Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 45, NO. 3
FEBRUARY 10, 2015

■ *Succession Planning in Distribution, Part 1*

Positioning for the Future

Succession planning requires a strategy with vision

The growing worker shortage and ongoing consolidation story have placed distribution at a crossroads, and only the companies that adequately groom the next generation of C-suite executives will flourish. This article examines the challenges companies face regarding developing a succession plan and first steps to overcoming those hurdles.

Part 2 will look at how distributors have made succession planning a part of the company culture.

By Eric Smith

As the second-generation owner of the manufacturing business her father founded in 1950, Pamela Kan understands the conflicted feelings that parents experience when passing a company down to a son or daughter. Though they want to preserve their legacy and see their creation endure, they are so attached to the company that transferring it to descendants can feel like "handing off your child to another one of your children," says Kan, president of Bishop-Wisecarver Group, Pittsburg, CA.

"Succession in a family business is very emotional; it's really personal," she says. "The problem for most families is they tend to think only about the impact to the people in the family. They forget about the impact to the rest of the company."

Succession planning is the process of determining who will own and/or run a business following any one of multiple scenarios, such as a sudden death, early retirement or even a planned departure. And it impacts every company, whether private or public, large or small, family-owned or otherwise. When a business doesn't properly groom the next generation of leadership to take over, it risks falling behind in an already competitive marketplace, and then fading into irrelevancy as customers leave and valuations sink.

Businesses in all industries must plan for their succession to ensure survival, but because distributors and manufacturers already face a talent shortage and a growing number of baby boomer executives on the brink of retirement, those that operate without a plan have a greater chance of stagnation and decline.

"Companies that don't prepare the next generation of leaders will not have the people they need properly trained and ready to move their enterprises forward," says Bob Mucciarone, COO, F.W. Webb Co., Bedford, MA. "Investing in your people on an ongoing basis is a long-term growth strategy."

Create a Vision, Form a Strategy

Strategy is the foundation of succession planning, which can include passing the business down to a family member, actively acquiring and retaining talent, creating an employee stock-ownership plan (ESOP), forming an aggressive management-training program to prepare future leaders, selling to a competitor – or some combination of these.

But even before mapping out its long-term growth strategy, a company must have a vision, says Skip DeVilling of DeVilling & Associates, a recruiting and consulting firm for industrial companies.

DeVilling, who is constantly on the search for high-level executives to place at the distributors and manufacturers that hire him, sees firsthand that too many companies have no idea where they hope to be with regard to revenue or employee

continued on p.3 of this section

INSIDE

Commentary: Is This the Next Normal?
Increased competitive pressures rise out of strategic investments made during the recovery.
Page 2

Use & Abuse of Customer Profitability Analytics
Avoid critical business mistakes when deploying profitability tools.
Page 5

Market Analysis: Chemicals Consumption
An analysis by region and end-market.
Page 8

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

PERSPECTIVE ■ Commentary by Thomas P. Gale

Is This the Next Normal?

Last week was the annual NAW Summit in Washington, DC, a unique and valuable venue that has maintained a consistently solid value proposition across the 22-year span I have attended. It offers great networking across a broad cross section of wholesale distribution industry executives.

ITR Economics' Alan Beaulieu kicked off the event with an upgraded outlook for the economic climate over the next few years. Beaulieu is forecasting slightly slower growth rates in 2015, but an overall positive increase in GDP and industrial production index for the next two years. The future looks pretty bright for U.S. distributors.

That's in marked contrast to the gyrations since 2008, though several conversations in the hallways offered a distinct cross current to this optimism. Part of it was weak performance of certain customer segments. But many conversations also centered on competitive pressure and shifts in market share rather than economic conditions.

Maybe we are moving into the next normal, for lack of a better label. The new normal was the long slog out of deep recession; this next phase is more about the impact of strategic investments made by both traditional and not-so-traditional competitors during that journey from the abysmal.

This supports our research over the past year: Traditional distribution markets are under attack from all sides. For example, national distributors slammed the product line extension pedal to the metal while building multichannel capability. Grainger is the leading example. They also invested in sales and marketing in traditional and nontraditional ways to drive demand.

The other major competitive shift can be seen in the roll-ups and consolidation of smaller, more locally focused distributors. They gained an injection of national support at all levels and, as a result, can be more strategic in targeting certain segments and territories.

The final tier of market share battle comes from the "new" entrants into traditional distribution channels. Amazon and other pure e-commerce players are part of it. But we are at the beginning of the B2C-to-B2B blending. The most visible example is Staples, which has increasingly expanded its safety and jan-san product portfolio. They, like many others, have done the research and see the potential of B2B markets.

