Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 44, NO. 24
DECEMBER 25, 2014

Top 10 Trends to Watch in 2015

The most critical issues that matter to distributors going into the new year

This article, based on the 2014 MDM Industry Outlook Survey, outlines and analyzes key trends and issues affecting how distributors will do business in 2015.

By MDM Editors

2014 started slow, as harsh winter weather curbed activity across much of the United States. But as time marched on, prospects brightened, and many distributors ended the year with more optimism about what the future holds.

But with that optimism comes a renewed sense of caution. In the 2014 MDM Industry Outlook Survey, many distributors noted that there is still work to be done to be prepared for the new year. Many are turning a keener eye toward making sure they have the right talent and tools in place to take advantage of improving conditions and attitudes.

Here is a look at the top 10 trends to watch in 2015.

1. **Mostly favorable economic climate presents opportunities for growth.** When the MDM Industrial Outlook Survey sought the top three industry-wide concerns for 2015, one respondent's answer of "economy, economy, economy" perfectly summed up how distributors' fortunes and fears revolve around the U.S. financial climate.

But while the economy will always keep company owners awake at night, optimism pervades wholesale distribution and manufacturing as 2014 draws to a close. Recent earnings reports show increased sales and substantial profit growth from companies across all sectors. Surveys show executive are bullish on both the nation's and the industry's economic well-being. And a flourishing M&A market points toward robust company valuations.

Though end-of-year data aren't available, industrial distribution has plenty of momentum heading into 2015, as evidenced by results of the third-quarter MDM/Baird Distribution Survey. Excluding acquisitions, revenue growth was 4.4 percent year-over-year for the quarter, marking wholesale distribution's best performance since 3Q12.

Although many said they expected business to cool slightly in the fourth quarter, with a projected growth of just 3.8 percent, most were cautiously optimistic for the longer term. Respondents forecasted an average of 4.1 percent revenue growth in 2015.

Also, a recent Deloitte poll revealed a strong level of optimism for the economy in 2015. A wide majority – 87.8 percent – of respondents said they expected the U.S. economy to grow, and 47.3 percent of them expected M&A activity to increase.

2. Talent gap widens as distributors struggle to find "qualified workers." One of distributors' most critical industry-wide concerns for 2015 is finding qualified candidates to fill open positions. In the MDM Industry Outlook Survey, respondents repeatedly referred to the growing talent gap in wholesale distribution, using terms such as "labor shortage," "shortage of qualified/skilled workers," "access to affordable talent" or "shrinking talent pool" to describe their plight.

The struggle to recruit and retain millennials – the generation that will comprise 75 percent of the U.S. work force by 2025 – will continue to be a hot topic for wholesale distributors, as well as manufacturers, in the new year. Yet as baby boomers retire or plan to retire in the next decade, they aren't actively seeking ways to bring them

continued on p.3 of this section

INSIDE

Commentary: Back to the Future Again
What will separate the good from the great in 2015?
Page 2

Forecast: Continued Growth in 2015
Optimism grows for revenue growth in both manufacturing & non-manufacturing sectors.
Page 6

Monthly Wholesale Trade Data
Page 8

MDM Industrial Inflation Index
Page 2 of the Industrial & Construction Markets Update

mdm.com®

PERSPECTIVE ■ Commentary by Thomas P. Gale

Back to the Future Again

A year ago, I was almost giddy. The economy seemed to be emerging from quicksand, and most distributors were reporting a promising strong fourth-quarter finish to the year. And federal lawmakers seemed to be at least getting out of the way of business.

But just when we thought it was safe to go outside, the first quarter tanked.

Now we're back in a surprisingly similar situation. This time, there is a lot more "bah humbug" going around. After another volatile year, albeit with much stronger growth overall, the fourth quarter caught fire for many product sectors.

Last December I also made a few predictions. Here's a recap for what I thought would be some key factors in 2014:

- We will see more bad use of social media in the year ahead than ever before.
- Content marketing done well by multichannel companies will be critical.
- Regardless of size, nimble and agile win, with big companies that learned about agility from small companies having an especially great year.

These held up pretty well in retrospect. We are bombarded by email and every other outlet with too much off-target, carpet-bombing marketing messages. That said, email, print (yes, print is far from dead!) and, increasingly, social media channels are effective tools for companies that use them thoughtfully. Every company has to get better at creating engaging content to clearly connect with their stakeholder communities – customers, suppliers, employees. The key word continues to be "multichannel" and connecting the way your customers want to, not just the ways you are most comfortable.

Nimble and agile win. That has not changed in decades. The most innovative and adaptive companies create their own destiny and create new revenue streams. Ditto in 2015, 2016, 2017…

So what will be different in 2015? The biggest shifts are taking place in the areas of analytics and talent. Both require a combination of leadership, culture change and process that most companies have not planned for. It will form a competitive difference in 2015.

Professional development – whether in a company of 10 employees or 10,000 – has clearly separated competitors over the past year. What does the professional development curriculum for 2015 look like in your company? Will it keep the A players you need? Will it attract the A players you don't have?

I wish you all the best in the year ahead!

