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■ *MDM Interview*

Creating a Culture of Innovation

Beveridge: Innovation needs an environment focused on collaboration

Adapting to the new business demands of a new generation of employees and customers requires a change in mindset, according to Dirk Beveridge, author of Innovate!: How Successful Distributors Lead Change in Disruptive Times. *Beveridge recently spoke with MDM about how distributors can create a culture of change that allows for innovation.*

Part 1 of this interview appeared in the Nov. 10, 2014, issue of MDM.

MDM: For smaller distributors who want to change, but have limited resources, where should they start?

Beveridge: They need to start by changing their mindset. You've got to recognize the fact that constraints, that limited resources, could be a blessing in terms of innovation. It's constraints, including limited resources, that, in fact, drive innovation and creativity. I think it was Jeff Bezos who said, "I think frugality drives innovation just like other constraints."

The only way to get out of the tight box is to invent your way out. Let's change our mindset. Change is nothing more than a decision. That's it. I don't care what resources you have, it is a decision to change. It is a decision to build in the future. It is a decision to innovate. It is a decision to look outside of the industry. It is a decision that transformative leaders make, and that's all it is.

Once that decision is made, despite your resources, you will find a way to think differently, to look at your business in new ways, to change and to innovate.

MDM: How can companies achieve that?

Beveridge: I think one area where they can and should start is with their culture. When I walk into some distribution businesses – whether they are small or Fortune 500 companies – it's like walking back in the 1950s. You walk in there and the environment was built for that military industrial era. You see old paneling on the wall. You see the picture of the founder that hasn't been dusted in 20 years. You still see green screen computers. You see owners walking into that business not interacting with employees. This isn't all of them, but it's enough that I've noticed.

Innovation requires a culture of innovation.

We need a culture, an environment where collaboration is welcomed. We need an environment where the best ideas win, not tenure. We need a culture of excellence to drive innovation. We need a culture of experimenting without fear. You don't see that in a lot of businesses.

And that costs no money at all. None of those cost anything at all. That requires a transformative leader who says, "You know what? I walk in here every day and in my gut I know the feeling isn't right. I know we don't have the step that we need in today's fast-paced business. I know we're going through the motions doing a lot of the things that made us successful in the past, but I'm not sure about the future."

So we need that leader to feel that and then make a decision to define what the culture needs to be for millennials and with new technology.

After defining the company culture, the second area if they have limited resources is to just start exploring. Have conversations about their value proposition. We in distribution are attracted in

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INSIDE

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PERSPECTIVE ■ Commentary by Thomas P. Gale & Jenel Stelton-Holtmeier

IDG's Journey to Sonepar

Sonepar's recent acquisition of Industrial Distribution Group is, in many ways, an end mark on a 20-year timeline of industry trends, challenges and shifts, all rolled into one deal. Where shall we begin? The best place is back to the future.

The acquisition puts an exclamation point on a few of the biggest deals in each of the previous two decades. The first was in 1997, when nine general-line industrial distribution companies merged into a $251-million national public company, Industrial Distribution Group, with 41 operating locations in 37 cities. The core of the group was its former private-entity namesake, a $91-million company based in Georgia. They were all members of Affiliated Distributors and had been members of a previous marketing group. It was a bold strategic move at a time when there was much uncertainty about the viability of traditional distribution models. There were relatively high levels of fear and uncertainty, depending on your market position.

That deal was at a time when the industry was more fragmented but in a strong growth cycle, and alliances and marketing groups were strengthening as competitive tools to level the playing field against new and evolving threats. Those threats included growing national competitors, integrated supply, competition for national account business and what was then termed "electronic Web commerce." (Sounds quaint now, doesn't it?) A few nationals, such as MSC Industrial Direct, were taking share with higher margins and strong growth rates. The playing fields were still largely vertical, though integrated supply was pounding at the fences.

One of the consolidation survival strategies for small- to medium-sized companies that emerged across many distribution verticals was the initial public offering roll-up. A group of companies, typically complementary in geography, combine into a single holding company to become the platform. Subsequent acquisitions are made to scale the company. By 1998, there were at least nine IPO roll-ups across industrial metal service centers, floral, electrical, fastener, HVACR and other distribution sectors.

IDG's history is arguably a Murphy's Law case study in roll-ups. The company dealt – very publicly – with one issue after another. By the end of 1999, the company had grown through acquisition to 13 hub operating companies and 65 operating locations in about half of the top 75 U.S. industrial markets, with $542 million in sales. But the company suffered major growing pains.

It went through a series of presidents/CEOs

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trying to align independent former owners. It wrote off $5.6 million pre-tax in 1999, part of litigation involving one of IDG's founding companies, as well as severance costs for terminated executives. In 2000, it wrote off $15 million in its failed implementation of J.D. Edwards software just as the industrial economy was tanking and its customer base was shrinking.

But IDG, unlike many other roll-ups, was a survivor. The company sought buyers in 2007, the peak of an M&A cycle, in an effort to free itself from the constraints of public ownership, recapitalize and streamline. By the time the company went onto the market in 2008, the peak had passed. There was a bidding war between two private equity groups and WESCO. Luther King Capital Management, IDG's largest stockholder with 15 percent of its shares, won the war, paying more than $135 million. IDG's annual revenues at the time were about $525 million.

