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Making Money with Small Customers

Smaller customers provide big opportunity for the bottom line

There is often a perception in sales that the smallest accounts are not worth the time and effort to obtain the small amount of sales they provide. But a shift in how these customers are served can result in a significant improvement to the bottom line. In this article, Jonathan Bein of Real Results Marketing provides an overview of how distributors can serve smaller customers and still make money doing so.

By Jonathan Bein

If you give a salesperson 100 accounts to call on, odds are he or she will actively work the top 20 to 30, receive calls from the next 20 to 30 and ignore the remaining accounts. While this salesperson is busy maximizing his or her commission by focusing on the larger accounts, the company is missing significant opportunity in the smaller accounts. When these accounts are acquired and serviced through the proper channels, priced appropriately and managed well, they can increase the bottom line by several margin points. In turn, those margin points often lift net profit more than 50 percent.

At the same time, these smaller accounts cannot be serviced in the same way the largest accounts are if distributors wish to turn this kind of profit. But there are cost-effective ways to serve these small to mid-size customers:

- Sales and marketing channel alignment
- Price improvement
- Cost-to-serve reduction

The net effect of these approaches is to increase revenue and margin while reducing cost to serve such that small and mid-size customer segments become attractive. This article provides an overview of these approaches.

Marketing and Sales Channel Alignment

For most distributors, the top 10 percent of customers represent 60 percent to 90 percent of that distributor's revenue. This top decile is almost always managed by field sales representatives who rely on large accounts to make quota.

While there is substantial revenue in large accounts that form the top decile, mid-market and small accounts that make up the other 90 percent of accounts pro-

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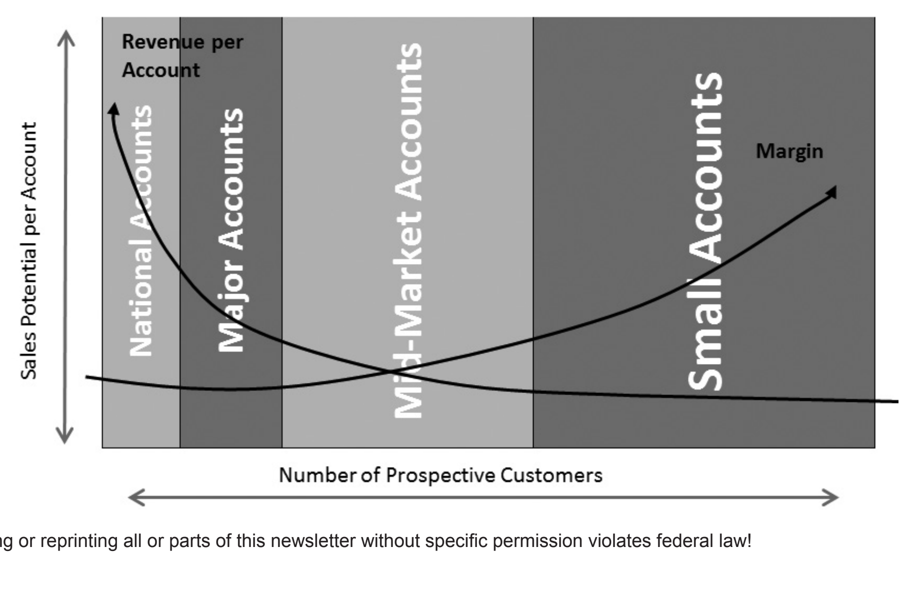
Figure 1: Account Potential



INSIDE

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Back to the Future ... Economy

Every year about this time we release our annual Wholesale Distribution Economic Trends Report and also produce a Mid-Year Economic Update Webcast. We may be far from the good old days, but most distributors I talk with are more than OK with 2014 so far.

The main takeaway in June 2014: The economy may not be ticking like a GM 250 cubic-inch, straight-6 engine, but we are a lot closer than a year ago. (The inline 6 was Chevy's main engine from 1929 on, so maybe not the best economic reference point, but a workhorse for decades.) It feels significantly more stable, and the data support that feeling. It's been a long time since we could say that.

Here are a few thoughts from several data points – our webcast, annual benchmarking report and anecdotal reports from many sectors:

Total revenues of wholesale distributors grew 4.2 percent to $5.1 trillion in 2013. After strong recovery years in 2010 and 2011, we have seen moderating growth in 2012 and 2013. The wholesale distribution industry grew faster than the overall U.S. economy in 2013. Aggregate revenues of wholesale distributors increased 1.4 percentage points more than nominal U.S. gross domestic product as overall economic growth slowed in the fourth quarter of 2013 (2.6 percent) after an impressive third quarter (4.1 percent). Still, fourth quarter 2013 revenues for all wholesale distribution sectors grew 5.8 percent.

MDM forecasts 2014 growth of 4.5 percent in 2014, taking into account strengthening after a weak first quarter (-2.9 percent GDP) largely attributed to weather impacts. The data show that quarterly swings have become part of the new normal. But we are in a much more stable economic environment than 12 months ago, with several benchmarks indicating we have either regained lost ground from the 2008-2009 recession or surpassed previous highs.