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Publisher
Thomas P. Gale
tom@mdm.com

Editor
Jenel Stelton-Holtmeier
jenel@mdm.com

Associate Publisher
Craig Riley
craig@mdm.com

Associate Editor
Eric Smith
eric@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
2569 Park Lane, Ste 200, Lafayette, CO 80026
Tel: 303-443-5060
Website: http://www.mdm.com

Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email dillon@mdm.com or **http://www.mdm.com/subscribe.**

Published twice monthly; $395/yr., $415 U.S. funds other countries. Six-month and two-year terms are available. For group subscription rates and site licenses, please contact Dillon Calkins at 303-443-5060 or visit www.mdm.com/corporate.

ISSN 0544-6538

Trends for 2015
Continued from page 1

on board.

Attracting talent, especially young talent, requires a strategic approach. One tactic for distributors is to align with an institution – such as a college with an industrial distribution degree – and its students, to get an inside track to recruitment.

"The thing that I can't underscore enough, if companies want to be successful in their recruiting efforts, is aligning themselves with institutions that fit culturally with their organization, and then taking the time and energy to increase the level of familiarity with the students, so they really know what they're getting," Kyle Buxton, area leader for WinWholesale, told MDM earlier this year.

Compensation, philanthropy and access to training (another trend to watch in 2015) are factors millennials consider when looking at an industry, something distributors must keep in mind when lamenting a lack of qualified candidates. Not only does the inability to find talented workers effect the short term, it could be disastrous for the industry as it looks go groom the next generation of leaders.

3. Companies that devote time and resources to training will continue to surge ahead.

Employee training remains top of mind for distributors and manufacturers, who ranked it as the third key business priority for 2015 – behind only the perennial concerns of revenue growth and increasing profitability – in this year's MDM Industry Outlook Survey.

Forty-two percent of respondents said training is a priority for their companies in the new year. They understand that providing access to the right training opportunities is critical for companies to remain relevant in a competitive market as well as recruit and retain top talent.

John Jacobsen, vice president of sales and marketing at DGI Supply, estimates 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 to prepare them for C-level positions.

For companies whose 2015 resolutions include training, several associations, including the Industrial Supply Association and the National Association of Electrical Distributors, offer training programs to meet both the product/technical needs of companies as well as professional development options. In addition, industry events such as the University of Innovative Distribution could be a good resource for providing cost-effective training programs without having to develop them in house.

4. Companies that fail to plan are planning to fail.

If distributors are having problems finding talent to fill open positions, as detailed above, then they are in real trouble when it comes to succession planning.

Respondents to the MDM Industry Outlook Survey said they are dealing with the "continued loss of experienced people through retirement and lack of viable replacements," and that they aren't having much luck "finding that next level of talent to replace those leaving the work force."

Like training, succession planning involves investment in technology. Bill Mansfield, senior vice president of sales and marketing for Graybar, St. Louis, MO, told MDM earlier this year the company uses its technology platforms to monitor employee training and notify employees when new training is available. The training system, however, is not only for onboarding new employees. Mansfield says it helps develop employees at all levels within the company.

"It really helps us track our goals, identify development needs and keep our leadership succession plans on track," he says.

5. Need for a broader digital strategy emerges.

Concerns about Amazon and AmazonSupply.com appear to have faded, but the focus on e-commerce continues to grow for distributors. As Court Carruthers, senior vice president & group president, Americas for Grainger, says, Amazon has become "representative" of one of "a number" of players in a very competitive online space.

In the MDM Industry Outlook Survey, only customer relationship management (41 percent) topped e-commerce (40 percent) for technologies to explore in 2015. But the reasons behind the two selections were very similar – to serve the customer better. And that means being available 24/7, several respondents noted.

The way customers interact with businesses isn't changing; it has changed, says Philippa Gamse, a professor at Hult International Business School.

But there's still a barrier to doing it well,

To order reprints, reference article #4424-1. Learn more about reprint options at www.mdm.com/reprints.

according to Linda Taddonio, co-founder and e-commerce strategy officer of InsiteCommerce, when she spoke in an MDM Webcast earlier this year. "Only one-third of executives believe that their (digital strategy) approach is correct, and just 21 percent believe that the right people are setting the strategy in the first place," she says.

The goal for distributors going forward is creating a comprehensive digital strategy that includes e-commerce but focuses on providing the right information at the right time. "More and more customers are using e-com and the Web to research and sometimes buy products, although the research side is more important to us at this time," one survey respondent noted.

And that may not look exactly like what the big players, such as Grainger or MSC Industrial Supply, are offering. Distributors have to "understand the digital body language" of their customers, Gerry Helbig, president of plastics distributor Curbell Plastics, told MDM. The Internet is increasingly transforming how business purchases are made, but that doesn't seem to be killing traditional business in the way many people were predicting.

Distributors are also starting to recognize that having an efficient and functional e-commerce platform can have significant impact on their profitability in the long run – even if it requires a bit more investment up front. "Technology CAN decrease operating costs," one survey respondent noted. "It can also drive revenue growth."

6. Staying up-to-date on technology more important, but more challenging than ever before. E-commerce isn't the only technology challenging distributors going into 2015. There are more options available seemingly every day to help with every aspect of business. But so many options can be a barrier in and of itself. As one distributor noted in the survey: "We need new software. Which one?"