Since the deep recession of 2008-2009, IDG has significantly strengthened its integrated supply business with unique service capabilities.

Separately, Hagemeyer in 1999 and 2000 brought three strong companies in their respective product areas – Cameron and Barkley (MRO), Tristate Electrical and Vallen Safety Supply – into an arguably strong growth platform for integrated supply. In 2001, CamBar bought Briggs-Weaver, a one-time flagship Texas distributor that had fallen prey to some of the industry competition described above. European distribution companies were investing in North American growth, particularly in electrical distribution. By 2002, Hagemeyer North America reached $1.9 billion in sales. Hagemeyer also experienced a range of integration issues including accounting glitches.

By 2007, through additional acquisitions and growth, the company estimated U.S. annual revenues at $3 billion. In 2008, Rexel bought Hagemeyer, and, as part of the deal, spun off select business units to Sonepar. Later that year, Sonepar acquired the North American operations of Hagemeyer. Since then, Sonepar continued to add to its North American footprint, mostly in electrical distribution, but increasingly adding capability in industrial MRO.

New M&A Cycle Peak

Five years out of the recession, a unique climate has made for a strong sellers' market, as reported valuations are back to and even exceeding pre-recession levels, according to a range of MDM sources. IDG effectively repositioned its financials for an exit strategy for Luther King six years into its investment.

Acquisition activity in distribution increased for both strategic and private equity buyers in 2014 because the industry has seen a convergence of several factors, according to Tom Lange, managing director of the distribution group for investment banking firm Baird. Baird served as the financial advisor for Industrial Distribution Group when it was acquired by Sonepar. First, the financing environment is "terrific," Lange says. "There's an ability to fund M&A activity at historically low interest rates." Combine that with the fact that valuations, in general, have been very attractive, creating compelling reasons for owners to sell.

The third reason, according to Lange, is that strategic buyers are keenly focused on expanding both geographically and their product and solution capabilities. The acquisition of Industrial Distribution Group by Sonepar is a great example of this third reason, Lange says.

"IDG is really a leading industrial MROP platform with three integrated businesses," he says. First, it's a top integrated supply business; second, it's a national industrial distributor with expertise in cutting tools and abrasives; and third, it has a rapidly growing energy business serving upstream customers in Texas, Oklahoma and the Gulf Coast region.

Those three elements are highly complementary to Sonepar North America's existing product and service offering, particularly through its Hagemeyer North America business.

"From a product standpoint, both sides agree there's terrific opportunity, given the strength on the Hagemeyer side in terms of safety and Sonepar in electrical," Lange says. "Combine that with IDG's strength in cutting tools and abrasives."

IDG has also created a solid foundation for continuing growth across its businesses, particularly through the integrated supply and the oilfield supply businesses. While regional right now, the oilfield business could be expanded into a national business serving other developing oil and natural gas areas.

"When you combine the growth dynamic and some of the integrated supply dynamic, IDG was a truly unique asset," says Jason Kliewer, managing director for Baird, "but it fits with the broader theme around consolidation in distribution in that the number of middle market or upper middle market distributors is actually very limited."

The scarcity of targets in this valuation band – "You can pretty much count them on one hand," Kliewer says – also increases the attractiveness of such deals. IDG's established scale

and growth strategy allows Sonepar to quickly build on the synergies between the two companies.

What Goes Around…

Had you suggested at a cocktail party in 1997 that IDG and Cameron Barkley might merge some day, you would have been laughed at. There was a fierce competitive streak in both companies. But the combination in 2014 brings together strong integrated supply expertise and a customer base served by both companies that goes back 20 years or more.

Strategically, IDG's hard-won and strong operational focus over the past 10 years since going private, particularly in its recent growth in key segments and integrated supply, offers much value to Sonepar's Hagemeyer holdings.

As noted in the comments by Baird analysts, the candidates for mergers at the larger distribution companies are part of a smaller club. But you have to wonder whether Sonepar will raise the ante by inviting new players, with power transmission a likely tangential product category based on segment size, to the table.

Beveridge Interview

Continued from page 1

this world to sameness. Many of our businesses are not differentiated. If you want to frighten the living daylights out of yourself, go and ask your employees the question: Why should our customers buy from us? They can't answer it.

In most cases, after a little bit of a pause you hear the standard talking points about "our service," "our years of experience," "our relationships," "our commitment to customers." But those are talking points. When I ask the individual to show me the value proposition and how you deliver upon those things in a differentiated way, they can't.

Just as frightening is that if you ask that question to 30 people in the business, you get 30 different answers. If that's true, you have no value proposition. You have no compelling reason why the customer should do business with you, why they can't find the products you offer on AmazonSupply and get it delivered tomorrow at a cheaper price than you can send it to them.

MDM: How does the millennial generation as the incoming workforce affect where these cultures should be changed and where these companies should innovate?

Beveridge: I think millennials are brilliant. I think they're driven. I think they want to make an impact. They have abilities that can just astound us.