One of the biggest shifts from 12 months ago is in investment levels. Based on MDM surveys and research, distributors and manufacturers were reluctant to invest in 2013 because of continued economic instability. That has shifted in 2014, as our current research shows strong investment in sales resources, e-commerce development and broader technology projects.

Now, if we can find a politician who can install a Powerglide automatic transmission into this economy, we will be in good shape. Yes, I am showing my age, but it is a heck of a lot more stable than a flux capacitor in a dot-com DeLorean.

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Small Customers
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vide an opportunity to get higher gross margin percentage, as shown in **Figure 1**.

There are three main channels that are cost-effective for selling to mid-market and small accounts:

- E-commerce sites that provide easy navigation, good search and great product content.
- Proactive/outbound inside sales which involve account managers interacting almost exclusively by telephone rather than face-to-face.
- Direct response marketing programs including traditional print catalogs and flyers, as well as email marketing and marketing automation.

The proper development of any one of these channels can usually deliver 10 percent or more compounded revenue growth among small and mid-market customers over a two- to four-year period. The combination of these channels can achieve a compounded growth rate of 15 percent to 20 percent over a two- to four-year period. The financial impact to the entire company is 2 percent to 8 percent overall growth.

The expansion of sales channels provides for a proactive account management process for every single customer. Without proactive account management, small to mid-size customers are highly susceptible to defection – especially when competitors are prepared to give your customers the attention that you failed to provide. Our research shows that defection rates among customers who are managed by a sales rep are much lower than those with no account management process in place.

The development of small accounts can smooth lumpiness in revenue streams that results from a customer base that is too concentrated. It can also provide diversification and options for when the market shifts. Furthermore, the cultivation of these accounts will always reveal underserved accounts with huge potential that should be transferred to field sales.

Here are some symptoms that marketing and channel alignment could be right for you:

- Top revenue decile represents more than 75 percent of total revenue. This is evidence that your business is too concentrated in a small set of customers.
- High churn rate among lower decile customers suggests that those customers are getting better served by your competitors and moving on.
- Lumpy revenue can occur when your business is too dependent on large accounts or on accounts that have project revenue.
- Low wallet share in your small accounts indicates that the accounts are underserved by you.
- When field sales is the only or primary channel, then it is virtually guaranteed that small accounts are underserved by you.

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Price Improvement

Many distributors subscribe to the myth that a principled price improvement initiative will result in losing key customers who are driven away by higher prices. In reality, small and mid-size customers are much less price sensitive than customers in the top revenue decile, particularly for non-core items they purchase infrequently.

Figure 2 plots the size of the customer on the X-axis versus the price they pay relative to list price on the Y-axis. The area highlighted below 1.0 on the Y-axis shows small customers who are purchasing at a significant discount. These discounts are invariably offered for no apparent reason other than force of habit and belief that it is necessary to win or maintain the business.

Some pricing solutions help customers achieve a margin improvement of 1 to 2 points. However, work by Strategic Pricing Associates has repeatedly shown that margin improvement of 2 to 4 points can be achieved by getting small customers to pay another 5 percent to 10 percent on non-core items. This additional margin drops right to the bottom line and often enhances

Figure 2: Pricing and Customer Size

profit by 25 percent to 50 percent.

Here are symptoms that price improvement could be right for you:

- A small spread between the average gross margin percentage of your top revenue decile customers and the rest of your customer base is strong evidence that you need price improvement. The spread should be at least 5 to 10 points and possibly more depending on your business.
- If your business culture tries to please the customer at any cost, then it is nearly certain that you are offering unwarranted discounts. It is essential to be able walk away from customers or transactions that are not good for your business.
- When your business is reacting to pricing moves in the market without any discipline, then price improvement is a great opportunity for you.
- If your value proposition looks like 80 percent of other distributors who tout selection, availability, delivery, and expertise then it means you need to better understand value and value selling, and how to create a differentiated value proposition.
- Frequently there is a vague objective to get more gross margin without a concrete plan to do so. This is yet another indication that price improvement will yield very good results.

Reduce Cost-to-Serve

Waypoint Analytics has detailed cost-to-serve information about the customers and transactions for several hundred distributors. A random sample of 87,000 customers from Waypoint revealed that unless a distributor has undertaken the process to reduce cost-to-serve its customers, it is likely that more than 70 percent of the customers are unprofitable. The business is sustained only by the 30 percent of customers who are profitable. The rest of the customers are breakeven or a drain.

Measuring net profit, including cost-to-serve, at the customer level is a powerful starting point for assessing where customers fall on this spectrum. Plot the peak internal profit (PIP) by starting with the most profitable transaction and proceeding to the least profitable transaction as shown in **Figure 3**.

