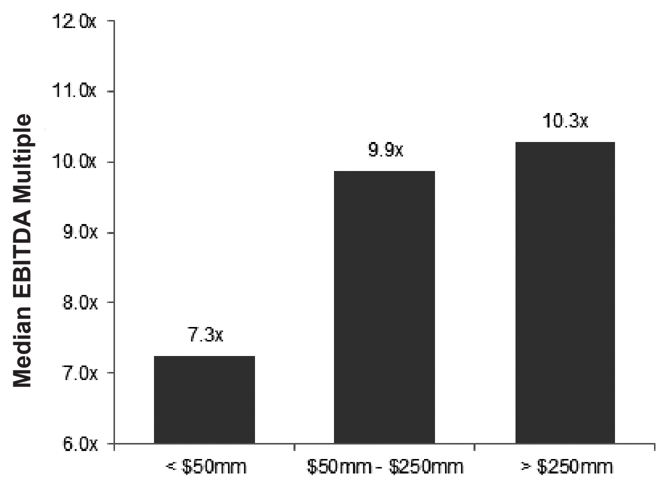
Median EBITDA Transaction Multiples – All Industries

The charts below shows the median EBITDA transaction multiples by year, as well as segmentation of multiples by enterprise value for the last 12 months.

By Year



By Deal Size - Last 12 Months



Data Source: Thomson Reuters, S&P Capital IQ, as of 12/31/2013

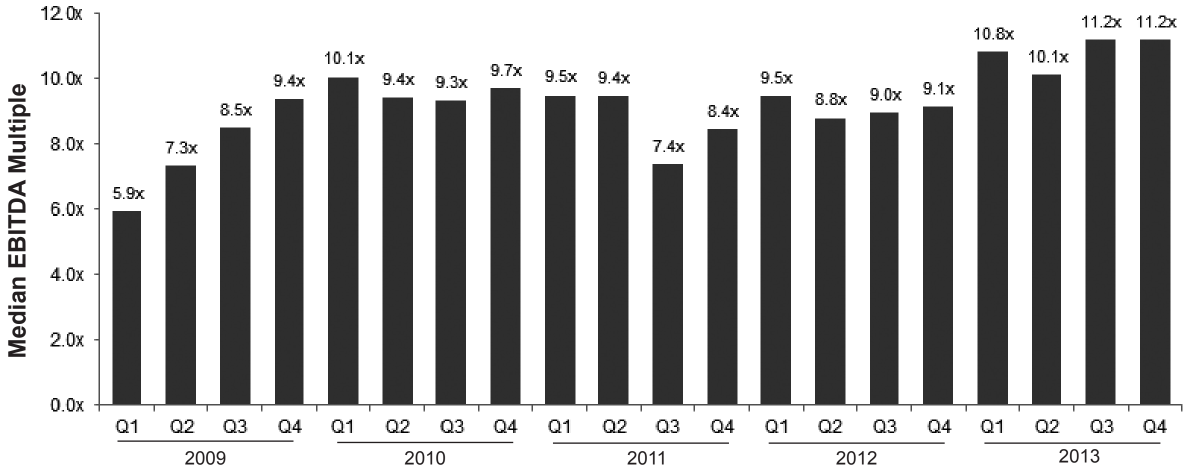
Notes: Represents reported M&A activity across all industries, not just distribution. Based on U.S. deals and excludes multiples below 0.0x and above 25.0x.

Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under $1 billion, as well as the No. 1 M&A advisor for U.S. transactions under $100 million, according to Thomson Reuters. For more information, please contact Reed Anderson, Head of Industrial Distribution, at (612) 215-2256 or randerson@hl.com.

Distribution Financial Metrics and Trading Multiples

(Data as of Dec. 31, 2013)

The chart below illustrates historical median EBITDA multiples for the below companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter.



The table below highlights key financial metrics and trading multiples for 31 distributors across diverse end markets. LTM means latest 12 months. Enterprise Value means market capitalization of a company's equity plus preferred stock plus total interest bearing debt net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring.