Do they have a lot to learn? Absolutely they do. Can we mentor and coach them? Absolutely. But that said, they're motivated, and they want to make an impact very, very soon.

This business is critical. It's a great business. It's becoming global. It's an awesome opportunity, but we've got to ensure that as individual businesses – and probably the industry as a whole – we let people know we have created a culture that's going to allow you to thrive, that's going to allow you to make that difference, that's going to allow you to come in and grow and develop because we're committed to helping you become better today than you were yesterday.

We're committed to a technology-first thinking that's going to allow you not to be caught up mundane tasks.

We're going to provide you the technology to make that difference that you want. We understand work/life balance is more important to people coming into the workforce, now so we've thought about that. We've thought long and hard about that in our business.

MDM: Different ages and different generations want different things, of course. How can leaders help their employees work together when maybe they don't all want the same things?

Beveridge: We need to look at our culture and our leadership style. Let's acknowledge that there is genius throughout your entire organization, from the individual who's been there for 30 years to the person you just hired yesterday. Every one of them has genius in them. Every one of them wants to make an impact. Every one of them looks at the world, at the business, at the market, at the industry, at our customers and at our processes a little bit differently.

Not one of them has the right answer, but together they all do.

We need to change our mindset. We need to look at our culture and say: Are we open to listening to everybody in that organization? Are we really seeking out ideas? Are we really seeking out solutions from everybody?

I also think there's a phenomenal opportunity for reverse mentoring. It's an old story, but it's still relevant today. When Jack Welch was still at GE, the Internet was evolving and he knew nothing about it. So every Friday he had a brand new hire, somebody just out of college, come and meet him in his office for two hours to teach the CEO, one of the greatest leaders of our time, about the Internet.

What did he acknowledge? He acknowledged that this person he just hired has genius, sees the world differently than I do. Let's get these guys together and let's reverse mentor. I think it's something that we can all do immediately to bring new thinking and new ideas into our organization.

MDM: How can an older business look at its structure and make changes? Where should it start?

Beveridge: One way we can structure ourselves differently is to emphasize project-based functions with cross-functional teams. There's always a need for some form of hierarchy, but businesses should start looking for opportunities to tear down those silos, bring teams together with an end goal of differentiating ourselves by thrilling the customer.

MDM: How is technology helping them make an impact?

Beveridge: A company's technology platform is one of the biggest inhibitors to change, transformation and innovation. We've got these legacy technology platforms that don't cost us a whole bunch of money, that have allowed us to perform the business the way that's gotten us to today, which is a good place. So we don't want to change it. We don't want to invest in it.

I think that's very, very dangerous. By the year 2030, there are going to be 500 million connected devices on the Internet. How is that going to drive collaboration and organizations? How is that going to drive how we interact with our customers? How is that going to drive the service that we provide on the equipment that we sell? If we're not open to a different type of thinking, we will be disrupted in the future.

At some point in time – whether it's two years, five years, 10 years or 20 years – the majority of transactions are going to take place via e-commerce or some form of digital platform. Individuals coming out of school don't want to go into an organization that isn't thinking about e-commerce right now because 90 percent of its sales still go to baby boomers who want that outside sales rep to call on. They're not going to be attracted to you. They're just not.

MDM: Do you think social media plays a role in how distributors can learn about technology and where their customers are going?

Beveridge: Social media is not going away. The technology is becoming more affordable. It's becoming more immediate. It's becoming more integrated into ERP platforms and the like. But if you wait another five years to learn it, you're going to be way behind. Social media provides opportunities to listen, to hear what's important to the people, to the markets. It's just a tool, but I believe it's going to become a more important tool going forward.

When's the last time you saw your millennial son or daughter pick up the phone and call a friend? They don't; they text, they use social media. That's the way we're moving. You can like it. You cannot like it. That's not the question. What's happening with social media and other forms of technology is we, as a society, are moving stocks of knowledge to flows of knowledge.

And that's what social media is. In years past, one of a distributor's value propositions was stocks of knowledge – in other words, if the customers wanted to do business with us they had to come to us because we were the ones that owned this knowledge. We owned the product knowledge. We owned the relationship with the suppliers. Today, those stocks of knowledge are completely digitized. They're completely available 24/7, and the knowledge is just flowing freely 24/7. Distributors who tap that, who lock onto that concept of knowledge flows will be able to understand their customers and their markets a lot better than those who are stuck in yesterday's world of these stocks of knowledge.

We find ourselves in this perfect storm of technology, generational changes, new competition. We're now competing against AmazonSupply. It's a tremendous blessing and opportunity for every leader in distribution to embrace this time, to say – now more than ever before – "I have the opportunity to align my team, to develop a story, to develop a sense of urgency."

They have the opportunity to say: "Let's change. Let's come together and let's innovate."

Dirk Beveridge is the president of 4th Generation Systems and the author of Innovate! *Learn more about the book or how to order it at www.dirkbeveridge.com.*

The Critical Role of Employee Training

Companies that don't educate their work force bound to get left behind

A distributor that doesn't provide training opportunities for its work force will get left behind in today's competitive market. But training resources abound for wholesale distributors, including online, on-demand courses, giving companies of any size the chance to continuously educate their employees.

