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Intelligence for Wholesale Distribution Professionals

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■ *MDM Interview*

Stellar Industrial's Strategic Focus

Company seeking a better 'line of sight' for accelerated growth

Earlier this year, Tacoma, WA-based Stellar Industrial Supply announced the addition of Larry Davis, former president of ORS Nasco, to its executive team as executive vice president and chief commercial officer. The move was part of a strategy by Stellar to grow "faster and more effectively." MDM Publisher Tom Gale recently spoke with Stellar's executive team, including President & CEO John Wiborg, Executive Vice President & COO Steve Slater and Davis, about the shifts in the market that drove the shift in strategy and where the company is heading.

This is an excerpt from that interview. Listen to the entire interview at www.mdm.com/stellar-interview.

MDM: What do you consider to be Stellar's key differentiator as an industrial supplier?

John Wiborg: We've done a really great job building a culture and a team around driving profit and ROIC for our partners, both customers and suppliers alike. We have a different concept of partnership that includes customers, associates and suppliers. Stellar's value proposition focuses on delivering strong partnership performance in order to deliver significant profit enhancement on behalf of all our partners.

I can't overstate enough how we try to find ways to really engage with customers, suppliers and our associates, take the power of the team and bring it to creating value.

MDM: How does customer service fit into that equation?

Wiborg: The customer defines what customer service means to them. I see a lot of metrics around customer service, and we have those too, but what we try to do is go into a customer to understand what their issues of the day are, what their long-term pain is and how Stellar can engage with them to help alleviate that in a way that drives the bottom-line performance, return on capital. Rather than an approach that says: I have this solution. Do you like it? Do you have that problem? Or do you want to do it with us anyway even if you don't have that problem?

We feel that having great customer intimacy is the key to being able to help that customer do things that matter for their bottom line.

MDM: Let's get to the question that you've all been asked many times this summer: What's the strategy behind adding Larry Davis to Stellar's management team?

Wiborg: Larry has significant strengths and experience in the industry. We know how to grow, but we want to do it faster and more effectively. Larry brings a proven skillset around sustainable growth, a great, robust understanding of our markets and our business, and knowledge related to operating large organizations. Larry's a great team player, and he'll definitely improve our ability to correctly lay out our strategic plans. And execute against those plans.

MDM: Larry, what do you hope to bring to this position? What are your goals?

Larry Davis: I think the first thing that I bring is gratitude, and maybe that sounds unusual, but it's truly not every day that you have the opportunity to join an organi-

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PERSPECTIVE ■ Commentary by Jenel Stelton-Holtmeier

Analyzing Analytics

At this point, it has become pretty well accepted that data should be a part of big decisions. A recent study from global professional services company PricewaterhouseCoopers provided statistics on this fact. According to that report, highly data-driven companies are three times as likely to see a significant impact from big decisions as companies that don't rely heavily on data.

There are many challenges to becoming highly data-driven, though, from technology limitations to information overload. But one common challenge is the tendency to view an indicator or measurement as something that it's not.

In their piece on making money with small customers, Randy MacLean and Jonathan Bein assert that the gross margin rate is not a good predictor of order profitability. Sure, it will give you an average profitability for all of your sales combined, but what does it really tell you at the transaction level? And how can that be used to predict future profits?

Gross margin rate tells you how profitable all of your business is when combined. It doesn't tell you how profitable each order or customer is.

But that doesn't mean you shouldn't use gross margin rate as a key performance indicator. In fact, Profit Planning Group's Al Bates in his latest book, *Breaking Down the Profit Barriers*, says it should be considered the most important indicator. You simply have to make sure you understand what it measures and how that measure can be applied.

In addition to gross margin rate, Bates says there are four other "critical profit variables" distributors need to keep an eye on: sales volume, expenses, accounts receivable and inventory. All of these measures can help a distributor predict and improve profitability, but each is also prone to misunderstanding.

And they can't be viewed in their own bubbles. Businesses are complex organisms with many interconnected parts. Changing one piece of the puzzle can have a profound effect on other pieces. Focusing your improvement efforts on one variable may require trade-offs with other variables. To effectively improve the bottom line, take time to understand how those decisions will impact the other parts of your business.

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Stellar Industrial Interview

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zation that values culture, possesses world-class talent and is committed to driving sustainable growth that also has a proven value proposition. When you bring those facets together, you have to be excited and you have to be a little grateful for that opportunity.

From a goals perspective, I'd really like to contribute, as John said, through helping develop the strategy and ensuring that that provides us line of sight to a lot of accelerated growth opportunities. We really view that in terms of opportunities around growing within our customer segments, in new customer segments, penetrating more effectively our current product categories and adding new product categories. And doing the same thing with geographies.