Companies that haven't adapted to these new competitive pressures in a proactive way – multichannel e-commerce, stronger customer service, streamlined operating models – won't find the next normal lasting very long.

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.

Copyright © 2015 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.

ISSN 0544-6538

MDM Editorial Advisory Board

John Allenbach, SVP, Professional Sales, Apex Tool Group

Chester Collier, SVP, Global Distribution, Walter Surface Technologies

Ted Cowie, Vice President Sales, Safety & Industrial Products, Motion Industries

Larry Davis, Chief Commercial Officer & EVP, Stellar Industrial Supply

Charley Hale, President, FCX Performance

Mary Johnston, Sales & Channel Marketing Director, 3M Industrial Markets Center

Julia Klein, Chairwoman & CEO, C.H. Briggs Company

Doug Savage, President & CEO, Bearing Service Inc.

Burt Schraga, CEO, Bell Electrical Supply

Ted Stark, President, Dalco Enterprises

Succession Planning
Continued from page 1

numbers or locations in five, 10 or 20 years. Executives retire before sharing institutional knowledge down the ranks. Owners don't know who will replace them or other executives, and if they do, they don't adequately train their successors.

Without vision, status quo creeps in and companies wither.

"They do what they did before and that's not good enough today," DeVilling says. "You only know what you know, so if all of a sudden there's a change in management, whether it be succession or a person retiring, those positions have changed dramatically over the years. The mistake people make is they don't recognize the change and they don't recognize where they want to go."

Once a vision is established, the next step is creating a strategic plan for the entire business, one that details each department and position – its duties, its requisite skills and education, its salary range – yet can evolve over time as the company grows and its needs change. This living document outlines strengths, weaknesses, opportunities and threats in all facets of the company, making it easier to recruit should the need arise for finding a salesperson or CFO.

"Everyone needs to get comfortable with the fact that this is a continuous process," says Tom Roberts, president, cfm Distributors, Kansas City, MO. "All of the succession components should continue to run throughout the life of the organization, as generations of leaders will come and go. The sooner you make the essential components of succession planning a part of your organizational culture, the more the natural evolution and growth of the organization becomes a part of daily life. We are all one day closer to retirement every day."

DeVilling says this process isn't easy in distribution, an industry with many traditional family-owned companies that have operated a certain way for decades and continue to do so, even as innovation drastically alters the landscape.

But a vision and a strategic plan sometimes aren't enough. Sometimes companies need outside help. "No one should go through a succession plan with people just in the organization," DeVilling says. "There always should be a mediator, there always should be somebody bringing in new thoughts and rounding out this process."

Whether that means hiring a third-party consultant or seeking family business planning advice from places like the Kellogg School of Management's Center for Family Enterprises – where Kan went for assistance when it was time to take over Bishop-Wisecarver from her father, Bud Wisecarver – getting a different perspective is critical for the process.

Outside help is especially crucial for family-owned businesses, which face an array of challenges from determining if offspring has the skill set and the desire to take over the company to deciding which children (if there are more than one) should have which responsibilities. But no matter how many or how few parents and children are discussing the fate of business' future, Kan reiterates the need for open communication when it comes to forming the vision and creating the strategy to achieve it.

"It's really no different than running a business," she says. "If there's not good communication in the business and there's not good communication in the family, succession is going to be tough and it will be emotional and it will be hard on the company and hard on the family."

Kan also says succession must include the option of saying "I'm going to blow this up" and treat the second-generation business as a startup. It's a challenge, but necessary for growth amid the disruptions of changing market trends.

"If you want your company to survive, you've got to put people in place to lead the company, that can not just manage through that change but exploit that change for the good of the company," Kan says. "That can be hard to do within a family's skill set. Sometimes it's in your best interest as a business to bring someone in from the outside to run the business."

Find, Develop, Retain Talent

Bringing in people from outside is something national distributors do frequently. Talent acquisition is a priority not only for immediate job fulfillment but also for long-term succession, and distributors seek highly qualified employees with hopes of grooming them through management track or leadership development programs for top-level positions.

At Arrow Electronics, Englewood, CO, the company holds annual talent workshops where managers discuss employees' performances during the year and dissect their potential, says Donna Tikkanen-Davis, the company's vice president, human resources, global employee

To order reprints, reference article #4503-1. Learn more about reprint options at www.mdm.com/reprints.

capability.