By Eric Smith

Distributors that fail to provide access to ample, applicable training opportunities for their employees are bound to get left behind in today's fiercely competitive marketplace, and John Jacobsen, vice president of sales and marketing at DGI Supply, likes to emphasize this critical point with an analogy anyone can understand.

"Imagine the doctor that never studies anything," Jacobsen says. "He became a doctor 20 years ago but doesn't continue to look at what's new out there. I don't want to go to that doctor. And customers don't want to buy from the person who's using the same old techniques. They want to deal with the person who can help them identify that they have a need and then find a solution."

Identifying needs and finding solutions to match is imperative for any wholesale distributor that wants to remain relevant. But rapidly changing technology – from CRM software systems to cloud computing to mobile applications to robust e-commerce platforms – has presented challenges for distributors used to doing things a certain way.

The problem, Jacobsen says, is that 80 percent of training in the wholesale distribution industry is focused on product and technical instruction, meaning distributors aren't placing enough emphasis on improving the sales, leadership and general business skills of their employees.

"There's a significant opportunity – for manufacturers and distributors – to develop sales training for their people," Jacobsen says. "The people who are buying our products are continually learning and exercising the best practices out there and communicating the best practices, so we need to do more of that. You can be the best technician at applying a product but not good at selling that product to the people who are the decision-makers and stakeholders. We need a combination of both of those trainings to make sure we develop the best salesperson."

Developing the best salesperson is mission critical for companies across all industry sectors, and smaller distributors that can't afford to develop and operate in-house training programs have access to other resources, such as the Industrial Supply Association Education Foundation Learning Center.

ISA Administrative Director Gary Cheeseman runs The Learning Center, which launched in January 2014 and offers online, on-demand courses in five areas: Sales Management, Selling Skills, Leadership & Management, Operations & Customer Service and Microsoft Office. Each area contains 40 courses and costs as little as $100, with enrollees having a year to complete the course work.

Cheeseman said the sales and leadership courses have been The Learning Center's most popular choices as companies look to prepare the next generation for C-level positions.

"There's a trend in industrial distribution of developing future leaders," Cheeseman said. "Many of the top executives in the industry are getting close to retirement, so they want to develop the next leaders for their companies."

Jacobsen agreed that training is a crucial step in developing the distribution industry's successors.

"If we don't do a good job of transferring that knowledge, there's going to be a gap," Jacobsen says. "Which means then the customers are going to find alternative solutions to meet their needs."

But Jacobsen said that while the industry still lags in sales and leadership training, there is hope. More companies are enrolling their employees in ISA Learning Center courses, thanks to an improved crop of pertinent and interesting topics, as well as more on-site workshops throughout the year and during ISA's annual conference.

Enrolling employees in training programs and providing access to professional development gives distributors an advantage. By tapping into the growing number of education opportunities, they can then differentiate themselves from competitors, retain and recruit customers, and improve their bottom lines.

"If I'm not the best salesperson now but I work to become the best salesperson by learning more, then I'm going to gain business," Jacobsen says. "If I don't and someone else is doing it,

then I probably will lose business. It's one thing to have the product training, but having business acumen – knowing why and how a customer makes decisions – is as important as applying a tool in a production process."

Molly McGill understands this concept. She is executive director of the University of Innovative Distribution, a concentrated educational program focused on the wholesale distribution industry. The organization rebranded from University of Industrial Distribution earlier this year to reflect its diversifying audience across the wholesale industry and also to attract a younger demographic, with McGill acknowledging the industry's continuing struggle to recruit millennials.

UID's 2015 program will be held in Indianapolis, IN, in March, with dozens of course offerings designed by distribution professionals, for distribution professionals. McGill said the event for years had been averaging about 350 attendees but has grown recently thanks to both a larger venue and growing demand. This past year saw a record crowd of 570, a testament to the growing awareness of how important training and education have become in the industry – especially in sales and leadership.

"Technical and product training has always been the obvious choice for some in the distribution industry," she says. "It's easier to provide because the suppliers are providing it directly. It is difficult to find the professional development side in the industry … and that's where UID is unique. Our instructors are experts in distribution. They've spent their entire careers in wholesale distribution. They're specifically focused on this industry, which is difficult to find when you're looking at sales training."

Survey: Family Businesses Must Professionalize for Continued Success

Family businesses must adapt faster, innovate sooner and become more professional in the way they run their operations if they are to remain successful, according to a report released by PwC, "Up Close and Professional: The Family Factor."

The survey, PwC's seventh survey of family businesses, included 2,378 family business executives in more than 40 countries worldwide.

Despite a tough economic environment, with pressures around skills shortages, innovation and governance, family firms remain dynamic and resilient, accounting for 70 percent to 90 percent of gross domestic product globally.

This year's survey highlighted that the need to professionalize the business is growing as a key concern for family firms, driven by an almost perfect storm of competitive pressure, rising costs and global megatrends. It scarcely registered in 2012, but this year 40 percent of respondents agree this is a key challenge over the next five years. And it must be accompanied by an equally rigorous approach to professionalizing the family.