I look forward to sharing some of my market experiences. And supporting the team in translating the strategy into execution and ultimately results.

Probably most of all, I'm looking forward to learning the business from a different vantage point and being able to support the team in making a difference in the marketplace. I came here because I believe there is a unique opportunity to drive true quality growth while delivering measureable value to our partners. For me, that's tremendously exciting.

MDM: Steve, you're the steward of the infrastructure and keeping the wheels on the bus. What's your perspective on the shift that's taking place here at Stellar?

Steve Slater: I couldn't be more excited. Larry's a great talent, and I've been privileged to know him for a long time.

He's equally a man of the highest integrity and value. I think he fits perfectly with what Stellar's about, our foundational pieces. And I think he'll bring us a new view, a new set of eyes. And frankly, to Mr. Wiborg's point, he going to make us better, faster.

We're all about continuous improvement, so I see this shift as just an incredibly wonderful opportunity.

Larry also understands the two foundational pieces of Stellar are privilege and obligation. We truly believe it's a privilege to work at our fine company, Stellar Industrial, that Mr. Wiborg started. And also the obligation that comes with that, the duty to all the stakeholders. Larry understands that completely and will honor not only that but our fine legacy going forward.

MDM: What are some of the shifts you're seeing in the marketplace that point to opportunities for Stellar to grow, and why are you making this move right now?

Wiborg: The landscape's getting much more competitive in terms of demonstrating value to the customers and supplier partnerships in a way that creates opportunities for all concerned. Additionally, there are product categories our customers are asking us to address, and we can address those and expand our presence within our existing customers.

There's a generational succession happening out there, and we feel that creates opportunities, as people are looking at their businesses and what they want to do, what kind of legacies they want to leave behind.

There are geographies and market segments we feel we can successfully address. To be able to realize the opportunities we see in the market, we have to continue to evolve as an organization and as a team. You bring a talent and a great mind, and a person of great integrity on board like Larry Davis, you get all new perspective and opportunity to energize that, perpetuate it and accelerate it.

MDM: What's going to change about the way Stellar goes to market?

Slater: We recently accomplished AS9120 certification, or more correctly I should say we've just been recommended for certification after last week's successful audit. The way we operate to deliver high quality service, continuous learning and consistency has changed.

We're doing a much better job of really understanding who values or might value our offerings. We're doing a better job of training our staff to drive value creation. We're doing a much better job of segmenting the market, our customers, our verticals, our product categories and the product selection. And we're getting better at ensuring we deliver that value consistently in each and every customer and supplier interaction.

MDM: You mentioned a little bit about customizing your offerings based on the end-market vertical segment. What does that look like? Is it really to be clear about what the value is as defined by the customer, as John said before, and in terms of how to profitably serve that?

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The entire interview can be heard at mdm.com/stellar-interview.

Slater: John has done a fantastic job of leading, and Larry also brings that type of vision where we're shifting on how we're sequencing and looking at our priorities. With the AS9120 certification, that will of course help us in defense and aerospace and how we approach that market. We also are making specific looks at different markets in how we strategize.

But it's more of a change from a geographical look to more of a product category offering, and really at the head of the lists, finding a customer base that will pay us, reward us in volumes for our value-added propositions.

MDM: Is there a change for your supplier partners?

Slater: I call it an enhancement. They participate in our growth. They understand that we know how to grow our business, and they've benefitted first hand from that. They know that the benchmarks for us are vision and transparency and loyalty and determination and commitment, and as Mr. Wiborg has set forth for us, a win-win philosophy is a must.

Our approach with our supplier engagement is to become true partners in that vein and execute together – and the key word is together – in the marketplace. We've proven to our suppliers that if they achieve partnership status with Stellar, then they will grow and they gain market share along with us. So as we continue to grow and create more value for our customers, we'll be asking our suppliers for a higher level of partnership and better, more effective execution.

MDM: Arguably in the five to seven years, there have been more changes and threats from alternate channels to industrial supply than ever before. What are the biggest challenges that Stellar faces to reach its goals?

Wiborg: I think the most important thing that we need to do, and it is a challenge, is to make sure that we're selective and intentional in what we do and make sure that we execute whatever we do with excellence.

Another one is – and it's not really a challenge per se but – making sure that we walk the talk of our mission, vision and values. It's vital to our success. You asked me earlier why is it different? We have strong philosophical concepts and every day we work hard to make sure that it's not just marketing talk but we actually bring it and do it. …

We understand there are pressures to conform to some of the trends that are out there in the industry. We're cutting our own swathe. We're going to stay true to our mission, vision and values and build a team that can support that, can get excited about that and works constantly every day to bring it to market to create value.