This curve, called a whale curve because of its shape, reaches a point of peak internal profit near the middle. Remaining unprofitable transactions will reduce the peak internal profit. For a typical wholesale distribution company, only 20 percent to 25 percent of their PIP goes to the bottom line

The different parts of the curve include:

- **Core customers –** transactions at the left of the curve that contribute significantly to net profit.
- **Opportunistic customers –** transactions slightly to the left of center that contribute somewhat to net profit.
- **Marginal customers –** transactions slightly to the right of center that subtracting somewhat from net profit.
- **Service drain customers –** transactions at the far right that are a significant drain on profit.

When processes are put in place to reduce the cost-to-serve for the small customers in the middle – the opportunistic and marginal customers – the PIP curve is transformed to what is shown in **Figure 4**. The key objective to reduce cost-to-serve is to increase the size of transactions and/or reduce the total number of transactions while keeping revenue constant. In this

Figure 3: Small Orders on the Peak Internal Profit Line

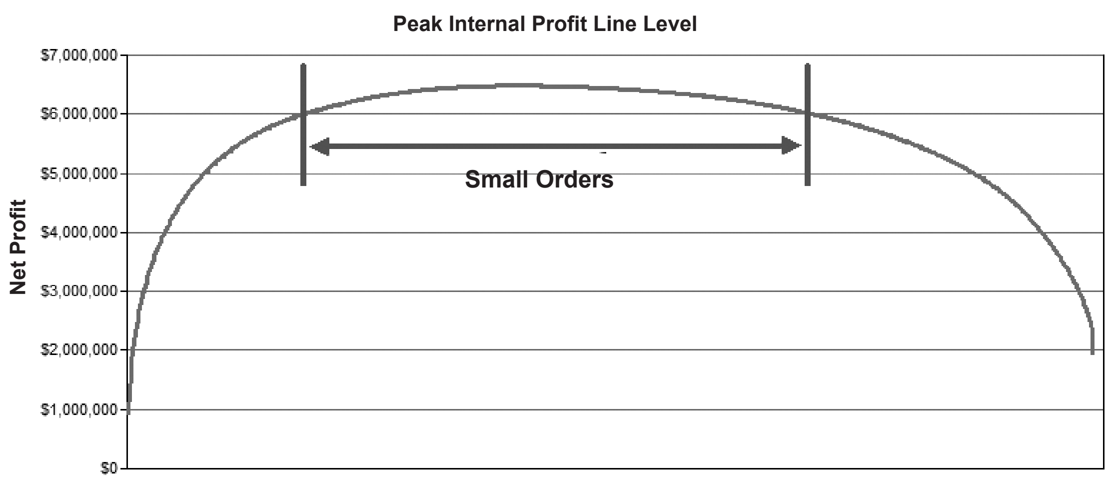
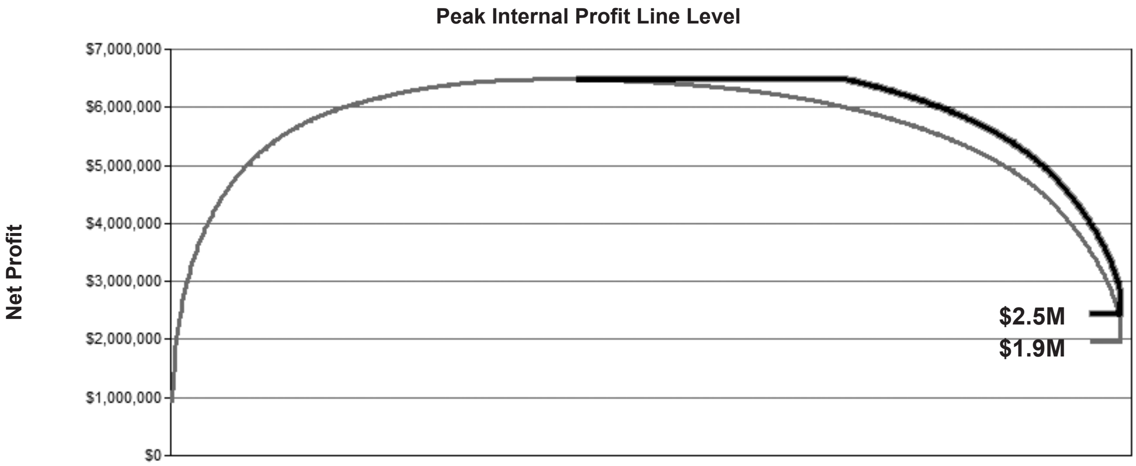


Figure 4: Peak Internal Profit After Cost-to-Serve Reductions



new curve, the marginal customers are now at breakeven. The result is a company that previously had $1.9 million net profit and now has $2.5 million net profit, a 30 percent gain. This is the conservative view, because increasing the profitability of the opportunistic customers or getting the marginal customers above breakeven will contribute even more to the bottom line.

While it is possible to create an in-house solution to reduce cost-to-serve, for most distributors, getting a third-party solution such as Waypoint Analytics or add-ons to an ERP system is more efficient and effective.

Here are symptoms that indicate that reducing cost-to-serve could be right for you:

- There are too many sales where expenses exceed gross profit.
- Nobody knows where profits are made or lost because it cannot be measured at the transaction or line item level.
- Growth and gains are weak because few companies manage deltas (profit improvements over time).
- Sales people and others are rewarded only on gross profit rather than net profit.
- There is nothing in the current systems or processes to detect, prevent or manage these problems.