"It's clear that there are new challenges; the economy is a colder and harder place for the family firm, competition is more intense, price pressure is growing, and the speed of change continues to accelerate," says Henrik Steinbrecher, network middle market leader. "In this climate, family businesses accept they will have to adapt faster, innovate earlier, and become far more professional in the way they run their operations."

Getting the business on a professional footing has to be accompanied by an equally rigorous approach to professionalizing the family. This means, for example, putting processes in place to govern how the family interacts with the business, including establishing an infrastructure for decision-making and formal channels for communication.

This professional approach is most critical in succession planning. More than half of respondents (53 percent) say they have succession plans in place for some if not all senior roles, but only 30 percent of these 'plans' are properly documented. Only 16 percent say they have a robust succession process.

In general, family businesses are in reasonably good shape, with 65 percent reporting growth in the last 12 months and 70 percent expecting to grow steadily over the next five years. Fifteen percent are seeking aggressive growth, compared to 12 percent in 2012. Growth ambitions are particularly strong in China (57 percent), the Middle East (40 percent) and India (40 percent).

However, the number of respondents apprehensive about their ability to recruit skilled staff in the next 12 months has risen from 43 percent in 2012 to 49 percent today.

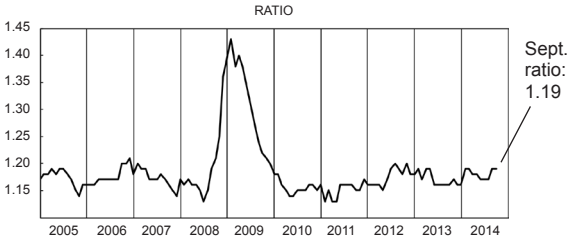
Monthly Wholesale Trade Data

Wholesale revenues in September were $454.3 billion, up 0.2 percent from the revised August level and up 5.2 percent from the September 2013 level. September sales of durable goods were up 0.5 percent from last month and up 5.4 percent from a year ago. Sales of nondurable goods were down 0.1 percent from August, but were up 5.1 percent from last September.

Inventories. Inventories were $538.8 billion at the end of September, up 0.3 percent from the revised August level and up 7.4 percent from the September 2013 level. September inventories of durable goods were up 0.8 percent from last month and up 9 percent from a year ago. Inventories of nondurable goods were down 0.6 percent from August, but were up 4.9 percent from last September.

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 September inventories/sales ratio for merchant wholesalers was 1.19. The September 2013 ratio was 1.16.

Sales and Inventories Trends: September 2014

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 8/14-9/14	Percent Change Sales 9/13-9/14	Percent Change Inventory 8/14-9/14	Percent Change Inventory 9/13-9/14
42	**U.S. Total**	**454,298**	**538,832**	**1.19**	**0.2**	**5.2**	**0.3**	**7.4**
423	**Durable**	**211,796**	**336,036**	**1.59**	**0.5**	**5.4**	**0.8**	**9.0**
4231	Automotive	35,275	55,909	1.58	1.4	1.7	1.2	13.4
4232	Furniture & Home Furnishings	5,462	8,924	1.63	1.8	4.8	1.5	5.2
4233	Lumber & Other Construction Materials	10,602	15,659	1.48	1.8	8.6	1.5	11.0
4234	Prof. & Commercial Equip. & Supplies	39,439	42,916	1.09	0.1	3.4	1.7	8.9
42343	Computer Equipment & Software	22,254	19,411	0.87	-0.1	2.7	3.4	11.1
4235	Metals & Minerals	15,131	29,579	1.95	1.1	18.2	1.8	12.0
4236	Electrical Goods	36,370	37,539	1.03	0.3	2.1	-0.7	5.5
4237	Hardware, Plumbing & Heating Equipment	10,671	20,147	1.89	4.8	10.0	0.6	8.6
4238	Machinery, Equipment & Supplies	40,055	97,785	2.44	-0.7	10.7	0.5	10.5
4239	Miscellaneous Durable	18,791	27,578	1.47	-1.5	-0.4	0.2	-0.8
424	**Nondurable Goods**	**242,502**	**202,796**	**0.84**	**-0.1**	**5.1**	**-0.6**	**4.9**
4241	Paper & Paper Products	7,849	7,348	0.94	-2.6	4.1	-0.2	4.4
4242	Drugs	42,161	44,476	1.05	1.2	15.8	-2.4	18.2
4243	Apparel, Piece Goods & Notions	13,697	25,919	1.89	4.0	15.2	1.2	11.2
4244	Groceries & Related Products	53,376	34,245	0.64	1.0	6.9	1.8	2.3
4245	Farm-product Raw Materials	18,590	18,161	0.98	-5.9	-9.4	-3.0	-1.5
4246	Chemicals & Allied Products	10,838	12,598	1.16	-2.2	3.1	2.4	4.3
4247	Petroleum & Petroleum Products	63,930	19,560	0.31	-1.7	1.3	-5.3	-13.2
4248	Beer, Wine & Distilled Beverages	10,911	14,973	1.37	1.3	2.6	1.1	4.0
4249	Miscellaneous Nondurable Goods	21,150	25,516	1.21	3.9	4.3	0.2	4.3

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.