Tikkanen-Davis outlined Arrow's three categories for evaluating employees based on their succession preparedness for various roles. "Ready now" means they could serve as a replacement immediately; "ready soon" means they could be prepared to serve as a replacement in six to 18 months; and "ready later" means they could serve as a successor in roughly two years. This process avoids key positions going unfulfilled and keeps Arrow focused on finding and promoting talent throughout its ranks.

"We hold our managers accountable for developing people," Tikkanen-Davis says. "They're required to put development plans in place for the top 15 percent of their team. They have to identify the time frame someone will develop as well as the specific action, and that could be job rotation, it could be a special assignment, it could be a lateral move. We're really monitoring and supporting and tracking what's happening at various levels of the organization regarding talent development and talent movement."

F.W. Webb takes a similar approach to grooming current employees for promotion, fostering what Mucciarone calls a "pathway to growth for everyone with the motivation and talent to take on more responsibility."

"We encourage our employees to seek new opportunities within the company, and we support their ambitions with training to prepare them for current and future openings," he says. "Ingrained in our culture is the expectation that our managers will continually identify Webb people with talent and ambition for leadership positions."

Associations are stressing the importance of talent to members, as well. Emily Saving, vice president of professional and program development for Heating, Air-conditioning & Refrigeration Distributors International, says the association in the last few years began talking about succession planning with its members and will continue doing so – not just for C-suite positions but for all roles within an organization.

"Talent and how you identify, retain and utilize your talent is the most important differentiator between a good company and a great company," Saving says. "It's crucial that our members start paying attention and really start using some of the tools and resources to better position themselves as leaders of talent."

One resource HARDI provides members is its Emerging Leaders program, which the organization launched a year and a half ago. Open to employees of member companies who have been targeted for upper management positions, the program is focused on grooming talent and providing networking opportunities, and its popularity has seen it double recently from 40 people to 80 people.

"It ensures that their current talent is going to also grow into their future talent, that their skill sets aren't going to become stagnant and they're not going to become irrelevant," Saving says.

Succession planning might seem overwhelming for a company owner focused on pricing, e-commerce capabilities, finding new customers and expanding to different markets. That's why John Salveson of Salveson Stetson Group, which helps companies search for talent inside or outside their ranks, says it is imperative for distributors to empower their human resources departments with the task of recruiting and developing talent. While the HR role has traditionally been administrative and transactional – making sure benefits are in place, payroll is accurate, employment applications are filled out – Salveson argues for shifting the HR model to one that is transformational.

"(HR professionals) are really good at finding and attracting talent. They're really good at developing executives and organizational plans. They understand how the business works. They should be the CEO's right-hand person on these issues," Salveson says. "My experience is, many wholesale distributors haven't made the transition in HR from the traditional transactional position to the much more strategic transformational role. That's a simple thing they can do."

Starting with a simple task can pay huge dividends. Because failing to plan for a company's succession could spell disaster if a COO suddenly jumps ship or a longtime owner unexpectedly dies.

"This is a ticking time bomb," Salveson says. "You've got to get serious about this if you're not already."

Look for Part 2 in the Feb. 25 issue, which will examine how some distributors have made succession planning part of their corporate culture.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

Use & Abuse of Customer Profitability Analytics

Avoid critical business mistakes when deploying profitability tools

Distributors are increasingly aware of the need to understand customer profitability, and more tools are available than ever before to help with this process. This article examines how to deploy profitability tools and how to avoid making critical business mistakes in the process.

This is the first article in a three-part series on customer profitability analytics.

By Steve Deist

Over the past few years distributors have increasingly focused on understanding the profitability of specific customers or even individual transactions. There are many flavors of the concept, which goes by names such as top grading, cost to serve (CTS) and customer stratification. The idea is that by calculating the gross margin, expenses and working capital involved in each transaction at a granular level, a distributor can make better decisions about pricing and resource allocation. Why continue letting "loser" customers suck all your profit? Instead, identify the high-profit customers and take really good care of them so they never leave.

This analytical approach to profitability is long overdue, and it has generally been a healthy exercise for the industry. It's important to understand where money is being made and where it is not. Customer profitability analytics have helped many companies improve gross margins, reduce service costs, uncover operational inefficiencies and deploy limited sales resources more effectively.

The analysis usually produces compelling charts that rank customers by net profitability. These invariably show "gold" accounts producing the majority of profits on the left side, "lead" accounts that lose money on the right side and the break-even "silver" and "bronze" accounts in the middle. The thinking that results from these charts is along the lines of "If we could just get rid of those lead guys we'd double our profit."

But as my colleague Mike Emerson says: "If I could just shoot every hole like my best ones, I'd be on the pro golf tour."