Each of these approaches will help distributors make money with small customers; some of the most profitable distributors recognize the potential to make money with small customers by combining these approaches. When used alone, sales and marketing channel alignment can deliver 3 percent to 5 percent compound revenue growth over a several year period; price improvement can provide 2 points to 4 points of margin improvement, which flows through to the bottom line; and cost-to-serve reduction can improve the bottom line by 30 percent or more.

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Measuring the Customer Experience

Metrics can help distributors maximize the value they provide customers

Successfully measuring customer satisfaction can improve the customer-distributor relationship. This article examines some of the most popular metrics and discusses how to develop a strong customer feedback program that can help improve the customer relationship.

By Scott Merrill

In today's competitive marketplace, where the battle over wallet share is more competitive than ever, feedback from customers can strengthen distributors' relationships and drive value. When it comes to collecting this feedback, there are three common metrics that companies are tracking: advocacy, effort and satisfaction.

Advocacy is often measured by the Net Promoter Score, which revolves around one simple question: "How likely is it that you would recommend this company to a friend or colleague?"

This approach is based around the idea

of "delighting" customers and winning their loyalty by providing exceptional customer experiences, with the expectation that delighted customers will then be "promoters" of the company.

Berlin Packaging, Chicago, IL, a supplier of packaging products and services, began using the NPS system in 2010. "We actually look to this mindset around customer experience, therefore Net Promoter, and all the executional elements around that, as one of the key explainers of share gain that we've been having in the packaging industry," says Jeremy Lagomarsino, vice president of business development and strategy for Berlin.

Customer effort is often measured by the Customer Effort Score. Customers rank, on a scale of one to seven, how much they agree with the statement: "The company made it easy for me to handle my issue." As the name suggests, the CES measures the amount of effort a customer had to put forth in a given situation, with the goal of increasing ease, as opposed to delight, for the customer.

"We did research of B2B and B2C customers globally, and we found that customers told us that… customer delight actually didn't impact future loyalty behaviors at all," says Lara Ponomareff, practice manager for business advisory company CEB. "The thing that impacts future loyalty behaviors the most is, in fact, whether or not that customer had a low-effort or high-effort experience."

The final metric, customer satisfaction, is considered the weakest of the three, as it's prone to the most subjective answers and doesn't provide actionable steps from the collected feedback.

"At the end of the day, the customer satisfaction score is very little more than a measure of your competence – your perceived competence – in the mind of customer," says Joseph Michelli, chief experience officer at The Michelli Experience, a consulting firm focused on customer experience. "It does very little to assess the strength of the connection. If you can't satisfy 90 percent of your customers 90 percent of the time, you should be in another career field."

There's a low correlation between customer satisfaction and loyalty, Ponomareff says. A customer who is satisfied with a company, for instance, may still leave if a competitor comes along and offers a better price.

Benefits of the Systems

The NPS system is based on the idea of converting customers into promoters. By doing so, not only will that customer's loyalty be strengthened, but they will be actively spreading goodwill about the company and increasing business.

"The investment is trying to deliver an experience to customers that is so compelling that they stay and they talk to others, and in so doing you don't have to go out and pay the high acquisition costs and soaring marketing money," Michelli says.

The key is to focus on the right end goals.

For Berlin, the end goal is helping customers grow their businesses. "What I think the customers are saying when they give Berlin – or another company – a high score is that it's helping that customer achieve better results. Ultimately, our mission is to improve the bottom line of our customers," Berlin's Lagomarsino says.

The big benefit of the CES is its practical nature, CEB's Ponomareff says. It can provide a good starting point for distributors to make tangible change to their customer service programs, while also being something that can be segmented like NPS.

Another benefit to CES is the fact that effort is a subjective term, a perception that can be swayed with the right adjustments to the problem, Ponomareff says. "We found that effort is actually two-thirds of what we call 'feel,' or how I felt about the interaction as a customer, and only one-third is what we call 'do,' or the actions and steps I actually had to take." This allows front-line representatives to track what "feels" like high-effort and make adjustments to help change the customer's perception.

Overall, reducing effort in an organization can help decrease costs, Ponomareff says. "A lot of times, things that reduce effort reduce operating costs as well, because they reduce callbacks, escalation – all of these things are hugely expensive to organizations," she says.

Challenges to Implementation

Implementing a customer feedback system can cause fear in an organization that the system is creating a "witch hunt," or looking for people to blame for customer disputes, Michelli says. But if a company institutes the system from a top-down perspective and focuses on enabling employees to resolve customer disputes, it can create a culture of accountability and empowerment within the company.

"No longer am I in the business of getting product from point A to point B," Michelli says. "I'm in the business of building loyal customers."

Along with internal concerns, distributors should be careful about inundating customers with constant survey questions, he says. It's all about striking the right balance. "How can you ask the customer with enough frequency to be able to operationally adjust your business, but without too much frequency that it's going to annoy them?" he says.