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Industrial & Construction Markets Update

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Four Distributors Make Executive Changes

Four wholesale distribution companies have made executive announcements in recent weeks, including two chief executive officers stepping down from their posts.

Willard D. Oberton will resign from his position as CEO of The Fastenal Company, Winona, MN, effective December 31. Fastenal's board of directors named Leland J. Hein Jr. as Oberton's successor, effective January 1. Hein will also continue in his role as president.

Hein joined Fastenal in 1985 and has held various sales and managerial roles, including president since July 2012. Oberton will continue to serve as chairman of the board.

Genuine Parts Company, Atlanta, GA, announced that Bill Stevens, CEO of Motion Industries, the company's industrial parts distribution business, will retire on March 1, 2015. Stevens is being succeeded by Timothy P. Breen, who was named president and CEO of Motion Industries, effective Nov. 17. Previously, Breen was president and COO of Motion Industries. Stevens will remain as chairman of Motion Industries until his retirement.

Sonepar, Paris, France, announced several leadership changes in Sonepar USA, its U.S.-based business. John Hardy will become executive vice president of business development for Sonepar USA, effective Jan. 1, 2015. Hardy has served as president of CapitalTristate for 20 years. Alan Rosenfeld, COO of CapitalTristate, will succeed Hardy on Jan. 1. as president of CapitalTristate.

Don Block, president of NorthEast Electrical Distributors, will expand his role to become president of the newly formed New England-Mid Atlantic Region. Frank Marandino, vice president-operations of NorthEast Electrical Distributors, assumes the position of COO of NorthEast Electrical Distributors. Frank has been vice president of

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Distributor News

Grainger, Chicago, IL, reported daily sales for October increased 6 percent over the same period a year ago. Results for the month included a 1 percent increase from acquisitions, net of dispositions, and a 2 percent decline from unfavorable foreign exchange.

France-based electrical distributor **Sonepar** has acquired electrical and industrial automation distributor **HoST Pte Ltd.,** Singapore.

Graybar, St. Louis, MO, reported third-quarter sales of $1.6 billion, up 5.6 percent over the same period a year ago. Profit increased 6.4 percent to $30.5 million. For the first nine months of the year, sales were $4.4 billion, a 3.8 percent increase from the same period last year. Profit increased 21.1 percent to $70.8 million.

The Fastenal Company, Winona, MN, reported sales for October of $356.3 million, a 14.6 percent increase over the same period a year ago. Daily sales increased 14.6 percent to an average of $15.5 million.

MRC Global Inc., Houston, TX, reported third-quarter sales of $1.6 billion, up 23 percent over the same period a year ago. Profit increased 22 percent to $50 million. For the nine-month period, MRC sales were $4.4 billion, a 14 percent increase over the prior-year period. Profit fell 12 percent to $113 million.

Applied Industrial Technologies, Cleveland, OH, has opened an Applied Maintenance Supplies & Solutions distribution center in Fontana, CA.

NOW Inc., Houston, TX, reported sales for the third quarter of $1.1 billion, up 12 percent year-over-year. Profit decreased 17.9 percent to $32 million. Year-to-date sales were $3.1 billion, down 4.8 percent over the prior-year period. Profit decreased 11.5 percent to $100 million.

Stellar Industrial Supply, Tacoma, WA, has agreed to merge with **Advantage Machine & Tool Inc.**, Billings, MT.

WinWholesale Inc., Dayton, OH, has opened Capitol Heights Winsupply in Capitol Heights, MD, to serve fire sprinkler system contractors in the greater Baltimore, MD, Washington, DC, and Northern Virginia areas.

Southern Fastening Systems, Muscle Shoals, AL, and **Carlson Systems**, Omaha, NE, have agreed to merge. The combination creates a new company serving the growing construction and industrial manufacturing markets.

Laboratory products distributor **VWR Corp.**, Radnor, PA, has acquired **Integra Companies Inc.**, Devens, MA, and **STI Components Inc.**, Greensboro, NC.

Houston-based **GHX Industrial LLC**, a subsidiary of **The United Distribution Group**, has acquired Decatur, AL-based **Specialty Rubber & Gasket**.

US LBM Holdings LLC, Green Bay, WI, has acquired **K-I Lumber & Build-**

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News Digest

Continued from p. 1 of this section

ing Materials, Louisville, KY.

Metals distributor **Ryerson Holding Corporation**, Chicago, IL, reported sales for the third quarter of $948 million, an increase of 10.25 percent compared to the same period a year ago. The company reported a net loss of $34.7 million, compared to a profit of $3 million the same quarter in 2013. For the first nine months, sales were $2.8 billion, an increase of 3.6 percent compared to the same period a year ago. The company reported a net loss of $30.5 million, compared to a profit of $9.1 million a year ago.