There's ready acknowledgement that much of the software and hardware distributors use today is outdated. In the MDM Industry Outlook Survey, 53 percent of respondents were already in the process of upgrading technology. In contrast, only 14 percent had no plans for upgrades in the next two years.

But knowing that today's upgrades will be outdated in just a few years is frustrating. As one survey respondent noted, it's difficult to "stay current at an affordable price."

Many survey respondents also noted that integrating diverse systems is a big challenge going into 2015. Demand for better, more actionable data from computer systems means those systems need to be communicating with each other, whether it is synchronization between the CRM and the ERP to provide accurate information to a customer or even between the payment center and the store to ensure the right prices are being charged.

This requires having the right team in place to spearhead the initiatives and identify – and, in turn, overcome these barriers, Taddonio says. She recommends distributors create a digital innovation team composed of three or four stakeholders from inside the company, specifically from the technology, marketing, operations and finance departments. It also requires outside stakeholders – what she called "passionate experts" – in technology, marketing and operations.

This team can evaluate the company's needs and identify a plan for making sure the critical systems can be integrated before huge capital outlays are made.

But even if a distributor has all the technology pieces in place, technology aversion is still a problem for many. As one distributor noted in the Industry Outlook Survey, they still have to "pull people that are technology zeroes along."

As noted above, training will be more important than ever for success in the coming years.

7. Merger & acquisition activity, along with spinoffs, will continue to dominate headlines. A host of wholesale distribution deals last year across all sectors and of varying size deepened the industry's consolidation story, which should become even more compelling in 2015 thanks to a ripening merger and acquisition market nationally and abroad. Readers in the MDM Industry Outlook Survey frequently cited M&A and its impact as a top industry concern, and this past year presented some clues as to what might happen moving forward.

Sonepar's purchase of Industrial Distribution Group and HD Supply's sale of Hardware Solutions highlighted the banner year for M&A and divestiture, but the health of the industry – public companies reported solid quarters throughout the year as valuations stabilized and grew – portends similarly notable deals in 2015.

Multiple surveys and reports published in the fourth quarter also point to more activity next year. The M&A market for mid-sized, privately held companies is expected to be "improving" or "very aggressive" in the next 12 months, according to 43.8 percent of respondents to a Deloitte poll. And nearly half of them

(46.4 percent) say their companies are prepared to entertain an offer immediately from a hypothetical "perfect buyer."

And plenty of buyers seem prepared to pounce when the time is right. For example, MSC Industrial Direct President and CEO Erik Gershwind told analysts during the company's fiscal year 2014 earnings call that he feels "very good about how MSC is positioned to succeed in the next decade as the consolidation story accelerates."

8. Port slowdown, truck driver shortage causing inventory management disruptions.
Receiving and delivering shipments in a timely manner is an obvious priority for any company in the supply chain, and two problematic pain points that emerged this year have made shipping and logistics a key trend to watch in 2015. Seventeen percent of respondents in MDM's Industry Outlook Survey said better transportation/freight/logistics management is a business priority for next year – and that number could rise if a labor dispute on the West Coast and a national truck driver shortage endure.

The fourth quarter of 2014 began on a dour note when congestion at ports from Washington to California slowed the movement of cargo from container ships to freight trains and then to distributors and manufacturers. Because a labor deal could be struck at any time, which would eliminate the disruption, it might not rank as a long-term concern for companies the same way they fret over succession planning or overcoming the talent shortage. But until then, an ongoing delay in labor talks could mean rerouting shipments to Gulf or East coast ports or moving more freight via air, both of which add cost.

Andy Mitchell, director of supply chain and marketing at jan-san and safety equipment distributor CCP Industries, which imports 80 to 100 containers each month from China and Malaysia, said recently that his company has been experiencing delays of two to four weeks because of the slowdown.

"It has been very challenging on our supply chain, causing back orders and increased investment in inventory levels," says Mitchell, who worries that the disruption could have a devastating and lasting effect nationally. "Shipping lines were expecting things to improve in October 2014 and they did not. And with an improved U.S. economy forecast for 2015 and continued tight capacity, there is no light at the end of the tunnel."

Adding to shipping and logistics woes, the ongoing truck driver shortage will continue to disrupt distributors, with many respondents listing it as a top concern for 2015.

9. Channel blurring shows no sign of slowing.
Readers expressed anxiety over the blurring of sales channels on a variety of survey questions, claiming their top industry concerns for 2015 included "losing manufacturing lines," "competition from outside the normal distribution channel" and "shifting channels by manufacturing from classic distribution."

Fear of disintermediation – or manufacturers bypassing distributors to sell directly to end customers – has grown in recent years, with increased adoption of e-commerce making such a move appear more feasible than in the past. As a result, distributors are faced with an increased need to prove their value to both manufacturers and customers or risk being viewed as simply an added, superfluous cost in the chain.

Rod MacKenzie, owner of Green Building Resources, Atlanta, GA, said that speed is one of the best places to compete with disintermediators. For the customer that needs a tight turnaround, a well-connected distributor is often the best, fastest answer to the problem. But, he says, it'll cost them.

In addition, distributors continue to expand their product lines in order to capture more of their customers' spend. For example, Sonepar's acquisition of IDG expanded the global electrical distributor's presence in the industrial product space, in addition to growing its integrated supply opportunity. Kaman's acquisition of B.W. Rogers is another good example, with the power transmission distributor building a fluid power platform on the acquired company.