(in millions, except per share data) Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins Gross	LTM Margins EBITDA	Working Capital/ LTM Sales	ROIC	EV/LTM EBITDA
A.M. Castle	CAS	$563	$1,094	-4.4%	13.0%	2.9%	25.8%	NA	17.7x
Airgas, Inc.	ARG	$10,693	$5,068	0.7%	55.9%	18.5%	16.4%	8.0%	11.4x
Anixter International Inc.	AXE	$3,663	$6,172	-0.8%	22.6%	5.8%	22.2%	9.3%	10.2x
Applied Industrial Technologies, Inc.	AIT	$1,993	$2,449	-0.3%	28.1%	8.1%	18.3%	16.0%	10.1x
Arrow Electronics, Inc.	ARW	$7,163	$20,607	0.4%	13.2%	4.1%	14.4%	NA	8.4x
Avnet, Inc.	AVT	$7,282	$26,657	2.8%	11.7%	3.7%	14.9%	9.9%	7.4x
Beacon Roofing Supply, Inc.	BECN	$2,197	$2,241	4.0%	23.7%	7.2%	18.3%	7.5%	13.7x
Bluelinx Holdings Inc.	BXC	$620	$2,106	3.0%	10.8%	-0.1%	17.4%	NA	NM
Builders FirstSource, Inc.	BLDR	$986	$1,408	8.6%	21.0%	3.2%	10.6%	NA	22.2x
Bunzl	BNZL	$9,367	$8,669	3.2%	22.2%	7.1%	7.1%	12.9%	15.3x
DXP Enterprises, Inc.	DXPE	$1,866	$1,221	3.4%	29.9%	9.8%	14.8%	14.7%	15.7x
Fastenal Company	FAST	$14,006	$3,326	1.7%	51.7%	23.3%	33.4%	25.3%	18.0x
Genuine Parts Company	GPC	$13,364	$13,679	2.3%	29.7%	8.9%	15.4%	19.4%	11.0x
HD Supply	HDS	$10,158	$8,616	1.8%	29.2%	8.3%	14.3%	-16.8%	14.2x
Houston Wire & Cable Company	HWCC	$289	$393	-0.2%	21.9%	7.5%	31.7%	8.1%	9.7x
Ingram Micro Inc.	IM	$3,953	$42,101	2.7%	5.8%	1.5%	7.1%	8.1%	6.1x
Kaman Corp.	KAMN	$1,353	$1,643	0.9%	28.2%	8.4%	26.6%	8.8%	9.8x
Lawson Products	LAWS	$134	$285	0.1%	56.3%	0.8%	18.7%	NA	NM
MRC Global Inc.	MRC	$4,293	$5,193	-2.6%	19.0%	8.3%	21.2%	8.7%	9.9x
MSC Industrial Direct Co., Inc.	MSM	$5,225	$2,559	4.1%	45.7%	17.9%	23.9%	15.2%	11.4x
Park-Ohio Holdings Corp.	PKOH	$977	$1,174	1.6%	18.0%	9.1%	21.1%	9.8%	9.2x
Pool Corp.	POOL	$2,909	$2,046	2.5%	28.6%	8.6%	17.3%	16.6%	16.6x
Reliance Steel & Aluminum Co.	RS	$7,923	$8,806	4.6%	26.3%	8.7%	23.7%	6.5%	10.3x
Rexel SA	RXL	$10,963	$17,816	2.7%	24.5%	5.9%	12.0%	6.1%	10.5x
Stock Building Supply	STCK	$533	$1,144	6.8%	22.6%	1.4%	10.0%	NA	NM
United Stationers Inc.	USTR	$2,309	$5,106	0.9%	15.6%	5.1%	15.5%	10.5%	8.9x
W.W. Grainger	GWW	$17,821	$9,438	1.6%	43.8%	15.7%	16.1%	21.5%	12.1x
Watsco Inc.	WSO	$3,662	$3,682	1.7%	24.0%	7.7%	22.3%	12.6%	13.0x
Wesco Aircraft Holdings	WAIR	$2,581	$902	2.5%	35.7%	21.3%	81.1%	8.3%	13.4x
WESCO International, Inc.	WCC	$5,504	$7,513	3.2%	20.6%	7.8%	14.3%	10.5%	9.4x
Wolseley plc	WOS	$15,633	$19,974	-2.0%	27.8%	6.3%	8.7%	12.9%	12.4x
Median		**$3,663**	**$3,682**	**1.8%**	**24.0%**	**7.7%**	**17.3%**	**9.9%**	**11.2x**

Data Source: Thomson Reuters, S&P Capital IQ, Bloomberg & company financials.