It's also important to have a clear goal in mind with any system. "The biggest problem is thinking that by surveying your customers, you will get better scores over time," Lagomarsino says. "The survey has nothing to do with it. It's what goal do you have?"

In order to get the most from these systems, distributors need to develop actionable steps they can take to act on the feedback they've received.

"I think from an organizational perspective, you have to break through the notion that 'We've always done it this way, and we can only make iterative changes,'" Michelli says. "This is the time to say, 'Look, let's blow up this process if we have to. What is the optimal process we would put in place if we really did care to solve this problem for the customer?'"

Another way to get the most from the system is to follow up with the customers who provided feedback. "Often times, reaching out has the dual effect of gathering data as well as retaining that customer," Ponomareff says.

For example, Berlin Packaging provides customers with Starbucks gift cards when they complete a credit application. "We're trying to make every touch point surprising and delighting, no matter how mundane you may think that touch point is," Lagomarsino says. "Getting a little thank you from someone that you were never expecting shows what's to come."

Berlin also seeks to "close the loop" within 24 hours with customers who have self-identified and given them feedback, providing follow-up calls and discussions to better understand why they provided the feedback they did.

It's also important to look at the feedback within the context of how it was given. "Don't look at the data point in isolation, because that customer did not just see that thing in isolation," Ponomareff says. "Look at it in terms of the larger customer journey they're going through. Where did they start and where did they finish, and where does this fit into their larger relationship with us, whether about this one particular issue or question they had with us, or the broader relationship in general."

Tying it All Together

NPS is good at evaluating the overall customer relationship, but it doesn't tell distributors how or what they can do to increase their scores, says Ponomareff. This is where the CES can come in. "We see that effort is more actionable," she says. "I know what I can do to make that a lower-effort experience for you."

Ponomareff sees these two metrics as being very complimentary, with lowering effort being a key component to increasing a company's NPS.

"We find that lower effort experiences are highly correlated with [higher] NPS," she says. "If we reduce customer effort within the customer service function of a distributor, then we would actually see a positive impact in NPS."

For example, a CEB survey revealed respondents whose effort scores for a company ranked in the bottom quartiles (i.e., exerted higher effort) reflected an average -11 percent NPS score for that company. Customers whose effort scores ranked in the top quartiles for a company (i.e., exerted low effort) had an average 54 percent NPS score for the company.

Both metrics also allow you to dig into specific areas within the company, gaining better insights into specific opportunity areas.

"We like the ability to drill down into the data," Lagomarsino says about the NPS system. "It's not a high level score; we will slice-and-dice our information by sales office, by location, we'll even cut it by sales rep or customer service representative. We can truly drill down to where the pockets of absolute thrill are, and where there are opportunities for improvement."

According to Michelli, however, the order in which these metrics are prioritized is important. Remove pain points (extra effort) first, and then focus on delight, he says.

"What you're really trying to get at is, this provider, this vendor, is so integral to my success, that I can't imagine a world without them and they are perfect for me trying to be successful in this business," Michelli says. "Once you get into that emotional space in the life of your customer, it's really hard for them to go elsewhere, because they don't want to take risks over some pennies on the margin."

While the metrics are useful snapshots of how well a company is achieving its end goals, they are still only as useful as the people analyzing them, Lagomarsino says. "The metric is just something that validates what we're doing, it helps us to course-correct and allows us to drill down into things and points a spotlight on things that may need more attention, but it's the people that are the ultimate spirit behind the thrill culture, and I think that needs to be true no matter what company you're at."

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Economic Trends Open Opportunity Windows

Five wholesale distribution sectors saw double-digit growth in 2013

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The wholesale distribution industry continues to grow faster than the rest of the economy, and there are signs that this positive trend will continue, according to Economist Bridget Strand. Strand joined Tom Gale, president of Industrial Market Information, and Ranga Bodla, director of industry marketing for NetSuite, for the 2014 Mid-Year Economic Update. This article is a summary of that webcast.

By April Nowicki

Industry gains in 2013 outperformed the economy as a whole, and demand for construction jobs in 2014 could help stabilize more growth.

Economist Bridget Strand, Ph.D., said that the revenue increases were driven by a backlog of orders in certain end-use industries, as well as by new investments focused on process improvements through technology. Strand spoke in the recent MDM Webcast, the 2014 Mid-Year Economic Update.

"If we focus on core industrial and construction distribution sectors, the 2013 revenue numbers show how market recovery in industrial sectors is clearly outpacing construction markets," Strand says.

Construction revenues, adjusted for product inflation, were down 2.2 percent in 2013, but things are different this year.

"The housing sector," Strand says, "it's one of our largest drivers of economic growth, and it's coming back."

In the first half of 2014, construction spending was 8.2 percent above the same period in 2013.

Four other things are propelling the economy toward a more secure place, Strand says. Corporations have more money and their profits are expected to grow. The debt ceiling, sequestration and tax issues from 2011 and 2012 are lessening, and global monetary and fiscal risks have also decreased. Lastly, consumer spending is high, which drives demand.