10. Rampant regulations?
Survey respondents raised concerns about new regulations going into effect in the next year, as well as continued concerns about the rising costs of health care – often attributed to the Affordable Care Act, which continues to have features rolled out. Labor-related regulations and workplace safety rules also have the potential to significantly impact how business is done over the next year.

The November election returned the Senate to Republican control after eight years of a Democratic majority, which leaves both houses of Congress in opposition to the White House. But what that means for the regulatory environment remains to be seen.

In addition, many state legislatures flipped alignment in the November elections, meaning changes may be afoot at the state level. For example, in West Virginia, the new legislature is already discussing changes to tough environmental standards passed in the wake of last year's chemical spill that impacted drinking water around Charleston.

Forecast: Continued Growth in 2015

ISM semiannual report: Manufacturers expect revenue growth of 5.6 percent

The Institute for Supply Management provides a semiannual forecast that distributors can use to gauge the health and expectations of manufacturing and non-manufacturing industries. This article provides the highlights from the latest forecast, which was released in December.

Economic growth in the U.S. will continue in 2015, say the nation's purchasing and supply management executives in their December 2014 Semiannual Economic Forecast. Expectations are for a continuation of the economic recovery that began in mid-2009, as indicated in the monthly Institute for Supply Management's Report on Business.

The manufacturing sector is optimistic about growth in 2015, with revenues expected to increase in 15 manufacturing industries, and the non-manufacturing sector also predicts that 15 of its industries will see higher revenues.

Capital expenditures, a major driver in the U.S. economy, are expected to increase by 3.7 percent in the manufacturing sector and by 3.8 percent in the non-manufacturing sector. Manufacturing expects that its employment base will grow by 1.5 percent, while non-manufacturing expects employment growth of 1.7 percent.

Manufacturing Summary

Expectations for 2015 are positive as 67 percent of survey respondents expect revenues to be greater in 2015 than in 2014. The panel of purchasing and supply executives expects a 5.6 percent net increase in overall revenues for 2015, compared to a 3.6 percent increase reported for 2014 over 2013 revenues.

The 15 manufacturing industries expecting revenue improvement in 2015 over 2014 – listed in order – are: Food, Beverage & Tobacco Products; Furniture & Related Products; Computer & Electronic Products; Fabricated Metal Products; Miscellaneous Manufacturing; Machinery; Nonmetallic Mineral Products; Printing & Related Support Activities; Paper Products; Chemical Products; Transportation Equipment; Textile Mills; Primary Metals; Plastics & Rubber Products; and Electrical Equipment, Appliances & Components.

Manufacturing experienced 18 consecutive months of growth from June 2013 through November 2014.

ISM's forecast calls for a continuation of growth in 2015, building on the momentum reported in 2014. Respondents expect raw materials pricing pressures in 2014 to be low, similar to levels experienced in 2014, and expect their margins will improve in 2015. Manufacturers are also predicting growth in both exports and imports in 2015 over 2014

In the manufacturing sector, respondents report operating at 83.7 percent of their normal capacity, up 1.4 percentage points from the 82.3 percent reported in April 2014. Purchasing and supply executives predict that capital expenditures will increase by 3.7 percent in 2015 over 2014, compared to a 14.7 percent increase reported for 2014 over 2013.

Manufacturers have an expectation that employment in the sector will increase by 1.5 percent in 2015, while labor and benefit costs are expected to increase an average of 3.2 percent.

Respondents also expect the U.S. dollar to strengthen against all seven currencies of major trading partners in 2015.

Two special questions were asked of the panel. The first special question asks about unfilled job openings. The top three responses from our Manufacturing panel, with percentages of the total number of responses noted, were "Currently have a typical number of unfilled job openings" (39.5 percent), "Cannot find enough qualified applicants to fill job openings" (28.8 percent), and "Hiring less than usual due to economic uncertainty" (18.6 percent).

The second special question asked whether manufacturing organizations plan to re-shore significant volumes of manufacturing/business processes in 2015. Of the three possible answers, 10.4 percent responded "Yes," 58.8 percent responded "No," and 30.8 percent responded

"Not Applicable." For those organizations that responded "No," the most often cited main reason for not re-shoring in 2015 was that the "Cost advantage of off-shoring was still too favorable," with 53.7 percent of all respondents providing that reason.

Non-Manufacturing Summary

Sixty-two percent of non-manufacturing supply management executives expect their 2015 revenues to be greater than in 2014. They currently expect a 10 percent net increase in overall revenues for 2015 compared to a 5.1 percent increase reported for 2014 over 2013 revenues.

The 15 non-manufacturing industries expecting revenue improvement in 2015 over 2014 – listed in order – are: Wholesale Trade; Professional, Scientific & Technical Services; Transportation & Warehousing; Construction; Other Services; Mining; Retail Trade; Accommodation & Food Services; Arts, Entertainment & Recreation; Public Administration; Real Estate, Rental & Leasing; Utilities; Health Care & Social Assistance; Finance & Insurance; and Information.

ISM reported that non-manufacturing supply managers report operating at 87.6 percent of their normal capacity, higher than the 86.3 percent reported in April 2014. They are optimistic about continued growth in the first half of 2015 compared to the second half of 2014, and they have a higher level of optimism about the next 12 months than they had last December for 2014.