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Industrial & Construction Markets Update

VOL. 44, NO. 3 | FEBRUARY 10, 2014

Grainger Sales Hit $9.4B in 2013

Chicago-based MRO distributor Grainger reported sales for the year ended Dec. 31, 2013, were $9.4 billion, up 5 percent from 2012.

Profit was $797 million, up 16 percent.

"Despite a sluggish economic environment and aggressive investments in growth and infrastructure, this was another record year for Grainger," said President and CEO Jim Ryan. "We made significant investments aimed directly at increasing our scale and accelerating share gains in the large and highly fragmented MRO market. Going forward, we will continue to invest in areas such as e-commerce, sales force expansion, inventory management solutions and distribution centers in order to drive market share growth and deliver solid returns.

"As evidenced by the restructuring in the quarter, we have some areas of the business that are not performing to our expectations. We are committed to improving the results and are taking the appropriate steps to strengthen the performance of these businesses."

During 2013, the company invested an incremental $132 million primarily in the U.S.

Some details:

- Grainger surpassed $3 billion in e-commerce sales in 2013, representing 33 percent of total company sales. The company also transitioned to a new Web platform, launched a Spanish website and introduced mobile solutions.
- In the U.S., Grainger added 180 new sales representatives in 2013. Since 2009, Grainger has added 930 new U.S. sales representatives who, in aggregate, contributed about 1 percentage point of company sales growth in 2013. In general, sales to customers with a sales representative grow at twice the rate of customers that are not covered.
- Total U.S. KeepStock installations,

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Distributor News

Genuine Parts Company, Atlanta, GA, announced three acquisitions. **Motion Industries**, the company's industrial business, completed its acquisition of **Commercial Solutions Inc**. Electrical unit **EIS** has acquired **Electro-Wire, Inc. S.P. Richards**, the distributor's office supplies segment, acquired **Garland C. Norris Company Inc.**

The Fastenal Company, Winona, MN, reported sales for January of $293.2 million, up 6.7 percent from the previous year. Daily sales increased 6.7 percent to an average of $13.3 million.

HD Supply Waterworks, St. Louis, MO, opened two new locations in support of its fire protection business in San Antonio, TX, and Portland, OR.

Airgas Inc., Radnor, PA, third-quarter sales were $1.2 billion, up 3 percent from the previous year. Organic sales increased 1 percent. Profit decreased slightly to $82.8 million. For the first nine months of the fiscal year, sales were $3.8 billion, up 3 percent from the previous year. Profit increased 3 percent to $262.4 million year-to-date.

Plumbing distributor **Ferguson**, Newport News, VA, has acquired **Karl's Sales and Service Company, LLC**, also known as **Karl's Appliance**.

Praxair Inc., Danbury, CT, has acquired **Praxair Distribution Mid-Atlantic, LLC**, an industrial gases distribution joint venture. Praxair previously held a majority ownership stake in the business. PDMA has 51 locations in the Mid-Atlantic region and had sales of $225 million in 2013.

Praxair also completed an upgrade to its air separation liquefaction capabilities in Fort Saskatchewan and Prentiss, Alberta. In addition, Praxair has completed the construction of new carbon dioxide and liquid nitrogen distribution and storage facilities in Grande Prairie, Alberta, and Dawson Creek, British Columbia.

Praxair reported full-year sales of $11.9 billion for 2013, up 6 percent from 2012. Profit increased 5 percent to $1.8 billion. Sales for the fourth quarter were $3 billion, up 8 percent from the same period a year ago, with organic sales increasing 7 percent. Profit increased 12 percent to $474 million.