"Technology prices have also come down as competition has increased," Strand says. "This is seen in the large change in revenues for the computer equipment and software distributors."

Computer equipment and software distributor revenues increased 33 percent last year. That sector had -1 percent growth in 2012, which accounts for the high percentage change. The next highest increase was for furniture and home furnishing wholesale distributors, at almost 17 percent.

Five sectors saw double-digit growth last year, including industrial distributors, electrical and electronics, computer equipment and software, agricultural and furniture and home furnishings.

The growth of these sectors is bringing opportunities into 2014. There is more demand than supply for manufacturing and construction contractor jobs, which is an opportunity for distributors to find and fill skill gaps through training.

Changing demographics in the labor force is slowing technology adoption, Strand says, and increasing the need for skilled workers. But at the same time, there is a shift in what new workers want in a workplace.

"As you're seeing a shifting of the workforce, you're seeing a lot more millennials in the workforce and representing a much larger portion of the workforce," says Ranga Bodla, director of industry marketing for NetSuite. "And the engagement that they require and demand is very different."

That difference, he says, means that business owners and managers will have more success with new approaches for managing this workforce.

Other challenges include the transportation sector: Infrastructure is aging and could increase the need for alternate channel fulfillment models. And, as always, there is uncertainty around energy prices, Strand says.

This recovery cycle has been slower and more drawn out that those seen in the past, says Tom Gale, president of Industrial Market Information. But there are also other key differences in this recovery that make it an interesting one with new opportunities for distributors, particularly in the M&A space, he says.

"In prior cycles, strategic buyers have had an advantage over financial buyers," Gale says. "…This time, it's never been so competitive between financial and strategic buyers. It's a very different atmosphere." Because the environment is so competitive, distributors considering being acquired have a unique opportunity to capitalize on that competitive atmosphere – so long as they've invested in their companies over the past few years, he says.

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Industrial & Construction Markets Update

VOL. 44, NO. 13 | JULY 10, 2014

Manufacturing Sector Expands in June

The manufacturing sector grew in June, according to supply executives in the latest Manufacturing ISM Report on Business.

The June PMI was 55.3 percent, a decrease of 0.1 percentage point from May's reading of 55.4 percent, indicating expansion in manufacturing for the thirteenth consecutive month. "The past relationship between the PMI and the overall economy indicates that the average PMI for January through June (54.0 percent) corresponds to a 3.6 percent increase in real gross domestic product on an annualized basis," says Bradley Holcomb, chairman of the Institute for Supply Management Manufacturing Business Survey Committee. "In addition, if the PMI for June (55.3 percent) is annualized, it corresponds to a 4 percent increase in real GDP annually."

The New Orders Index registered 58.9 percent, an increase of 2 percentage points from the 56.9 percent reading in May, indicating growth in new orders. The Production Index registered 60 percent, 1 percentage point below May.

Employment grew for the twelfth consecutive month, registering 52.8 percent, the same level as reported in May. The Supplier Deliveries Index registered 51.9 percent, 1.3 percentage points below May.

The Inventories Index registered 53 percent in June, the same percentage as reported in both May and April, and indicates raw materials inventories are growing for the fifth consecutive month. The Customers' Inventories Index registered 46.5 percent in June, the same percentage as reported in May, indicating that customers' inventories are considered too low.

Comments from the panel reflected generally improving business conditions, with a strong outlook for the months ahead.

Of the 18 manufacturing industries,

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Distributor News

France-based electrical distributor **Sonepar** has agreed to acquire **Electrical Distributors of Western Australia**, an electrical material distributor in Western Australia with annual sales of AUD$65 million (US$61.3 million) for the 12 months ended June 2014.

Industrial distributor **Applied Industrial Technologies**, Cleveland, OH, has acquired **Rodamientos y Derivados del Norte S.A. de C.V.**, Monclova, Coahuila, Mexico, and **Great Southern Bearings** and **Northam Bearings** in Western Australia.

Watsco Inc., Miami, FL, has acquired an additional 10 percent ownership interest in **Carrier Enterprise LLC**, a joint venture with **Carrier Corp.** The transaction raises Watsco's ownership stake to 80 percent.

Bunzl plc, London, England, has acquired **Allshoes Benelux BV** in the Netherlands and **JPLUS Comércio e Distribuição Ltda** in Brazil.

Red-D-Arc Welderentals, an **Airgas Inc.** company, has acquired **Hember Limited** in England.

Building materials distributor **Stock Building Supply Holdings Inc.**, Raleigh, NC, opened a new lumber and building materials distribution facility serving the Charlotte, NC, area.

Stock Building Supply Holdings has appointed Bryan Yeazel as executive vice president and COO. C. Lowell Ball has been appointed senior vice president and general counsel.

Univar Inc., Downers Grove, IL, has filed for an initial public offering. The global chemistry distributor will trade under the ticker symbol UNVR.

Univar opened a new facility in Dickinson, ND, to support its oil and gas business in the Williston Basin.