Non-manufacturing supply managers forecast that their capacity to produce products and provide services will rise by 4.3 percent during 2015, and capital expenditures will increase by 3.8 percent from the 2014 levels. Non-manufacturers also predict their employment will increase by 1.7 percent during 2015.

Respondents in non-manufacturing industries expect the prices they pay for materials and services will increase by 2.5 percent during 2015. They also forecast their overall labor and benefit costs will increase 2.1 percent in 2015. Profit margins are reported to have increased in the second and third quarters of 2014, and respondents expect them to increase between now and April 2015.

When asked whether non-manufacturing organizations plan to re-shore significant volumes of manufacturing/business processes in 2015, 8.1 percent responded "Yes," 36 percent responded "No," and 55.9 percent responded "Not Applicable." For those that responded "No," the most often cited main reason (52.1 percent) was that the "Cost advantage of off-shoring was still too favorable."

Revenues Outlook for Next 12 Months

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who expect higher, same or lower revenues for the next 12 months.

	Manufacturing Predicted 2015	Non-manufacturing Predicted 2015
Better	67%	62%
Same	26%	30%
Worse	7%	8%
Average Change	+5.6%	+10%

Capital Expenditures: 2015 vs. 2014

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who predict higher, same or lower capital expenditures in 2015. The bottom row shows the average change expected in capital expenditures.

	Manufacturing Predicted 2015	Non-manufacturing Predicted 2015
Higher	35%	40%
Same	44%	43%
Lower	21%	17%
Average Change	+3.7%	+3.8%

Production Capacity in 2015: Manufacturing

The table below shows the percentage of manufacturing respondents to the ISM survey who expect higher, the same or lower production capacity in 2015.

	Predicted Capacity for 2015
Higher	53%
Same	41%
Lower	6%

Prices: Predicted Change 2015 vs. 2014

The table below shows the percentage of manufacturing and non-manufacturing respondents to the ISM survey who expect to pay higher, the same or lower prices by the end of 2015 (EOY). The bottom row shows the average price change expected.

	Manufacturing EOY 2014	Non-manufacturing EOY 2014
Higher	59%	63%
Same	23%	27%
Lower	18%	10%
Average Change	+1.5%	+2.5%

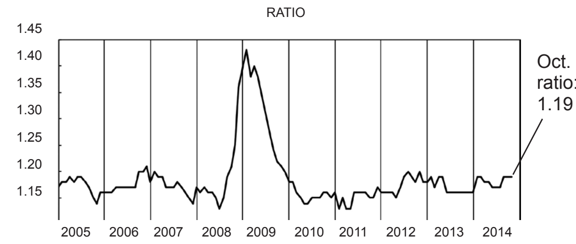
Monthly Wholesale Trade Data

Wholesale revenues in October were $454.6 billion, up 0.2 percent from the revised September level and up 4.3 percent from the October 2013 level. October sales of durable goods were up 0.8 percent from last month and up 6 percent from a year ago. Sales of nondurable goods were down 0.3 percent from September, but were up 2.8 percent from last October.

Inventories. Inventories were $542 billion at the end of October, up 0.4 percent from the revised September level and up 6.8 percent from the October 2013 level. October inventories of durable goods were virtually unchanged from last month, but up 8.5 percent from a year ago. Inventories of nondurable goods were up 1.2 percent from September and 4.2 percent from last October.

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

Sales and Inventories Trends: October 2014

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 9/14-10/14	Percent Change Sales 10/13-10/14	Percent Change Inventory 9/14-10/14	Percent Change Inventory 10/13-10/14
42	**U.S. Total**	**454,587**	**541,985**	**1.19**	**0.2**	**4.3**	**0.4**	**6.8**
423	**Durable**	**213,487**	**335,516**	**1.57**	**0.8**	**6.0**	**0.0**	**8.5**
4231	Automotive	34,886	54,873	1.57	-1.1	5.0	-1.4	7.9
4232	Furniture & Home Furnishings	5,677	8,898	1.57	3.5	8.8	-0.7	3.6
4233	Lumber & Other Construction Materials	10,633	15,659	1.47	0.2	6.6	0.2	10.4
4234	Prof. & Commercial Equip. & Supplies	40,263	42,350	1.05	1.5	6.3	-0.7	10.1
42343	Computer Equipment & Software	22,639	18,412	0.81	1.5	2.9	-3.6	14.3
4235	Metals & Minerals	15,272	29,796	1.95	0.9	14.5	0.6	12.1
4236	Electrical Goods	37,190	37,872	1.02	1.9	4.6	0.8	7.3
4237	Hardware, Plumbing & Heating Equipment	10,757	20,522	1.91	1.4	11.0	1.6	10.7
4238	Machinery, Equipment & Supplies	40,314	98,147	2.43	1.1	7.2	0.4	10.2
4239	Miscellaneous Durable	18,495	27,399	1.48	-1.1	-2.2	-0.6	-1.1
424	**Nondurable Goods**	**241,100**	**206,469**	**0.86**	**-0.3**	**2.8**	**1.2**	**4.2**
4241	Paper & Paper Products	7,995	7,467	0.93	1.0	4.0	1.6	2.6
4242	Drugs	41,984	45,842	1.09	-0.3	14.1	3.2	20.0
4243	Apparel, Piece Goods & Notions	13,557	25,824	1.90	0.2	14.9	0.4	10.5
4244	Groceries & Related Products	54,652	34,742	0.64	2.0	7.0	1.1	4.1
4245	Farm-product Raw Materials	20,157	20,213	1.00	8.0	0.7	3.6	-5.6
4246	Chemicals & Allied Products	11,163	12,383	1.11	3.0	5.9	-1.8	2.6
4247	Petroleum & Petroleum Products	59,539	19,122	0.32	-5.8	-8.7	-1.9	-17.0
4248	Beer, Wine & Distilled Beverages	11,084	14,959	1.35	1.4	5.9	-0.1	4.1
4249	Miscellaneous Nondurable Goods	20,969	25,917	1.24	-0.4	0.0	1.1	3.5