Houston Wire & Cable Company, Houston, TX, reported third-quarter sales of $96.7 million, up 1.6 percent year over year. Profit was $3.5 million, compared to a year-ago loss of $3.2 million. Sales for the nine-month period were up 4 percent versus the prior year period. Profit for the period was $11.3 million, compared to year-ago profit of $4.8 million.

BlueLinx Holdings Inc., Atlanta, GA, a distributor of building products in North America, reported sales for the third quarter ended Oct. 4 of $549.8 million, a year-over-year decrease of 1 percent. For the first nine months of the fiscal year, sales were $1.5 billion, a year-over-year decrease of 8 percent. Net loss for the period was $6.2 million, compared to year-ago net loss of $38.2 million.

Building products company **Builders FirstSource Inc.**, Dallas, TX, has promoted Chad Crow to president and COO.

The Home Depot, Atlanta, GA, reported sales for the third quarter of $20.5 billion, a 5.4 percent increase over the same period a year ago. Profit increased 13.8 percent to $1.5 billion. For the first nine months, sales were $64 billion, up 4.7 percent over the same period one year prior. Profit increased 13.6 percent to $5 billion.

Bearing Headquarters, Broadview, IL, has appointed Brent Harting to vice president of General Markets – Central. His areas include Alton, IL, Blytheville, AR, Decatur, IL, Mt. Vernon, IL, and St. Louis, MO.

Economic News

The index of **industrial production** edged down 0.1 percent in October, and the index for manufacturing output increased 0.2 percent for the second straight month. **Capacity utilization** for the industrial sector decreased 0.3 percentage points in October to 78.9 percent.

Calculation of MDM Inflation Index for October 2014

		BLS Price Indices Oct '14	BLS Price Indices Sept '14	BLS Price Indices Oct '13	% Sales Weight	Weighted Indices Oct '14 (1)X(4)	% Change Oct '14 Sept '14	% Change Oct '14 Oct '13
1136	Abr. Prod.	573.5	573.5	561.1	19.1	109.54	0.00	2.22
1135	Cutting Tools	495.7	495.7	488.3	18.9	93.68	0.00	1.50
1145	Power Trans.	806.0	803.8	801.6	15.4	124.13	0.27	0.55
1081	Fasteners	506.4	506.6	503.7	9.0	45.57	-0.05	0.54
1149.01	Valves, etc.	964.2	961.4	952.5	7.6	73.28	0.29	1.22
1132	Power Tools	362.5	362.5	358.2	6.5	23.56	0.00	1.18
1144	Mat. Handling	582.3	582.0	568.8	6.2	36.10	0.05	2.37
0713.03	Belting	838.5	838.5	842.7	6.1	51.15	0.00	-0.50
1042	Hand Tools	777.8	776.8	774.1	8.1	63.00	0.13	0.48
108	Misc. Metal	478.3	478.9	477.2	3.1	14.83	-0.12	0.24

"New" October Index	331.7	October Inflation Index	634.84	0.10	1.08
"New" September Index	331.4	September Inflation Index	634.23		
		October 2013 Inflation Index	628.08		

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

Privately owned housing units authorized by **building permits** in October were at a seasonally adjusted annual rate of 1,080,000. This is 4.8 percent above the revised September rate of 1,031,000, and 1.2 percent above the October 2013 estimate of 1,067,000.

The surge in the U.S. **trade deficit** in manufactures in the third quarter of 2014 and the increase in the Chinese trade surplus shows the countries continued their opposite growth paths, according to an analysis from the MAPI Foundation, the research affiliate of the Manufacturers Alliance for Productivity and Innovation (MAPI). U.S. manufactured exports grew by 5 percent to $299.4 billion in the third quarter compared with 2013. The U.S. deficit in manufactures rose by $13 billion, or 9 percent, compared with the second quarter of 2013. This followed a 19 percent increase in the deficit in the second quarter.

September **U.S. manufacturing technology orders** totaled $647.63 million according to AMT – The Association For Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was up 77.3 percent from August and up 61.4 percent when compared with the total of $401.18 million reported for September 2013. With a year-to-date total of $3,738.72 million, 2014 is up 5.2 percent compared with 2013.

September **U.S. cutting tool consumption was $176.5 million**, according to the U.S. Cutting Tool Institute and the Association for Manufacturing Technology. This total, as reported by companies participating in the Cutting Tool Market Report collaboration, was up 4.6 percent from August's total and up 7.7 percent from September 2013.

Prices for U.S. **imports** decreased 1.3 percent in October following a 0.6-percent decline in September, according to the U.S. Bureau of Labor Statistics. The October and September drops in overall import prices were driven by lower fuel prices. U.S. **export prices** declined 1 percent in October after a 0.4-percent decline in September and 0.5-percent decline in August.

Construction employers added 12,000 jobs in October and the sector's unemployment rate fell to 6.4 percent, the lowest rate for October since 2006, according to analysis released by the Associated General Contractors of America. Association officials said the construction employment gains, along with rising wages and weekly hours, are consistent with survey results showing more firms having a hard time finding enough qualified workers to fill available positions.

Canadian manufacturing sales increased 2.1 percent to C$53 billion (US$46.9 billion) in September, the nation's eighth gain in nine months. The increase follows a 3.5-percent decline in August.