VWR International, LLC, Radnor, PA, has agreed to acquire **Peqlab Biotechnologie GmbH**. Peqlab develops, manufactures and supplies molecular and cell biology reagents, consumables and instruments.

WinWholesale Inc., Dayton, OH, has opened **Dublin Winwater Works** in Dublin, GA.

WinWholesale has opened **Tulsa Winair** in Tulsa, OK.

Dillon Supply Company, Raleigh, NC, a subsidiary of French industrial, safety and steel distributor **Descours and Cabaud S.A.**, has acquired **Brammer Safety Supply Inc.**, a Lynchburg, VA-based safety distributor.

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News Digest
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EDGE Global Supply has acquired two companies in Brazil: **Intereng Automação Industrial Ltda** and **LAAX Tecnologia Informação Ltda**.

Paper and packaging distributors **Unisource Worldwide Inc.** and **xpedx** will merge in an agreement that will result in the creation of a new publicly traded company.

Johnstone Supply, Portland, OR, has completed the sale of its Data Services DSPro software division to **DDI System**, Sandy Hook, CT.

Los Angeles, CA-based **The Gores Group**, a global investment firm, agreed to acquire **Melle Dachbaustoffe GmbH** and **SIG Deutsche Dachbaustoffe GmbH** from **SIG plc**, a distributor of building products in Europe.

Netherlands-based **The Van Leeuwen Pipe and Tube Group** has acquired **Tubexpress**, a Brazilian distribution company supplying pipes and tubes to the petrochemical and oil and gas industry.

Norco Inc., Boise, ID, a medical, welding, and safety supply company, has acquired **Walla Walla Home Medical**, a provider of healthcare services, from Providence St. Mary Medical Center and the Walla Walla Clinic in Walla Walla, WA.

Pipeline Supply & Service LLC has agreed to acquire **Industrial Air Tool L.P.**, Pasadena, TX.

Troy Industrial Solutions, Watervliet, NY, has acquired **B&J Electric Motor Repair**, Ansonia, CT.

Wesco Aircraft Holdings, Inc., Valencia, CA, has agreed to acquire **Haas Group Inc.**, West Chester, PA, for $550 million in cash. Haas had sales of $573.5 million in 2012.

American Tire Distributors, Inc., Charlotte, NC, has agreed to acquire **The Hercules Tire & Rubber Company**, Findlay, OH.

WESCO International, Inc., Pittsburgh, PA, reported sales for 2013 of $7.5 billion, up 14.2 percent over sales in 2012. Organic sales were flat. Profit grew 37 percent to $276.4 million. Fourth-quarter sales were $1.9 billion, up 14.3 percent over the same period a year ago. Organic sales grew 1.5 percent. Profit more than doubled to $58 million from $26.5 million a year ago.

Applied Industrial Technologies, Cleveland, OH, second-quarter sales were $81.9 million, down 1.3 percent from the same quarter a year ago. Profit fell 4.2 percent to $25.9 million. For the first six months of the fiscal year, sales were $1.19 billion, down 1.1 percent. Profit fell 6.7 percent to $52.8 million.

Arrow Electronics, Inc., Englewood, CO, reported full-year sales for 2013 of $21.4 billion, up 5 percent from the previous year. Profit decreased 21.1 percent to $399.4 million. Sales for the fourth quarter were $6.15 billion, up 14 percent year-over-year. Profit decreased 22.8 percent to $134.8 million.

Avnet Inc., Phoenix, AZ, second-quarter sales were up 10.8 percent year-over-year to $7.4 billion. Organic sales grew 8.2 percent. Profit was $124.9 million.

B/E Aerospace, Inc., Wellington, FL, reported full-year sales for 2013 of $3.5 billion, up 13 percent from the previous year. Profit increased 25.5 percent to $365.6 million. Sales for the fourth quarter were $903.1 million, up 12.4 percent over the prior-year period. Profit increased 20.4 percent to $90.6 million.