■ *Making Money with Small Customers*

Balancing Margin & Cost

The key to success is keeping services costs in line with gross profit

Predicting profitability of an order by measuring average margin is ineffective. Averages are susceptible to outliers and rarely represent the true value of any individual measure within the set. In this article, the authors examine flaws in conventional thinking about margin and provide practical ways to better manage small orders.

By Randy MacLean and Jonathan Bein

Distributors and wholesalers have been dealing with the "small order problem" for decades. Now, more than ever, mastering the policies and procedures that are a near-complete solution to this issue is a necessary and fundamental skill for every distribution organization.

Examination of distribution company transaction data provides deep insight into distribution profit production, and clear guidance on how every company can quickly and directly address this very real challenge.

Nearly a decade of this work shows that every company has a small account component to its business, and the profit dynamics are pretty much universal. It reveals significant adverse impact on profitability where this component hasn't been managed, and significant profit contribution where it has.

Addressing this effectively can be one of the most important things a company can do because it can lead directly to immediate and sustained profit gains of 25 percent or more.

There's no delay because there's no requirement to develop new business; it's already there.

How'd We Get Here?

Every distribution company, at its genesis, is a very small player and for the most part, can attract and retain only very small accounts. In this phase, the company will have a naturally low operating cost as it has not yet invested in the personnel and infrastructure that will later be needed to service larger accounts and larger deals.

As the years pass and the company grows, it is able to attract and service larger accounts, which produce larger gross profit numbers that cover the service costs of larger deals. The company invests in capabilities and infrastructure to support a service model geared to a more sophisticated relationship with its larger accounts. This "improved" service model is a mismatch for small accounts, with increased infrastructure costs they don't need, don't want and won't pay for. The gross profit production is just too small to support the additional cost-to-serve.

The issue occurs at the order level: larger accounts will have more orders that produce gross profit to cover the service costs; small accounts will have a larger proportion of orders that do not.

To enhance the profit viability of small orders, companies don't have to invent a new infrastructure or skill set, they can just reconstitute an old one.

How Profit is Actually Made

In our profit analytics work, a core discovery provides guidance to reliable strategies for profit production. It also refutes much of the conventional wisdom that thwarts companies' attempts to drive profit gains.

Paradoxically, it's the pursuit of analytics that has led to the biggest roadblock to distribution profitability.

At one point or another, every manager has gone through an exercise of determining the average profit on an order or the average size of a profitable order to establish a "rule of thumb" guideline to assist with identifying good or poor performance. It also led to the conclusion that every order above this average would make some small contribution to the bottom line. In practice, the average is most commonly expressed as a gross margin rate.

The data shows this methodology – and the resulting decision-making – is just flat wrong.

The profitability of an order cannot be predicted by its margin. That would be like trying to predict the height of the next person to walk by a building using the U.S. national average male height of 5′ 10½″, which will result in an incorrect prediction in all but the rarest of cases. Correspondingly, the next order likely will generate a profit that will be lower than (or, potentially, much higher than) expected regardless of the gross margin rate.

Every order generates a specific number of gross profit dollars and carries with it a specific cost structure directly related to the consumption of infrastructure. Direct orders, for example, don't involve the warehouse, and therefore are less expensive and can support lower pricing. The profitability of any particular order is driven by the spread between the gross profit dollars and the specific cost structure associated with the order.

Mathematically, margin rates stay within a very narrow band, roughly 15 to 30 percent. The cost structure rates cover the whole range, from near-zero to more than 100 percent of the order's revenue. The important discovery is that, because of its much broader range, the cost rate is a much bigger factor in determining order profitability than gross margin ever can be.

This leads to another epiphany in profit generation: a company's bottom line is the net of all money-making orders, less all money-losing orders. For most distributors, between 60 percent and 80 percent of all orders lose money. This means that the money-making orders produce extraordinary profit rates, enough to cover the losses on the majority of orders and leave some small amount that is the company's bottom line.

It's not only a strong indictment of the industry's rule-of-thumb gross-margin management, it also suggests a pathway to extraordinary profits. This knowledge can be used to directly exploit the opportunity in small accounts.

Addressing the Small Account Challenge

Since every order generates a specific number of gross profit dollars – the operating budget for servicing the order – and has a specific cost structure determined by the associated logistical elements, the real trick is to keep the service costs within the gross profit operating budget of each and every order.

To make sure this happens, increase gross profit amount on the order and/or reduce the service costs for the order.

The company can decide to either give up the small accounts or reestablish the kind of infrastructure that is an ideal match for accounts of this size. This is what Bruce Merrifield refers to as the "wholetail" model:

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Increasing gross profit can be achieved by establishing differentiated (higher) pricing for the small account group and for wholetail sales. Add-ons, such as delivery charges, small order charges and other service fees, also contribute to higher gross profit production, helping make small orders viable.