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.

mdm.com®

Industrial & Construction Markets Update

VOL. 44, NO. 24 | DECEMBER 25, 2014

HD Supply Posts Solid 3Q, Spins Off Hardware Unit

HD Supply Holdings Inc. appears to be on solid financial footing heading into 2015. The Atlanta, GA, industrial distribution giant announced the spinoff of its hardware solutions business for an undisclosed amount and then reported impressive third-quarter revenues and net earnings that beat Wall Street estimates.

HD Supply's third quarter sales of $2.5 billion marked an increase of 9.5 percent compared to the same period a year ago, while its profit of $60 million was up 17.6 percent. For the first nine months, sales were $7.1 billion, up 8.2 percent compared to the same period a year ago, and profit was $96 million, up from a net loss of $152 million last year.

The company saw improvement across all divisions for the period ended Nov. 2. Facilities maintenance sales increased 8 percent to $660 million in the third quarter compared to the previous third quarter. Waterworks sales increased 10 percent to $695 million. Power Solutions sales increased 6 percent to $502 million. And White Cap sales increased 17 percent to $411 million.

After the quarter ended but before it released earnings, HD Supply unveiled its most recent divestiture – selling HD Supply Hardware Solutions to The Home Depot. Formerly known as Crown Bolt, HD Supply Hardware Solutions is a distributor of fasteners and builders hardware to retailers throughout the U.S.

"After a detailed evaluation, we determined that selling our Hardware Solutions business is in the best interests of our associates and HD Supply shareholders," Joe DeAngelo, CEO of HD Supply, said in a release. "HD Supply Hardware Solutions and The Home Depot have a long-standing and natural partnership. The Home Depot is Hardware Solutions' largest customer

continued on p.4 of this section

Distributor News

United Stationers Supply Co., a wholly owned subsidiary of **United Stationers Inc.**, Deerfield, IL, has sold **MBS Dev** to **Microsoft Dynamics AX** provider **Project AX**, Irvine, CA.

Grainger, Chicago, IL, reported daily sales for November increased 8 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.

WinWholesale Inc., Dayton, OH, opened a Carr Supply branch in Taylor, MI, to serve HVAC and water service supplies and equipment to contractors in downriver Michigan, a suburban area south of Detroit.

Building materials distributor **US LBM Holdings LLC**, Green Bay, WI, has acquired truss and wall panel manufacturer **Lumber Specialties**, Dyersville, IA.

US LBM Holdings LLC has acquired drywall distributor **American Masons and Building Supply Company**, Hartford, CT.

Building products distributor **ABC Supply Co. Inc**., Beloit, WI, has acquired **Siding World**, Detroit, MI, a distributor of siding and other exterior building products including roofing, windows, doors, decking and gutters.

ABC Supply Co. Inc. has acquired **The Standard Group**, a New Jersey distributor of roofing materials and other exterior building products.

Bunzl plc, the international distribution and outsourcing group, acquired cleaning and hygiene supplies business **Acme Supplies,** Vancouver Island, Canada. Acme's revenue for the year ended November 30 was C$16 million (US$13.9 million).

Building materials company **Builders FirstSource Inc.**, Dallas, TX, has opened a new distribution center in the Houston area and relocated another near San Antonio.

Ohio Transmission Corp., Columbus, OH, agreed to acquire industrial automation distributor **Ohlheiser Corp.**, Newington, CT.

Midway Industrial Supply, Minneapolis, MN, a distributor of fluid handling, spray finishing equipment, accessories and consumables, has acquired **Contrast Equipment Co.**, Kansas City, MO.

Distribution International Inc., Houston, TX, has been acquired by private equity firm **Advent International**, Boston, MA.

Plumbing distributor **Ferguson**, Newport News, VA, has acquired **HP Products Corp**., Indianapolis, IN, a distributor of janitorial, packaging, safety, laundry and dietary, lighting, equipment, food & beverage and textiles products.

continued on p.2 of this section

News Digest

Continued from p. 1 of this section

Bossard Group, Zug, Switzerland, has acquired a 60 percent share in the Norwegian fastening supplier **Torp Fasteners**, effective January 2015.