Most distribution executives know intuitively that their businesses are a mix of profit contributors and profit detractors. The challenge is not recognizing how wonderful it would be if everyone were above average; the challenge is actually getting there.

It Starts with ABC

Almost all customer profitability analysis tools are based on the concepts of activity-based costing (ABC), a method of breaking down shared expenses to specific activities so they can then be assigned based on how customers consume the activities. For example, if Marla, a warehouse employee, costs $30,000 annually and picks 3,000 order lines per year, then the average customer is assumed to incur a picking cost of $10 for each line it orders.

Dissecting all the activities, cost drivers and transactions like this for everyone in the organization and mapping them to all customers is no small effort. It gets tedious and resource-intensive. To keep the project manageable, the majority of distributors who go down the ABC path make a lot of simplifications. They often limit themselves to a handful of characteristics that are easy to extract from their business system. A common approach is to simply use a count of outbound order lines along with cost factors for different delivery types (e.g., vendor drop ships, warehouse deliveries or counter pick-ups).

Software is available that can help deal with the volume of data generated by ABC analysis. The best packages provide tools for cleansing data, clear graphics to visualize the profit picture, and analysis capabilities to enable managers to slice and dice different combinations of customers, products and sales territories on the fly. These tools provide data to replace anecdotes, helping management move beyond endless debates with sales reps about what is "good" business. They arm sales teams with quantitative information for setting prices or negotiating with customers. It is not uncommon for a company to gain a full point of gross margin simply by making sales reps more clearly aware of profit-draining customers.

It is important to apply common sense and recognize that precise numbers are not necessarily accurate ones. An old professor of mine used to make fun of our tendency to treat numbers as somehow more real when they appear on a spreadsheet or colorful graphic. Beware of false precision, or what he called "seat of the pants to the fourth decimal."

To order reprints, reference article #4503-2. Learn more about reprint options at www.mdm.com/reprints.

Consider Your Assumptions

In our firm's experience, there are two common sources of material inaccuracy. The first is oversimplification. Getting an 80 percent accurate picture is usually sufficient for decision-making. Unfortunately, some ABC simplifications can take that picture below this 80 percent threshold. In the warehouse it is common for order changes and expedites to consume 40 percent of the outbound labor force, especially in highly automated facilities or those that use zone or batch picking. In back-office functions it is common for errors and discrepancies to consume more than half of the labor cost. For example, payables clerks can often process hundreds of "three-way matched" invoices (i.e., where the purchase order, receiving document and invoice all line up) in the time it takes to reconcile a single mismatched one. If a model assumes that a customer's payables cost is based purely on its invoice quantity, this effect will never be seen. Rather than trying to reduce invoices from all customers, a far more effective approach might be to address the few customers with high error rates.

Putting too much faith in "close-enough" numbers almost put one East Coast distributor out of business. The company's cost-to-serve calculation estimated delivery expenses based on a customer's distance from the warehouse, which seems reasonable. In reality, cost was driven almost entirely by truck routing. A remote customer at the far end of a standard route was actually cheaper to serve than a closer one that wasn't adjacent to any other deliveries. After implementing pricing and service adjustments based on the flawed assumptions, the company found its trucks bouncing back and forth through traffic-clogged cities, half empty and usually late. Its overall revenue dropped by far more than expected, and its expense levels actually rose. The company was forced to abandon the strategy and had to work for more than three years to regain the business lost from its estranged customers.

This is an extreme example. The point is not that assumptions are always bad, but rather that distributors must be careful about how they make and interpret the results. If the cost formula relies solely on a count of order lines, then the answer will always be some form of "get the customer to order less often." But it may be that a better answer is to implement a "perfect order" process in which no human intervention is required. This might let the customer order more frequently so it maintains lower average inventory levels. If the ABC analysis is too cursory, the better approach may never be identified.

Selling Costs Are Different

The second source of inaccuracy is in demand creation, what distributors loosely call selling costs. These include all the things a distributor does that lead to a customer's intention to buy, such as prospecting, relationship building and consultative sales calls. The activities that come after the customer's intention to buy can be considered "demand fulfillment" services, including order entry, warehouse picking, delivery and the invoicing cycle. ABC is very good at assigning demand-fulfillment costs to customers because they are largely transaction-driven. All other things being equal, twice the order lines equals twice the cost.