Decreasing associated infrastructure costs also contributes to the viability of small orders. There are commonly five logistical elements that make up the cost structure of any order: order entry, warehousing, delivery, A/R & administration and sales compensation. In the wholetail model, the goal is to reduce or eliminate as many of these as possible.

Attack order entry costs by selling only vendor-bundled and barcoded items at the counter. Stop selling singles of 50-cent parts that need manual processing at the register.

Reduce warehousing costs by moving the most popular products in front of the counter and let the customers do the picking.

Make sure delivery is a gross profit generator by charging more for it than it costs to buy or produce.

Eliminate account receivable and administrative expenses by making all small accounts, and all small counter sales, credit card only. Fully half of A/R tracking and collection structure is driven by tiny orders from tiny accounts.

Helping customers combine orders contributes positively to all of these areas.

Finally, eliminate sales commissions on counter sales, small orders and small accounts. Reps need a narrower focus to service and obtain significant accounts. Paying them on accounts they never call on – accounts they don't influence – is both a distraction to the reps and an unnecessary drain on your bottom line.

Making It Work

Moves like these usually trigger a little noise and smoke, but rarely an actual fire. Meanwhile, they get the company on a path to increased profitability and remind everyone the relationship between gross profit and logistics costs.

There can be amazing results when company leaders realize how the math works and how to use these techniques to get control and mastery over their small account/small order business. Some companies have realized permanent triple-digit profit gains.

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Strategic Options for Shipping Efficiency

Supply chain optimization includes a broad range of goals

Supply chain optimization is a goal with so many moving parts, it's sometimes difficult to nail down what places to begin addressing potential changes. In this article, industry experts simplify the options and set the stage for an efficient, long-term process for freight movement.

By April Nowicki

When addressing operations efficiencies, it may seem that there are few options to mitigate the cost of shipping products. Most fuel charges that distributors incur are based on a national average, according to James Cooke, author of *Protean Supply Chains*. And there are no signs that the price of oil will be going down any time soon. Other factors are complicating the paths to stability.

"It's not just fuel costs," Cooke says. "It's having access to carriers. They've talked about this for years. All the truck drivers are retiring; there just aren't enough drivers to handle shipping loads."

The capacity crunch is driving costs up as demand for shipping outpaces the supply of drivers to transport loads. Steve Norall, vice president of new business development at Cerasis, says that one thing contributing to this crunch are the demands on truck drivers.

"A lot of long haul drivers are finding work where they can be at home at night," Norall says. "And the biggest thing is the hours of service. It's hard for them to make a living at it now."

These two problems are instigating several shifts in the supply chain, as shipping companies and their customers search for innovative ways to lower costs and increase efficiencies.

Less-than-truckload (LTL) shipping is already a critical component of the supply chain. But many distributors don't take full advantage of it, says Paul Johnson, vice president of global solutions consulting at Descartes, a technology and consulting provider of logistics and shipping software.

"The largest opportunity is just decreasing the number of moves that you have to make," Johnson says. "Instead of just doing an LTL, maybe I change to a different mode of shipment such as a multi-stop truckload, which many of my LTL carriers are willing to do. That's where I basically contract the entire truck and then do three or four stops, which is an interim step between intermodal and LTL. I'm able to leverage truckload rates, decrease my cost and still maintain my service."

Service is an issue as well, as customers are increasingly demanding more information in real time. Using technology to track that information would enable the supply chain to remove the amount of paper and transactional elements that are required between shipper and carriers, Johnson says. And that would have a huge impact on efficiency.

"In the parcel business, everyone understands that with FedEx, UPS, DHL, you order something online and when that arrives at your door, there's a label on the box and you sign on a scanner," Johnson says. "In the LTL and traditional B2B space, that is not the standard practice. It's a piece of paper that flows with the product and a delivery ticket signed by the customer. So that's the opportunity."

For many smaller distributors, moving toward that opportunity means first having comprehensive datasets. Johnson says that a first step would be to establish shipment tracking and provide visibility to the paths shipments are taking.

"Then, start to aggregate information in a database to be able to potentially leverage making better decisions in the future," Johnson says. "It's just a way to facilitate, 'This is where I'm spending my money today, and this is how my shipments are moving from point A to point B today.' In a lot of cases, companies don't have end-to-end visibility to be able to start doing that level of analysis."

Jason Mathers, senior manager at the Environmental Defense Fund and author of multiple reports on innovating freight transportation models, agrees that more business intelligence will support efficiency goals to reduce costs.

Fuel prices will continue to increase over the next 20 years, according to the U.S. Energy Information Administration. Fuel emissions are also driving changes to product shipments – the U.S. Environmental Protection Agency and the Department of Transportation approved a regulation in 2011 that will require trucks to reduce fuel consumption and greenhouse gas emissions by 20 percent by 2018.