Drex-Chem Malaysia, a specialty chemical distributor based near Kuala Lumpur, has been acquired by private equity firm **The Riverside Co.**

Graybar, St. Louis, MO, a distributor of electrical, communications and data networking products and provider of related supply chain management and logistics services, has announced the retirement of senior vice president-operations, Lawrence R. Giglio, effective Feb. 1, 2015. Graybar also named Scott S. Clifford as senior vice president-supply chain management, effective Feb. 1.

Industrial gases company **Praxair** Inc., Danbury, CT, will increase prices on packaged industrial, specialty and medical gas and bulk gas customers in the United States, Canada, Mexico and Puerto Rico, effective Jan. 1.

Economic News

Privately owned housing starts in November were at a seasonally adjusted annual rate of 1,028,000, according to the U.S. Census Bureau and the Department of Housing and Development. This is 1.6 percent below the revised October estimate of 1,045,000 and 7 percent below the November 2013 rate of 1,105,000.

Construction industry employment hit a new five-year high in November as the sector added 20,000 jobs and its unemployment rate fell to 7.5 percent, the lowest rate for November in seven years, according to the Associated General Contractors of America. Construction employment totaled 6,109,000 in November, the highest total since April 2009, with a 12-month gain of 213,000 jobs or 3.6 percent.

The **Conference Board Leading Economic Index** for the U.S. increased 0.6 percent in November to 105.5. The **Coincident Economic Index** increased 0.4 percent in November to 110.7, and the **Lagging Economic Index** increased 0.3 percent in November to 125.4.

October **U.S. manufacturing technology orders** totaled $417.8 million according to AMT – The Association For Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was down 35 percent from September and down 6.2 percent when compared with the total of $445.64 million reported for October 2013. With a year-to-date total of $4,150.41 million, 2014 is up 3.8 percent

Calculation of MDM Inflation Index for November 2014

		BLS Price Indices Nov '14	BLS Price Indices Oct '14	BLS Price Indices Nov '13	% Sales Weight	Weighted Indices Nov '14 (1)X(4)	% Change Nov '14 Oct '14	% Change Nov '14 Nov '13
1136	Abr. Prod.	572.9	573.5	564.3	19.1	109.43	-0.10	1.53
1135	Cutting Tools	495.4	495.7	489.4	18.9	93.63	-0.05	1.22
1145	Power Trans.	806.0	806.0	800.7	15.4	124.13	0.00	0.66
1081	Fasteners	506.4	506.4	503.7	9.0	45.57	0.00	0.54
1149.01	Valves, etc.	964.4	964.2	954.6	7.6	73.29	0.02	1.02
1132	Power Tools	362.5	362.5	358.2	6.5	23.56	0.00	1.18
1144	Mat. Handling	582.9	582.3	569.1	6.2	36.14	0.10	2.42
0713.03	Belting	838.5	838.5	834.3	6.1	51.15	0.00	0.50
1042	Hand Tools	777.5	777.8	774.4	8.1	62.97	-0.04	0.40
108	Misc. Metal	477.4	478.3	476.9	3.1	14.80	-0.18	0.12

"New" November Index	331.6	November Inflation Index	634.67	-0.03	0.99
"New" October Index	331.7	October Inflation Index	634.84		
		November 2013 Inflation Index	628.45		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247 compared with 2013.

October **U.S. cutting tool consumption** was $193.6 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 9.7 percent from September's total and up 3.3 percent from October 2013.

The **Producer Price Index** for final demand fell 0.2 percent in November, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. This decrease followed a 0.2 percent rise in October and a 0.1 percent decline in September.

Prices for U.S. imports decreased 1.5 percent in November, after falling 1.2 percent in October, according to the U.S. Bureau of Labor Statistics. Both decreases were driven by declining fuel prices. U.S. **export prices** declined 1 percent in November following a 0.9-percent drop the previous month. The November decline was the largest monthly drop in import prices since a 2.3 percent decrease in June 2012.

Canadian industries operated at 83.4 percent of their production capacity in the third quarter, up from 82.8 percent in the previous quarter, according to the latest report from Statistics Canada. The manufacturing and construction industries were the main sources of this increase.

Canadian wholesale sales increased 0.1 percent to C$54.2 billion (US$46.7 billion) in October, according to Statistics Canada. Gains were recorded in five of seven subsectors, representing 68 percent of wholesale sales.

Canadian manufacturing sales declined 0.6 percent to C$52.7 billion (US$43.3 billion) in October, the second decrease in 2014. The drop reflected lower production of aerospace product and parts and a decrease in primary metal sales.

The **Canadian wholesale services price index** rose 1.2 percent in the second quarter. Among the eight major wholesale sectors, margins were up in six and down in two.

Canadian municipalities issued building permits worth C$7.5 billion (US$6.5 billion) in October, up 0.7 percent from September. The increase in October resulted primarily from higher construction intentions in British Columbia, Alberta and Saskatchewan.

The Manufacturers Alliance for Productivity and Innovation forecasts that overall manufacturing output in Latin America will decline by 0.1 percent in 2014 and increase 1.8 percent in 2015, according to the **Latin America Manufacturing Outlook**. Mexican factories continue to remain the manufacturing growth leader in Latin America as Brazil and Argentina face declines that sour the outlook in the region.

Manufacturer News

European building materials supplier **Saint-Gobain** plans to acquire a controlling interest in chemicals company **Sika** for €2.3 billion (US$2.8 billion).