But demand creation costs are not amenable to ABC because they aren't connected to individual transactions. While it's relatively easy to tie Marla's pick to a specific customer, how can the cost for prospecting, lunch-and-learns, travel time and sales meetings be accurately allocated? ABC comes from the world of manufacturing, where factory labor costs are often higher than material costs – the opposite of what is typically seen in distribution. Our benchmarks indicate that only 25 percent of most distributors' labor expenses are in production-line jobs that can be readily tied to specific transactions, such as warehousing, order processing and purchasing. Other costs can be made to look like they are customer-driven on a spreadsheet, but the reality is that they will not change as a result of anything any individual customer does or stops doing.

To accurately measure selling costs, management needs to understand how sales reps actually spend their time and how sales resources vary throughout the customer lifecycle.

Careful with the Sales Whip

Customer profitability analysis is often promoted as a way to help sales reps find more desirable business. Of course reps should have at least a rough idea of the company's net profit and how it is influenced by customer and product mix, but there needs to be care to not overestimate their influence over the profit levers.

Our firm has seen many attempts to incorporate cost-to-serve factors into sales rep management and compensation. The majority of these have either foundered or been counterproductive. In a typical example, a construction supply distributor found its sales reps ordering factory drop ships from thousands of miles away for items that were currently sitting on

the shelf of its local warehouse. Why? Because their commissions were tied to the CTS formula, which showed that warehouse orders were more expensive than direct shipments from the vendor.

The cardinal rule of incentivization is: Don't reward or punish for factors that are outside the individual's control. It isn't effective and generates anxiety and resignation. Realistically, reps lack control over the key drivers of CTS. They can't influence warehouse productivity, truck routing or, in many cases, the customer's ordering cycle. Worse, they rarely understand the complex formulas and almost never believe that calculations are accurate. Most times they see them as a ploy to reduce their pay or deprive them of the fruits of their own labor. They inevitably become frustrated trying to do something they are not well-equipped to do instead of what they were hired to do.

Encouraging sales reps to focus on the "gold" customers may lead to the exact opposite of what is needed to grow. You want your best hunters going after market share, not making buddy calls to service big, loyal customers. Today most distributors can't afford to have their most expensive sales resources focused on anything but pioneering new growth opportunities and attacking the competitors' crown jewel accounts.

The bottom line is that customer analytics are a proven platform for improving profitability. But they are not a solution in a box. Understand the underlying assumptions and limitations to ensure that the right conclusions can be drawn and acted on. In some cases, the results may be sufficient to take immediate action for margin or cost improvement. In others, the most important output will be identifying the areas of business that warrant deeper investigation.

Part 2 of this series will explore how to use customer analytics to drive profit improvement.

Steve Deist is a partner with Indian River Consulting Group, a firm focused on market access for distributors and manufacturers. Contact him at sdeist@ircg.com.

CEOs Less Optimistic about Global Economy for 2015

Fewer CEOs than last year think global economic growth will improve over the next 12 months, according to the results of PwC's 18th annual Global CEO Survey.

Thirty-seven percent of CEOs think global economic growth will improve in 2015, down from 44 percent last year; 17 percent believe global economic growth will decline, more than twice as many as a year ago (7 percent). The remaining 44 percent expect economic conditions to remain steady.

Regionally, the results show wide variations. CEOs in Asia Pacific are the most optimistic about the global economy, with 45 percent anticipating improvement, followed by the Middle East (44 percent) and North America (37 percent). Only 16 percent of CEOs in Central and Eastern Europe expect economic improvement.

CEOs in emerging economies, such as India (59 percent), China (46 percent) and Mexico (42 percent) are more optimistic about the economy than those in developed economies, such as the U.S. (29 percent) and Germany (33 percent).

"The world is facing significant challenges: economically, politically and socially. CEOs overall remain cautious in their near-term outlook for the worldwide economy, as well as for growth prospects for their own companies," said Dennis Nally, chairman of PricewaterhouseCoopers International. "While some mature markets like the U.S. appear to be rebounding, others like the eurozone continue to struggle. … Finding the right strategic balance to sustain growth in this changing marketplace remains a challenge.

Over-regulation again tops the list of concerns, named by 78 percent of CEOs worldwide. This is up 6 points from last year and is now at the highest level ever seen in the survey. Countries where concern about over-regulation is particularly high include Argentina (98 percent), Venezuela (96 percent), the U.S. (90 percent), Germany (90 percent), the UK (87 percent) and China (85 percent).

Other top concerns cited by CEOs are availability of key skills (73 percent), fiscal deficits and debt burdens (72 percent), geopolitical uncertainty (72 percent), increasing taxes (70 percent), cyber threats and the lack of data security (61 percent) – going up rapidly from 48 percent last year – as well as social instability (60 percent), shifting consumer patterns (60 percent) and the speed of technological change (58 percent).