As the industry shifts to accommodate these requirements, the overall goals are also reflected in other strategic initiatives that some companies are taking.

"Many large companies are setting sustainability goals," Mathers says. "These are increasingly extending into the supply chain."

Unilever, Dell, IKEA and many other companies have expressed sustainability goals in their supply chain operations, Mathers says. Caterpillar, SC Johnson and Kimberly-Clark have already implemented consolidation measures to save on freight costs.

The main idea is to increase the productivity of every move, Mathers says. Shippers can cut the overall number of trucks they need to hire to bring products to market.

"Do you have two half empty trucks going to the same place?" Mathers says. "Or do you have a system that's able to identify that two trucks have the same destination and relatively similar delivery windows, and are you able to get those on the same truck in a way that's going to meet the customer's needs but also enable you to purchase one truck move as opposed to two?"

This is a differentiation option, Mathers says. Distributors will be best positioned to appeal to many companies by embracing business practices that push efficiency and reduce emissions.

But many distributors are still using paper- and spreadsheet-based methods or outdated software. Some are using newer software to identify opportunities, but they're using a small percentage of the total capabilities that that software has to offer.

Cerasis' Norall says that many companies that, five years ago, wouldn't hear of changing procedures in favor of more technology, are now clamoring for the efficiencies that software can provide.

"Not only in the carrier selection, but also in managing the process," Norall says. "Managing distribution in general through software packages is a big trend right now. It'll bring them multiple choices, not just about cost but other important aspects of that shipment. What their

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limited liability is, what their transit days are, things like that so they can make good business decisions at the time of shipping."

Norall says that the cost savings in using automated programs is in multiple areas.

"You'll have high labor costs just having to manage the process of trying to find the right carrier," he says. "High distribution costs, high management costs, lack of customer satisfaction tools."

What software does is optimize freight options and places shipments in the lanes that carriers like the best, which means the distributor receives a lower rate and better service.

The fuel prices affect which lanes carriers prefer, also complicating the process for distributors in determining how to ship. Norall says that some are able to negotiate lower fuel surcharges, but in those cases the carriers will often use a lower discount or a higher rate base, so the overall cost does not change much.

But Cooke says that some tools are available that can impact how fuel rates affect shipment costs.

"Actually, there are two things you can do about that," Cooke says. "It's a little more complicated than just trying to restrain fuel surcharge costs."

A company called Breakthrough Fuel makes software that can catalogue fuel prices in a state or region of the country. During contract negotiation with a trucking company, the distributor can specify that instead of paying the national fuel surcharge average, the fuel costs will be weekly and based on what the costs are per lane.

But that is only one option in the vast network of supply chain optimization opportunities.

"A smarter thing to do, if you look at the cost per mile for running a shipment, you really need to take a holistic view of your network," Cooke says. "That means using special network optimization software."

Cost savings can be found in strategic placement of distribution centers, he says.

"Even though you can take steps to control your fuel surcharge, make sure it's based on actual cost rather than some national average, at the end of the day, optimizing your locations is really the only way you can reduce freight fuel surcharges," Cooke says. "Such that you can better set your network so you have the ideal locations to travel the fewest miles."

Capacity Crunch & Fuel Costs: Two Problems with Multiple Solutions

Two freight issues that have been around for years – and appear to be staying around – are driving up shipping costs for everyone in the supply chain. Fewer truck drivers are available to transport loads and fuel prices are expected to continue increasing over the next 20 years.

Here are four ways to begin positioning your company for efficient product movement:

- Reduce the number of shipments. Work with customers to consolidate orders and anticipate shipments. Decreasing your network mileage will in turn decrease your fuel spend.
- Analyze your network. Determine if relocating DCs is an option that would position your company to ship freight on shorter hauls.
- Renounce paying national averages. Negotiate with shipping companies to pay the actual cost per lane, if it is lower than the national average.
- Begin aggregating data about your shipments. Make a goal of using data to make more intelligent business decisions in the future about where and how to ship.

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Industrial & Construction Markets Update

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Sonepar North America to Acquire Industrial Distribution Group

Sonepar North America, a subsidiary Paris, France-based Sonepar Group, has agreed to acquire Industrial Distribution Group, a portfolio company of LKCM Capital Group LLC headquartered in Belmont, NC.

IDG is a privately owned industrial MRO distributor, with 2013 revenues of $683 million and 880 associates. The company has 42 locations in the U.S. and over 170 on-site customer locations in North America, Asia and Europe, operating in three major businesses: industrial distribution, integrated supply solutions and energy distribution.