Swedish manufacturer **Atlas Copco,** Nacka, Sweden, will acquire **Titan Technologies Inc.**, Clifton, NJ, a distributor of hydraulic torque wrenches and pumps and accessories for the oil and gas industry.

Regal Beloit Corp., Beloit, WI, will acquire the **Power Transmission Solutions** business of **Emerson Electric Co.**, St. Louis, MO, for $1.4 billion.

International building materials group **CRH plc**, Dublin, Ireland, will sell its clay and concrete businesses in the United Kingdom and its clay business in the United States to **Bain Capital Europe LLP** for £414 million (US$647.8 million).

DuPont Performance Polymers, Wilmington, DE, will sell **DuPont Neoprene polychloroprene** to **Denka Performance Elastomer LLC**, a new joint venture company owned 70 percent by **DENKA** and 30 percent by **Mitsui**.

Norbord, Toronto, Ontario, and **Ainsworth Lumber Co. Ltd.**, Vancouver, British Columbia, have announced they will merge. The newly formed wood products company will focus on oriented strand board in North America, Europe and Asia.

Building materials manufacturer **BMC**, Boise, ID, has appointed Wesley Barker as COO, Terry Arnold as vice president of human resources, Noah Gay as vice president, controller, and Sherrie Ricker as director of tax.

Forged component and machined assembly supplier, **SIFCO Industries, Inc.**, Cleveland, OH, has promoted James P. Woidke to president and COO.

MAPI Quarterly U.S. Industrial Outlook: Widespread Growth Ahead

MARKETS UPDATE SUPPLEMENT P. 4

Job gains and business investment are the two lead drivers keeping manufacturing on a solid growth path, according to the quarterly Manufacturers Alliance for Productivity and Innovation U.S. Industrial Outlook, a report that analyzes 27 major industries.

Manufacturing industrial production increased at a 3.9 percent annual rate in the third quarter of 2014 and is expected to post 3.3 percent growth for the year, a percentage point better than the general economy's 2.3 percent growth.

The MAPI Foundation forecasts manufacturing production growth of 3.5 percent in 2015, 3.9 percent in 2016 and 3.1 percent in 2017. The 2015 forecast is a decrease from 4 percent and the 2016 forecast is an increase from 3.6 percent in the September 2014 report. Manufacturing will continue to grow faster than the overall economy.

"The manufacturing outlook for 2015 and 2016 calls for a modest acceleration in the growth rate each year," said MAPI Foundation Chief Economist Daniel J. Meckstroth. "Demand has shifted to long-lived goods. Spending on durable goods, business equipment, and construction was postponed in the recession and sluggish recovery, but now the items are wearing out and need replacing. Aided by households' low debt burdens and rising consumer wealth, consumer spending growth is primarily job-driven – the U.S. has more workers with incomes."

Meckstroth sees several growth themes creating an incentive for business investment, including natural gas infrastructure, the housing supply chain, transportation infrastructure, factory automation, medical care expansion, and increasing confidence.

The report offers economic forecasts for 23 of the 27 industries. The MAPI Foundation anticipates that 22 will show gains in 2015, and only one – mining and oil and gas field machinery – will decline. The top industry performer will be housing starts with anticipated annual growth of 18 percent.

In 2016, growth is again likely in 22 industries, led by housing starts at 15 percent. Mining and oil and gas field machinery is expected to plummet by 24 percent, due largely to a cutback in energy development and therefore less of a need for equipment. But this industry should reverse its prospects in 2017. Meckstroth expects all 23 industries to show gains in 2017, with mining and oil and gas field machinery leading the way with a 13 percent advance.

According to the report, non-high-tech manufacturing production (which accounts for 95 percent of the total) is anticipated to increase 3.4 percent in 2015, 3.8 percent in 2016, and 3 percent in 2017. High-tech industrial production (computers and electronic products) is projected to expand by 6.4 percent in 2015, 10.7 percent in 2016 and 11.2 percent in 2017.

During the report period (August through October 2014), 23 of the 27 industries Meckstroth monitors had inflation-adjusted new orders or production at or above the level of one year prior (three more than reported last quarter), while three declined and one was flat.

Meckstroth reported that 13 industries are in the accelerating growth (recovery) phase of the business cycle, eight are in the decelerating growth (expansion) phase, two are in the accelerating decline (either early recession or mid-recession) phase, and four are in the decelerating decline (late recession or very mild recession) phase.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

Questions, comments, article proposals, address changes or subscription service to: Gale Media, Inc., 2569 Park Lane, Ste 200, Lafayette, CO 80026. Tel: 303-443-5060.
Website: http://www.mdm.com

ISSN 0544-6538

To subscribe to Modern Distribution Management, please call 888-742-5060, email info@mdm.com or **http://www.mdm.com.** Subscriptions are available by online delivery and/or first-class mail. Published twice monthly; $395/yr., $415 U.S. funds other countries.

HD Supply

Continued from p. 1 of this section

and accounts for approximately 98 percent of its annual sales."

Later, on an earnings call with analysts, DeAngelo further outlined the company's reasons for the divestiture, which he said would "simplify and focus (HD Supply's) portfolio mix."

Proceeds from the sale will be invested in the remaining businesses and used to reduce current debts, according to CFO Evan Levitt.