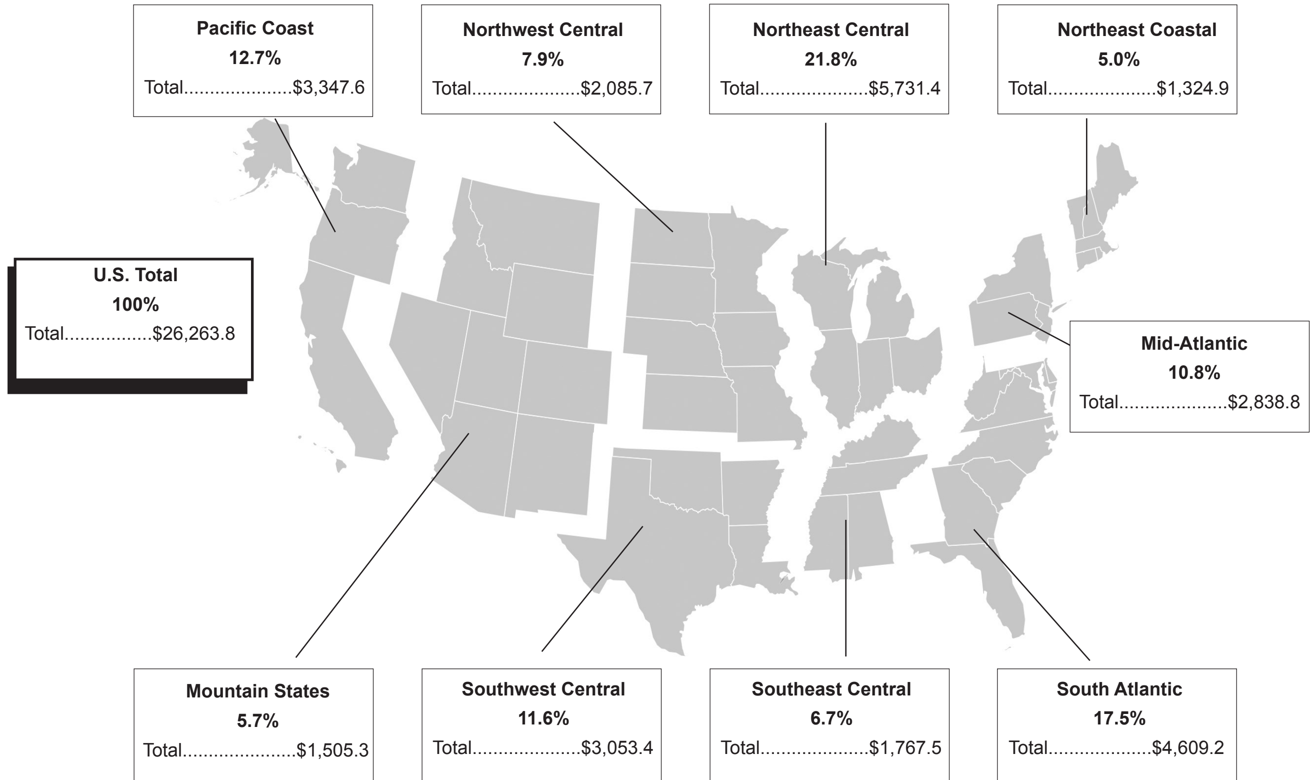
CEOs concerns are up in all areas compared to last year with the exception of energy costs where they are slightly down at 59 percent.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

MARKET ANALYSIS: Chemicals Consumption in North America

Consumption of Chemicals in the U.S. was $26.3 billion in 2013, according to data from Industrial Market Information.

End-user consumption of Chemicals by region, in millions of $ (2013 estimates).



End-User Consumption of Chemicals in Canada (US$): $3.2 billion

End-User Consumption of Chemicals in Mexico (US$): $2.9 billion

■ U.S. End-User Consumption of Chemicals: Top 10

Top 10 end-markets in $ volume, by NAICS code, consuming Chemicals (2013 estimates)

End User		Estimated Consumption
238320	Painting and Wall Covering Contractors	$1,420.5 million
238220	Plumbing, Heating, and Air-Conditioning Contractors	$848.8 million
237310	Highway, Street, and Bridge Construction	$743.4 million
236220	Commercial and Institutional Building Construction	$715.4 million
336390	Other Motor Vehicle Parts Manufacturing	$616.4 million
238110	Poured Concrete Foundation and Structure Contractors	$450.1 million
336412	Aircraft Engine and Engine Parts Manufacturing	$438.8 million
336111	Automobile Manufacturing	$410.6 million
332710	Machine Shops	$387.9 million
322121	Paper (except Newsprint) Mills	$372.0 million