Sonepar USA is ranked by MDM as the largest U.S. electrical distributor with 2013 revenues of $7.7 billion.

"The acquisition of IDG strengthens our position in the integrated supply and MRO space, enhancing our North American footprint and reach," said Sonepar North America CEO Dave Gabriel. "The combined synergies between Hagemeyer North America and IDG in the integrated supply, industrial distribution and technical services areas will allow us to expand our portfolio to better meet the needs of our customers."

"We are delighted to become a part of a leading global distribution organization such as Sonepar and its North American affiliate Hagemeyer North America," said IDG President Charles Lingenfelter. "Merging the people, processes and resources of these leading industrial organizations will create many opportunities for our customers, suppliers and associates."

Franck Bruel, CEO of Sonepar Global, said, "The addition of IDG reinforces our strategic commitment to our industrial / MRO business. IDG complements our Sonepar North America business, broadens our industrial offering and enhances our global platform."

Distributor News

Grainger, Chicago, IL, reported August daily sales increased 7 percent year-over-year. Results for the month included a 2 percent increase from acquisitions and a 1 percent decline from unfavorable foreign exchange.

Grainger has named Dean Johnson as president of its Canadian business, **Acklands-Grainger**.

Paris, France-based electrical distributor **Rexel** has reorganized its organizational structure in Europe, combining two of its three European zones to form a new Southern, Central and Eastern Europe zone. The move will streamline the distributor's management structure.

France-based electrical distributor **Sonepar** has agreed to acquire **Routeco Group Holdings Ltd**, a distributor of industrial control and automation products and services in the UK.

HD Supply Facilities Maintenance, a distributor of maintenance, repair and operations (MRO) products, has opened a new distribution center located in Houston, TX.

United Stationers, Deerfield, IL, has agreed to acquire **MEDCO**, a U.S. wholesaler of automotive aftermarket tools and supplies, and its affiliates including **G2S Equipment de Fabrication et d'Entretien ULC**, a Canadian wholesaler, for $130 million.

Border States Electric, Fargo, ND, has agreed to purchase **Western Extralite**, an electrical wholesale supply company in the Midwest.

Distribution International Inc., Houston, TX, has acquired **Pacific Insulation Company**. The addition of Pacific expands DI's footprint into California, Nevada, Arizona and New Mexico and adds another location in Texas.

WinWholesale Inc., Dayton, OH, has opened **Northwest Arkansas Winwater** in Bentonville, AR, to provide general, municipal and utility contractors with PVC pipe, valves, water hydrants, drainage systems and other products.

Hunzicker Brothers Inc., a full-line electrical distributor based in Oklahoma City, OK, has agreed to acquire **SESCO Electric Supply Company**, an electrical distributor with four locations in Oklahoma.

BlackHawk Industrial, Broken Arrow, OK, has acquired certain assets of **Marshall Tool,** Salt Lake City, UT.

Penn Jersey Paper Company, Philadelphia, PA, has acquired **Gelmarc Distributors**, a broad line distributor of foodservice supplies, equipment, disposables and janitorial products located in Cherry Hill, NJ.

Deer Park, TX-based **Abrasive Products & Equipment**, a specialty distributor of surface preparation, remediation, abatement, safety, environmental

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest

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and waterjet cutting products, has been acquired by **Ridgemont Equity Partners**, Charlotte, NC.

Air Products, Lehigh Valley, PA, will restructure its major company segments and organization with the goal of regaining industry leadership.

Crescent Electric Supply, East Dubuque, IL, has hired Jeff Jolly as vice president of its West Region, which includes 40 branches in 14 Western and Mountain states.

Economic News

The **Conference Board Leading Economic Index** for the U.S. increased 0.2 percent in August to 103.8. The **coincident economic index** increased 0.2 percent, and the **lagging economic index** increased 0.3 percent.

July **U.S. manufacturing technology orders** totaled $354.63 million. This total was down 11.5 percent from June and down 1.4 percent when compared with the total of $359.70 million reported for July 2013. With a year-to-date total of $2,711.36 million, 2014 is down 2.3 percent compared with 2013.

July U.S. **cutting tool consumption** was $170 million, according to the U.S. Cutting Tool Institute and the Association for Manufacturing Technology. This total was down 1.1 percent from June's total but up 1.5 percent from July 2013.

The **Producer Price Index** for final demand was unchanged in August, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. Final demand prices advanced 0.1 percent in July and 0.4 percent in June.

Industrial production edged down 0.1 percent in August, and the index for manufacturing output decreased 0.4 percent. **Capacity utilization** for total industry decreased 0.3 percent in August to 78.8 percent

Prices for U.S. imports decreased 0.9 percent in August following a 0.3-percent decline in July, according to the U.S. Bureau of Labor Statistics. Both the August and July drops in overall import prices were driven by lower fuel prices. **U.S. export prices** declined 0.5 percent in August after ticking up 0.1 percent in July.