Canadian municipalities issued building permits worth C$7.5 billion (US$6.6 billion) in September, up 12.7 percent from August, following a 27.3 percent decrease the previous month. The increase in September resulted primarily from higher construction intentions for both nonresidential and residential buildings in Ontario.

Compared with August 2014, seasonally adjusted **industrial production** in September increased by 0.6 percent in the euro area (EA18) and by 0.6 percent in the EU28, according to estimates from Eurostat, the statistical office of the European Union.

Compared with August, September seasonally adjusted **production in the construction sector** fell by 1.8 percent in the euro area (EA18) and by 0.9 percent in the EU28, according to first estimates from Eurostat, the statistical office of the European Union. In August, production in construction grew by 0.7 percent and was stable, respectively. Compared with September 2013, production in construction fell by 1.7 percent in the euro area and by 0.4 percent in the EU28.

The **Power Transmission Distributors Association Business Index** reading for the third quarter was 67.5, down from the 2Q2014 reading of 68.7 but still positive. Distributors reported more positive business activity and new orders for the third quarter than manufacturers, a notable change from the first and second quarters.

The **ISA Manufacturer Index** increased from 60.5 in September to 67.3 in October, while the **ISA Distributor Index** declined from 76.8 in September to 66.7 in October. Both indexes indicate continued expansion for ISA members.

Manufacturer News

The Timken Company, Canton, Ohio, has acquired **Revolvo Ltd.**, Dudley, United Kingdom, from **ERIKS NV**. Revolvo is a specialty bearing company whose ball and roller bearings are

used for industrial applications in process and heavy industries. In 2013, Revolvo posted sales of approximately $8.3 million.

Hubbell Power Systems Inc., a subsidiary of **Hubbell Inc.**, Shelton, CT, has acquired **RFL Electronics Inc.**, an indirect wholly owned subsidiary of **SL Industries Inc.**, Mt. Laurel, NJ.

Lincoln Electric Holdings Inc., Cleveland, OH, has acquired arc welding training system manufacturer **RealWeld Systems Inc.**, Columbus, OH, from **EWI**. The acquisition advances Lincoln's position in welding educational services.

ParkOhio Industries, Inc., Cleveland, OH, a subsidiary of **ParkOhio Holdings Corp.**, will acquire equipment manufacturer **Saet S.p.A.**, Milan, Italy, for €18.4 million (US$22.9 million) through its Ajax Tocco Magnethermic division.

Kennametal Inc., Latrobe, PA, has named Donald A. Nolan as the company's president and chief executive officer, effective November 17. Nolan replaces Carlos Cardoso, whose retirement is effective December 31.

Zep Inc., Atlanta, GA, reported sales for the fiscal year ended Aug. 31 of $696.5 million, up 1 percent over the prior year. Profit was $8.4 million, compared to $15.2 million the prior year. In the fourth quarter, sales were $186.8 million. Profit grew 44 percent to $3.8 million.

Generac Holdings Inc., Waukesha, WI, reported sales for the third quarter of $352.3 million, a decrease of 3 percent year-over-year. Profit decreased to $36.5 million from $47.1 million in the second quarter of 2013. Year-to-date sales were $1.1 billion, down 4.7 percent over the prior-year period. Profit decreased slightly to $125.2 million.

Flowserve Corp., Dallas, TX, a provider of flow control products and services for the global infrastructure markets, has agreed to pay €298 million (US$373.2 million) for Dutch vacuum and fluid pump manufacturer **SIHI Group BV**.

Allied Motion Technologies Inc., Amherst, NY, reported sales for the third quarter of $65.3 million, an increase of 162 percent compared to the same period a year ago, with U.S. sales up 233 percent and foreign sales up 81 percent. Profit increased 394 percent to $4.1 million. For the first nine months, sales were $187.8 million, an increase of 149.1 percent compared to 2013. Profit increased 242.9 percent to $9 million.

Rockwell Automation Inc., Milwaukee, WI, reported sales for the fiscal year ended Sept. 30 of $6.6 billion, up 4.3 percent over fiscal 2013. Profit increased 9 percent to $826.8 million. For the fourth quarter, sales were $1.8 billion, up 3.9 percent year over year. Profit increased 15 percent to $248.7 million.

Rexnord Corp., Milwaukee, WI, reported sales for the second quarter ended Sept. 30 of $538 million, a year-over-year increase of 4.5 percent. Profit was $37.2 million, compared to a year-ago loss of $52.3 million. For the six month period, sales increased 2.4 percent to $1 billion. Profit was $49.3 million, compared to a year-ago loss of $38.5 million.

UFP Western Division, a subsidiary of **Universal Forest Products Inc.**, Grand Rapids, MI, has acquired **Bigs Packaging and Lumber LLC**, Dallas, TX, a manufacturer of industrial wood and packaging solutions.

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Executive Changes
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operations of NorthEast for 9 years.

And Melville, NY-based MSC Industrial Supply Co., a distributor of metalworking and MRO supplies, has announced the retirement of CFO Jeff Kaczka, who will step down once a replacement is found.