Electrical and datacomm distributor **Anixter International Inc.** reported sales for 2013 were $6.2 billion, roughly flat from the prior year. Profit was $200.4 million, up from $124.6 million in the prior year. Fourth-quarter sales were $1.6 billion, up 3.5 percent year-over-year. Organic sales increased 4.7 percent year-over-year. Net income from continuing operations of $58.2 million was up from $5.2 million in the year-ago quarter.

National Oilwell Varco Inc., Houston, TX, reported full-year sales for 2013 of $22.8 billion, up 13.6 percent from the previous year. Profit decreased 6.2 percent to $2.3 billion. Sales for the fourth quarter were $6.2 billion, up 8.6 percent year-over-year. Profit decreased 1 percent to $661 million.

United Stationers released its first breakroom catalog for independent office products resellers.

Electrical distributor **Turtle & Hughes Integrat-**

ed Supply, Linden, NJ, named Michael DeVoney as their new president.

Economic News

Construction employment expanded in 192 metro areas, declined in 84 and was stagnant in 63 between December 2012 and December 2013, according to a new analysis of federal employment data released by the Associated General Contractors of America.

December 2013 construction spending was estimated at $930.5 billion, a slight increase from November, according to the U.S. Census Bureau. The December 2013 figure is a 5.3 percent increase from the December 2012 estimate.

The **Chicago Fed National Activity Index** (CFNAI) decreased to 0.16 in December from 0.69 in November. Three of the four broad categories of indicators that make up the index decreased from November. The index's three-month moving average, **CFNAI-MA3**, edged down to 0.33 in December from 0.36 in November.

New orders for manufactured goods in December, down two of the last three months, decreased $7.2 billion or 1.5 percent to $489.2 billion, the U.S. Census Bureau reported. This followed a 1.5 percent November increase. Excluding transportation, new orders increased 0.2 percent.

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 3.2 percent from the third quarter to the fourth, according to the advance estimate released by the Bureau of Economic Analysis.

The Conference Board Leading Economic Index for the U.S. increased 0.1 percent in December. The **coincident economic index** (CEI) increased 0.2 percent and the **lagging economic index** (LAG) increased 0.3 percent in December.

The January **Purchasing Managers Index** registered 51.3 percent, down 5.2 percentage points from December's seasonally adjusted reading of 56.5 percent, in the latest Manufacturing ISM Report on Business.

Manufacturer News

St. Paul, MN-based **3M** reported sales for 2013 of $30.9 billion, up 3.2 percent over the prior year. Organic local-currency sales grew 3.4 percent. Profit grew 4.8 percent to $4.7 billion. For the fourth quarter, sales were $7.6 billion, up 2.4 percent over the prior-year period. Organic local-currency sales grew 3.4 percent. Profit grew 11.3 percent to $1.1 billion.

Parker Hannifin Corp., Cleveland, OH, reported sales for the second quarter ended Dec. 31, 2013, of $3.1 billion, up 1.3 percent over the same period a year ago. Organic sales grew 3.1 percent. Profit grew 40 percent to $253.4 million. For the first six months of the fiscal year, sales were $6.3 billion, up 1 percent over the prior-year period. Profit increased 18 percent to $497.7 million.

Stanley Black & Decker, New Britain, CT, reported sales for 2013 of $11 billion, a year-over-year increase of 8 percent. Organically, sales grew 3 percent. Profit fell 44 percent to $490.3 million. For the fourth quarter, sales were $2.9 billion, up 9 percent over the same period a year ago. Organic sales grew 4 percent. Profit was $56.1 million, compared with year-ago profit of $492.1 million.

Illinois Tool Works Inc., Glenview, IL, reported sales for 2013 of $14.1 billion, down 4.4 percent from 2012. Profit fell 21 percent to $1.7 billion. For the fourth quarter, sales were $3.5 billion, up 2 percent from the same period a year ago. Profit was $408 million, compared with $979 million a year ago.