Total nonfarm **payroll employment** increased by 142,000 in August, and the unemployment rate was little changed at 6.1 percent. **Manufacturing employment** was unchanged in August, follow-

Calculation of MDM Inflation Index for August 2014

		BLS	BLS	BLS		Weighted	%	%
		Price	Price	Price	%	Indices	Change	Change
		Indices	Indices	Indices	Sales	Aug '14	Aug '14	Aug '14
		Aug '14	July '14	Aug '13	Weight	(1)X(4)	July '14	Aug '13
1136	Abr. Prod.	573.5	572.9	565.5	19.1	109.54	0.10	1.42
1135	Cutting Tools	495.7	495.1	488.1	18.9	93.68	0.11	1.56
1145	Power Trans.	803.8	804.1	801.0	15.4	123.79	-0.04	0.35
1081	Fasteners	510.4	510.7	504.5	9.0	45.94	-0.05	1.18
1149.01	Valves, etc.	961.8	962.9	941.1	7.6	73.09	-0.12	2.20
1132	Power Tools	362.0	361.8	355.6	6.5	23.53	0.06	1.81
1144	Mat. Handling	581.4	582.0	566.8	6.2	36.05	-0.10	2.58
0713.03	Belting	838.5	839.2	855.6	6.1	51.15	-0.08	-1.99
1042	Hand Tools	779.5	778.8	775.8	8.1	63.14	0.09	0.48
108	Misc. Metal	479.4	480.0	477.2	3.1	14.86	-0.12	0.47
	"New" August Index	331.7	August Inflation Index			634.77	0.01	0.98
	"New" July Index	331.6	July Inflation Index			634.74		
			August 2013 Inflation Index			628.61		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247 ing an increase of 28,000 in July.

The MAPI Foundation forecasts **manufacturing production** growth of 3.4 percent in 2014, 4 percent in 2015, and 3.6 percent in 2016. The 2014 forecast is an increase from 3.2 percent and the 2015 forecast is consistent with the June 2014 report. Manufacturing will continue to grow faster than the overall economy.

Construction firms added jobs in 36 states between August 2013 and August 2014 while **construction employment** increased in 28 states between July and August, according to an analysis by the Associated General Contractors of America.

Following three consecutive monthly gains, **Canadian wholesale sales** decreased 0.3 percent to C$52.9 billion (US$48.3 billion) in July. Declines in five subsectors, which together represented 81 percent of wholesale sales, more than offset an increase in the motor vehicle and parts subsector.

Canadian manufacturing sales increased 2.5 percent to C$53.7 billion (US$48.7 billion) in July, exceeding the previous record of C$53.2 billion (US$48.3 billion) set in July 2008. The gain in July was largely attributable to higher sales in the transportation equipment and primary metal industries.

Canadian industries operated at 82.7 percent of their **production capacity** in the second quarter, up 0.6 percentage points from the first quarter and the fourth consecutive quarterly gain. Manufacturing industries as a whole were the main source of this increase.

Canadian municipalities issued **building permits** worth C$9.2 billion (US$8.4 billion) in July, up 11.8 percent from June. The increase in July was mainly attributable to higher construction intentions for multifamily dwellings in Ontario and British Columbia as well as institutional buildings in Manitoba.

Compared with June 2014, seasonally adjusted **production in the construction sector in Europe** remained stable in July in both the euro area (EA18) and the EU28. In June 2014, production in construction fell by 0.4 percent and 0.1 percent respectively.

Compared with June 2014, seasonally adjusted **industrial production in Europe** in July rose by 1 percent in the euro area (EA18) and by 0.7 percent in the EU28, according to estimates from Eurostat, the statistical office of the European Union.

The September **ISA Economic Indicator Report** from the Industrial Supply Association shows continued market expansion for distributors and manufacturers. The ISA Manufacturer Index fell to 59 percent in August, while the Distributor Index increased to 65.1 percent.

Manufacturer News

Swedish bearing manufacturer SKF has acquired two companies as part of its strategy to boost its service capabilities. One of these is **GLOi**, a Swedish-based alignment technology solutions company. The other is **Hofmann Engineering North America**, an engineering services company located in Ontario, Canada.

Safety products manufacturer **Brady Corp**., Milwaukee, WI, reported sales for fiscal 2014 of $1.2 billion, up 5.8 percent over fiscal 2013. Brady reported a net loss of $46 million for the year, compared to a year-ago loss of $154.5 million.