Builders FirstSource Inc., Dallas, TX, has acquired **Slone Lumber Company Inc.**, Houston, TX.

Bridgestone Corp.'s wholly-owned U.S. subsidiary, **Bridgestone Hose America Inc.**, has agreed to acquire **Masthead Industries LLC**. Masthead does business as **HosePower**.

TriCan Tire Distributors, Edmonton, AB, a subsidiary of **American Tire Distributors**, has agreed to acquire tire distributors in Alberta, Canada: **Kirks Tire**, Calgary; **Trail Tire**, Edmonton; **Extreme Wheel**, Edmonton; **Regional Tire Distributors**, Edmonton; and **Regional Tire Distributors**, Calgary.

Electronic components distributor **TTI Inc.**, Fort Worth, TX, an indirect, wholly-owned subsidiary of **Berkshire Hathaway**, has acquired **Astrex Electronics**, Plainview, NY.

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News Digest
Continued from p. 1 of this section

Kent Goodman, owner and CEO of **Space Flooring**, a subsidiary of floor covering distributor **Haines**, Glen Burnie, MD, has retired.

Cliff Kelly, president and CEO of **Stoneway Electric**, East Dubuque, IL, a subsidiary of **Crescent Electric Supply Company**, will retire effective July 31. Stoneway's current COO Jeff Corrick will assume the role of president.

Praxair Inc., Danbury, CT, will increase prices on bulk and packaged industrial, medical and specialty gases and hardgoods beginning July 15.

BA Supply, Lee's Summit, MO, a provider of electrical, datacomm and plumbing products, has launched its new website, www.basupply.com.

Economic News

The **Chicago Fed National Activity Index** increased to 0.21 in May from -0.15 in April. The index's three-month moving average, **CFNAI-MA3**, decreased to 0.18 in May from 0.31 in April.

Real gross domestic product for the U.S. decreased at an annual rate of 2.9 percent in the first quarter according to the third estimate released by the Bureau of Economic Analysis.

New orders for manufactured goods decreased 0.5 percent to $497.7 billion, according to the U.S. Census Bureau. Excluding transportation, new orders decreased 0.1 percent.

New orders for manufactured durable goods in May decreased 0.9 percent to $238.3 billion, revised from the previously published 1 percent decrease.

Total May exports were $195.5 billion and **imports** were $239.8 billion, according to the U.S. Census Bureau and the U.S. Bureau of Economic Analysis.

Construction spending in May was estimated at a seasonally adjusted annual rate of $956.1 billion, 0.1 percent above April and 6.6 percent above May 2013, according to the U.S. Census Bureau. In the first five months of this year, construction spending was $358.1 billion, 8.2 percent above the same period in 2013.

Construction firms added jobs in 40 states and the District of Columbia over the past 12 months, according to the Associated General Contractors of America. Jobs were added in 30 states and in D.C. between April and May of 2014.

Construction employment expanded in 218 of 339 metro areas, declined in 72 and was stagnant in 49 between May 2013 and May 2014, according the Associated General Contractors of America.

The **Canadian Industrial Product Price Index** was down 0.5 percent in May, primarily due to lower prices for energy and petroleum products. The **Raw Materials Price Index** declined 0.4 percent, led by lower prices for animals and animal products.

Canadian building permits issued in May were worth $6.9 billion, up 13.8 percent from April, according to Statistics Canada. In the residential sector, the value of permits rose 9.5 percent to $4.1 billion in May. In the nonresidential sector, the value of permits rose 20.8 percent to $2.8 billion.

Compared with April 2014, **May industrial producer prices** fell by 0.1 percent in both the euro area (EA18) and the EU28, according to estimates from Eurostat, the statistical office of the European Union. In April, prices also decreased by 0.1 percent in both zones. Compared with May 2013, industrial producer prices decreased by 1 percent in the euro area and by 0.9 percent in the EU28.

Manufacturer News

Swedish manufacturer **Atlas Copco** is reorganizing its quality air division to focus on medical gas solutions and filter business. The division will change its name to medical gas solutions.

Atlas Copco-owned **Quincy Compressor LLC** will consolidate its two U.S. manufacturing facilities into one single location in Bay Minette, AL. Due to the move, 152 positions will be affected at Quincy's operations in Illinois, and a number of new positions will be created at the Alabama location.

Regal Beloit Corp., Beloit, WI, has acquired

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Supreme Court Rulings Impact Distributors

The Supreme Court ruled on cases involving the ACA and the NLRB

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This month, the U.S. Supreme Court issued several rulings from cases heard in the 2013-2014 session. While the decisions covered a broad range of topics, two are of particular interest to distribution: Burwell v. Hobby Lobby Stores Inc. and NLRB v. Noel Canning.

Hobby Lobby

In the latest challenge to the Affordable Care Act, often referred to as Obamacare, the owners of Hobby Lobby claimed that some provisions in the ACA infringed upon their right to free exercise of religion. In a 5-4 ruling, the Supreme Court agreed.

Based on this ruling, closely-held, for-profit corporations may now opt out of providing contraception insurance coverage to their employees.