Kennametal Inc., Latrobe, PA, second-quarter sales were $690 million, up 9 percent from the previous year, with organic sales increasing 2 percent. Profit decreased 42.5 percent to $24.2 million. For the first six months of the fiscal year, sales were $1.3 billion, up 4 percent year-over-year, with organic sales increasing 1 percent. Profit was $62.7 million year-to-date, down 30.6 percent.

The Timken Company, Canton, OH, reported full year sales for 2013 of $4.3 billion, down 13 percent from the previous year. Profit decreased 47 percent to $262.7 million. Sales for the fourth quarter were $1.1 billion, a 2 percent decrease over the same period a year ago. Profit decreased 30 percent to $52.6 million.

Eaton Corp., Dublin, Ireland, reported 2013 sales were $22 billion, up 35 percent from the previous year. Profit increased 52.9 percent to $1.9 billion. Sales for the fourth quarter were

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Grainger

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including vendor managed inventory, customer managed inventory and vending machines, grew 38 percent, ending the year at about 55,000 installations. Sales to customers with a KeepStock installation grow at twice the rate of non-KeepStock customers.

- In the Grainger U.S. business, Grainger.com added more than 300,000 new products, bringing the total number of products to more than 1.2 million products online. In Canada, Acklands-Grainger announced the addition of 200,000 products to its online offering.
- Grainger opened a 1 million-square-foot highly automated distribution center in Illinois that serves as the company's new central stocking facility. Grainger also began construction on a 500,000-square-foot distribution center in the Toronto area.
- MonotaRO, the online business in Japan, grew nearly 20 percent in local currency in 2013. Revenue for the company's other online business, Zoro Tools, grew more than 150 percent in 2013.

Company sales in the 2013 fourth quarter increased 7 percent. The 7 percent sales growth for the quarter consisted of 5 percentage points from volume, 4 percentage points from acquisitions and 1 percentage point from sales of seasonal products, partially offset by 2 percentage points decline from unfavorable foreign exchange and 1 percentage point from sales related to Hurricane Sandy in 2012.

The company's gross profit margin for the quarter decreased 130 basis points, driven by lower gross margins from the acquired businesses, accounting for approximately two-thirds of the decline, and faster growth with lower margin customers.

Sales in the U.S. segment increased 10 percent in the 2013 fourth quarter versus the prior year. The 10 percent sales growth was driven by 5 percentage points from volume, 6 percentage points from sales from the E&R Industrial, Techni-Tool and Safety Solutions acquisitions and 1 percentage point from sales of seasonal products, partially offset by a 1 percentage point decline from price and 1 percentage point from unfavorable comparison to sales related to Hurricane Sandy in 2012.

Strong sales growth to customers in the manufacturing, retail, natural resources and commercial customer end-markets contributed to the sales increase in the quarter.

Sales in the 2013 fourth quarter at Acklands-Grainger in Canada decreased 3 percent and increased 3 percent in local currency. The 3 percent sales decline consisted of 3 percentage points increase from volume offset by a 6 percentage points decline from unfavorable foreign exchange. The sales increase in Canada was led by growth to customers in the commercial, transportation, light manufacturing and forestry end-markets.

Sales for the Other Businesses, which includes operations primarily in Asia, Europe and Latin America, increased 3 percent for the 2013 fourth quarter versus the prior year. This performance consisted of 11 percentage points of growth from volume and price, partially offset by an 8 percentage point decline from unfavorable foreign exchange. Sales growth in the Other Businesses was driven by Zoro Tools and the business in Mexico. Strong sales growth in Japan was offset by the weakness in the Japanese yen versus the U.S. dollar.

News Digest

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$5.5 billion, up 28 percent year-over-year, with core sales up 4 percent. Profit was $482 million.

Emerson, St. Louis, MO, reported sales for the first quarter ended Dec. 31, 2013, of $5.6 billion, a 1 percent increase from the previous year, with underlying sales up 3 percent. Profit increased 2.4 percent to $477 million.

Atlas Copco, Stockholm, Sweden, has acquired **Geawelltech**, a manufacturer of well and geotechnical drilling equipment.

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