HD Supply Sales Up 9.4% in 2Q

HD Supply Holdings Inc., Atlanta, GA, reported sales for the second quarter ended August 3 of $2.4 billion, a 9.4 percent increase over the same period a year ago. Profit increased to $48 million compared to a year-ago loss of $72 million.

For the first six months, sales were $4.6 billion, a 7.5 percent increase over the same period one year ago. Profit increased to $36 million compared to a year-ago loss of $203 million.

Second-quarter sales for HD Supply Facilities Maintenance were up 8 percent to $686 million. Sales for Waterworks were up 11 percent to $665 million, while Power Solutions sales increased 7 percent to $488 million for the quarter.

Second-quarter sales for HD Supply Construction & Industrial (White Cap) were up 16 percent to $389 million.

Monthly Wholesale Trade Data

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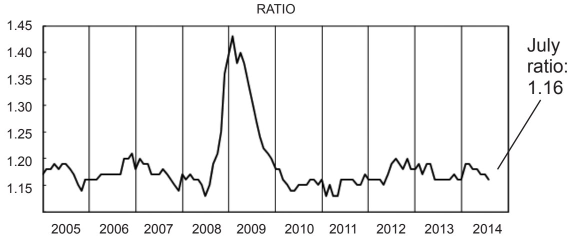
Wholesale revenues in July were $458.6 billion, up 0.7 percent from the revised June level and up 7.5 percent from the July 2013 level. July sales of durable goods were up 0.4 percent from last month and up 8 percent from a year ago. Sales of nondurable goods were up 1 percent from June and up 7.2 percent from last July.

Inventories. Inventories were $533.8 billion at the end of July, up 0.1 percent from the revised June level and up 7.9 percent from the July 2013 level. July inventories of durable goods were up 0.3 percent from last month and up 8.4 percent from a year ago. Inventories of nondurable goods were virtually unchanged from June, but were up 7 percent from last July.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2005-2014

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



Source: U.S. Census Bureau

Inventories/sales ratio. The July inventories/sales ratio for merchant wholesalers was 1.16. The July 2013 ratio was 1.16.

Sales and Inventories Trends: July 2014

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 6/14-7/14	Percent Change Sales 7/13-7/14	Percent Change Inventory 6/14-7/14	Percent Change Inventory 7/13-7/14
42	**U.S. Total**	**458,563**	**533,763**	**1.16**	**0.7**	**7.5**	**0.1**	**7.9**
423	**Durable**	**210,831**	**330,111**	**1.57**	**0.4**	**8.0**	**0.3**	**8.4**
4231	Automotive	35,238	54,772	1.55	-0.2	9.3	1.0	10.9
4232	Furniture & Home Furnishings	5,258	8,676	1.65	0.6	0.5	-0.2	5.6
4233	Lumber & Other Construction Materials	10,474	15,087	1.44	0.7	7.1	-0.7	6.9
4234	Prof. & Commercial Equip. & Supplies	39,817	40,708	1.02	-0.6	6.3	-0.8	6.4
42343	Computer Equipment & Software	22,839	17,584	0.77	0.9	5.5	-4.0	5.0
4235	Metals & Minerals	14,708	29,007	1.97	4.5	19.3	-1.2	8.9
4236	Electrical Goods	36,376	37,343	1.03	0.0	3.8	0.3	6.8
4237	Hardware, Plumbing & Heating Equipment	9,894	20,052	2.03	-0.4	1.9	1.8	7.6
4238	Machinery, Equipment & Supplies	39,644	96,741	2.44	0.2	13.6	0.5	11.4
4239	Miscellaneous Durable	19,422	27,725	1.43	1.9	4.6	0.4	0.6
424	**Nondurable Goods**	**247,732**	**203,652**	**0.82**	**1.0**	**7.2**	**0.0**	**7.0**
4241	Paper & Paper Products	8,303	7,489	0.90	1.9	10.4	-0.7	2.5
4242	Drugs	41,029	45,029	1.10	0.1	12.5	3.2	24.2
4243	Apparel, Piece Goods & Notions	12,531	25,361	2.02	-0.6	7.3	1.9	10.0
4244	Groceries & Related Products	53,474	33,769	0.63	2.9	9.5	1.3	3.9
4245	Farm-product Raw Materials	20,894	18,752	0.90	-0.5	-2.7	-8.2	-3.4
4246	Chemicals & Allied Products	10,917	12,685	1.16	-0.3	6.3	-1.2	4.0
4247	Petroleum & Petroleum Products	69,201	20,708	0.30	2.6	8.9	-3.0	-6.8
4248	Beer, Wine & Distilled Beverages	10,606	14,818	1.40	-1.9	-0.9	0.5	4.7
4249	Miscellaneous Nondurable Goods	20,777	25,041	1.21	-2.3	0.4	0.3	8.1

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.