Large, publicly-traded corporations are not affected by this decision, due to it being impractical to determine the "beliefs" of a corporation, according to the opinion.

This decision could impact other cases – some filed by distributors and manufacturers – that were put on hold pending the outcome at the Supreme Court. Midwest Fastener Corp., Portage, MI, filed a lawsuit in October 2013, stating that the Patient Protection & Affordable Care Act was violating the Religious Freedom Restoration Act (RFRA).

The RFRA bars the U.S. government from "substantially burden[ing] a person's exercise of religion" – even if it is resulting from another law or act, such as the Affordable Care Act.

HVAC manufacturer Hercules Industries Inc., Denver, CO, filed a similar lawsuit in October 2013.

The decision could have a trickle-down effect into other areas besides contraception if corporations view the decision as a door through which to send objections to other types of laws. While the opinion states that the decision only applies to the contraceptive mandate of the ACA, other suits are already being discussed regarding anti-discrimination laws.

New regulations are expected from the Department of Health and Human Services, which should help determine exactly which employers may use this exemption.

NLRB v. Canning

In NLRB v. Canning, beverage distributor Noel Canning questioned whether the National Labor Relations Board had a quorum, and therefore the ability to make decisions and rules, after President Obama made recess appointments to fill three vacancies on the board in January 2012. In a unanimous ruling, the Court declared the appointments unconstitutional, primarily on the grounds that the Senate was not formally in an extended recess – a requirement of the recess appointment rules.

The ruling did not eliminate recess appointments, however, though four justices expressed desire to limit the application even further.

During the 18-month tenure that included the appointees, the NLRB made more than 400 decisions. With this decision, the question is whether those decisions are valid and binding. And if they're not, how will the board handle the cases involved?

The cases in question cover a lot of legal ground, from protection for what someone says about an employer on social media sites to collective bargaining issues.

NLRB Chairman Mark Gaston Pearce made a statement regarding the Supreme Court decision, saying the board is "committed to resolving any cases affected by today's decision as expeditiously as possible."

-April Nowicki & Jenel Stelton-Holtmeier

News Digest
Continued from p. 2 of this section

Benshaw Inc. from **Curtiss-Wright Corp.** for $50 million.

ABB, Zurich, Switzerland, a power and automation technology group, has agreed to divest the **Meyer Steel Structures** business of **Thomas & Betts** for $600 million to **Trinity Industries Inc.,** Dallas, TX.

H.B. Fuller Company, St. Paul, MN, has agreed to acquire **Tonsan Adhesive Inc.**, an adhesives manufacturer based in China with annual sales of $100 million.

H.B. Fuller reported sales for the second quarter ended May 31 of $544 million, an increase of 4.8 percent year-over-year. Profit decreased 20.8 percent to $20.5 million. Sales for the first half of 2014 were $1 billion, up 3.1 percent over the same period a year ago. Organic sales grew 3.3 percent. Profit fell 25 percent to $35.1 million.

NN Inc., Johnson City, TN, has acquired the majority of outstanding shares of **RFK Valjcici d. d. Konjic** and expects to acquire the remaining shares in the near future. RFK is a manufacturer of tapered roller bearings with operations in Konjic, Bosnia and Herzegovina.

Phillips 66, Houston, TX, an energy manufacturing and logistics company, has agreed to acquire **Spectrum Corp.**, a specialty lubricants company based in Memphis, TN.

ElectroCraft Inc., Dover, NH, a fractional-horsepower motor and motion solutions manfacturer, has acquired **Hansen Corp.**, a manufacturer of DC motors, synchronous motors and clock movements. The acquisition expands ElectroCraft's fractional and sub-fractional products to the motion control markets.

Myers Industries Inc., Akron, OH, has completed the sale of **WEK Industries Inc.** to **Industrial Opportunity Partners**, owners of **Toledo Molding and Die Inc.** for $19.5 million. Myers also agreed to buy **Scepter Corp.** and **Scepter Manufacturing LLC.**

Starting with the second quarter, **Myers Industries** will report its underlying earnings in two reportable segments: material handling and distribution.

Todd Smith will resign as vice president and general manager of **Myers Industries**' distribution segment to assume the role of vice president and general manager of **Akro-Mils**, a core material handling business for Myers. Alex Williamson will replace Smith as vice president and general manager of the distribution segment.

Manufacturing Sector
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15 reported growth in June in the following order: furniture & related products; nonmetallic mineral products; food, beverage & tobacco products; machinery; fabricated metal products; computer & electronic products; transportation equipment; miscellaneous manufacturing; electrical equipment, appliances & components; apparel, leather & allied products; wood products; printing & related support activities; petroleum & coal products; primary metals; and paper products.

The three industries reporting contraction in June are: textile mills; chemical products; and plastics & rubber products.

"The June report from the Institute for Supply Management is the latest data release to reveal that U.S. factory sector growth has been moderate and will likely remain moderate for the balance of 2014 and into 2015," said Cliff Waldman, senior economist for the Manufacturers Alliance for Productivity and Innovation.

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