This market size estimate was compiled by Industrial Market Information, Lafayette, CO. Learn more about Industrial Market Information at www.imidata.com.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

mdm.com®

Industrial & Construction Markets Update

VOL. 45, NO. 3 | FEBRUARY 10, 2015

Grainger Sales Rise 6% in 2014

Grainger, Chicago, IL, reported sales for the year ended Dec. 31, 2014, were $10 billion, up 6 percent from 2013. Profit was $802 million, up 1 percent from the previous year.

"This was a challenging year, and we were not satisfied with our overall 2014 performance," said President and CEO Jim Ryan. "As we committed to a year ago, we addressed several smaller underperforming businesses and believe we have positioned the company for better results going forward. There were, however, several bright spots in 2014, including the United States segment, which continued to perform very well, gaining share with large customers. We were also pleased with the single channel online model businesses in Japan, the United States and Europe, which continued their rapid growth."

Company sales in the fourth quarter increased 6 percent to $2.5 billion. The 6 percent sales growth for the quarter consisted of 7 percentage points from volume, 1 percentage point from price and 1 percentage point from sales of Ebola-related safety products, partially offset by a 2 percentage points decline from unfavorable foreign exchange and a 1 percentage point negative variance from lapping an extra month of sales from the E&R Industrial Inc. acquisition. Profit for the quarter decreased 5 percent to $148.8 million.

Sales in the U.S. segment increased 6 percent in the 2014 fourth quarter versus the prior year. Strong sales growth to customers in the natural resources, commercial and manufacturing customer end markets contributed to the sales increase in the quarter.

Sales in Canada increased 3 percent in U.S. dollars, 11 percent in local currency, in the fourth quarter. The 11 percent sales increase consisted of 7 percentage points from the acquisition of WFS Enterprises Inc. on Sept. 2, 2014, and 4 percentage points increase

continued on p.4 of this section

Distributor News

France-based electrical distributor **Sonepar** has acquired **Gruppo Matel Spa**, Padua, Italy, an electrical distributor with sales of €28 million (US$32.5 million) in 2013.

Sonepar has acquired **Vanas Beyond Tools**, Antwerp, Belgium, a distributor of tooling and lifting accessories with annual sales of €14 million (US$15.8 million).

Sonepar has acquired **Solar Deutschland**, a German electrical wholesale distributor with 2014 sales of €125 million (US$142.9 million).

CONSOL Energy Inc., Canonsburg, PA, has sold its industrial supply division **Fairmont Supply Co**.

Arrow Electronics Inc., Englewood, CO, through its wholly owned subsidiary in Munich, Germany, **Arrow CEHM**, is initiating an all-cash tender offer to acquire **Data Modul AG** for €94 million (US$106.2 million).

Arrow Electronics has acquired **RDC**, a wholly owned subsidiary of **Computacenter UK Ltd**, for £56M (US$84 million).

Arrow Electronics reported sales for 2014 of $22.8 billion, a year-over-year increase of 6.6 percent. Profit increased 24.7 percent to $498 million. Sales for the fourth quarter were $6.4 billion, up 4 percent from prior-year period. Profit decreased 13.8 percent to $116.2 million.

The Fastenal Company, Winona, MN, reported sales for January of $313.5 million, a 6.9 percent increase over the same period a year ago. Daily sales increased 12 percent to an average of $14.9 million.

Airgas Inc., Radnor, PA, reported third-quarter sales of $1.3 billion, up 7.2 percent year over year. Organic sales increased 6 percent. Profit increased 12.6 percent to $93.2 million. For the first nine months, sales were $4 billion, up 5.2 percent year over year. Profit grew 6.8 percent to $280.4 million.

European distributor **Wolseley plc** will explore exit options for its remaining building materials business in France.

Fluid power distributor **Ryan Herco Flow Solutions**, Burbank, CA, has acquired **GFI Stainless**, Modesto, CA, a distributor of stainless steel and special alloy fluid handling products.

RelaDyne, Cincinnati, OH, a distributor of lubricants, fuel, diesel exhaust fluid and industrial reliability services, has acquired **Fentress Oil Company**, Oklahoma City, OK, a distributor of lubricants, fuel and related products and services.

Tech Air, a Danbury, CT-based distributor of industrial, medical and specialty gases and related welding supplies, has agreed to acquire New York-based **Prest-O-Sales & Service Inc**. and **Prest-O-Peconic Inc**.

continued on p.2 of this section

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

MARKETS UPDATE SUPPLEMENT P. 2

News Digest

Continued from p. 1 of this section

Applied Industrial Technologies, Cleveland, OH, second-quarter sales were $691.7 million, up 18.9 percent from the same quarter a year ago. Profit grew 14.7 percent to $29.7 million. For the first six months, sales were $1.4 billion, up 17.4 percent from the prior-year period. Profit rose 11.5 percent to $52.8 million.

WESCO International Inc., Pittsburgh, PA, reported sales for 2014 of $7.8 billion, a 5 percent increase from 2013. Organic sales increased 5.6 percent. Profit increased 4.2 percent to $1.6 billion. Fourth-quarter sales were $1.9 billion, up 6.1 percent from a year ago, with organic sales growth of 8.1 percent. Profit increased 6.9 percent to $402.2 million.

Anixter International Inc., Glenview, IL, reported sales for 2014 of $6.4 billion, up 3.5 percent over sales in 2013. Profit fell 2.8 percent to $194.8 million. For the fourth quarter, sales were $1.7 billion, up 4.4 percent over the year-ago quarter. Organic sales decreased 2.1 percent. Profit fell 29.3 percent to $41.1 million.

Praxair Inc., Danbury, CT, 2014 sales were $12.3 billion, up 2.9 percent from 2013. Profit decreased 3.5 percent to $1.7 billion. Sales for the fourth quarter declined 0.7 percent to $3 billion. Profit for the quarter decreased 36.3 percent to $302 million.

L&W Supply, the distribution business of **USG Corp.**, reported sales of $1.3 billion for the year, an increase of 8 percent from 2013. Operating profit was $16 million, compared to $6 million in 2013. For the fourth quarter, sales grew 8.9 percent to $342 million. Operating profit was $7 million, up 75 percent from fourth-quarter 2013.

USG Corp., Chicago, IL, 2014 sales were $3.7 billion, up 4.3 percent from the previous year. Profit decreased 21 percent to $37 million. For the fourth quarter, sales were $954 million, up 4.3 percent year over year. The company reported a net loss of $53 million, as compared to a net loss of $4 million in fourth-quarter 2013.

B/E Aerospace Inc., Wellington, FL, reported sales for 2014 of $2.6 billion, up 18 percent from the previous year. Profit decreased 69.1 percent to $57.7 million. Sales for the fourth quarter were $637.8 million, up 10.1 percent from the prior-year period. The company reported a loss of $36 million, as compared to a profit of $51.6 million the same period a year ago.

Wesco Aircraft Holdings Inc., Valencia, CA, reported sales for the fiscal first quarter of $373.7 million, up 66 percent from the previous year. Profit decreased 19 percent to $19.7 million.

Air Products, Lehigh Valley, PA, reported sales for the fiscal first quarter of $2.6 billion, up 0.6 percent compared to the same period a year ago. Profit increased 11.9 percent to $324.6 million.

Avnet Inc., Phoenix, AZ, reported sales for the fiscal second quarter of $7.6 billion, a 1.8 percent increase year-over-year. Profit for the quarter increased 31.1 percent to $163.7 million. Year-to-date sales were $14.4 billion, up 3.6 percent for the same period a year ago.

SILICA, an **Avnet Inc.** company, Poing, Germany, promoted Mario Orlandi to president. Orlandi succeeds Miguel Fernandez who took over as Avnet Electronics Marketing EMEA president.

Hydradyne LLC, Fort Worth, TX, promoted David Parks to president.

WinWholesale Inc., Dayton, OH, named James R. (Rick) McCann as vice president, supply chain and logistics, Sourcing Services, and Matt Newcomer as director of talent acquisition and succession planning.

North American buying group **Affiliated Distributors**, Wayne, PA, reported sales for all AD members, across all AD divisions and countries, grew by 9 percent in 2014 to $31.2 billion.

Economic News

Led by declines in production-related indicators, the **Chicago Fed National Activity Index** fell to -0.05 in December from +0.92 in November. The index's three-month moving average, CFNAI-MA3, moved down to +0.39 in December from +0.54 in November.

Real gross domestic product in the U.S. increased at an annual rate of 2.6 percent in the fourth quarter, according to the advance estimate released by the Bureau of Economic Analysis.

New orders for manufactured goods in December decreased 3.4 percent to $471.5 billion, according to the U.S. Census Bureau.

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

New orders for manufactured durable goods in December decreased 3.4 percent to $230.5 billion, according to the U.S. Census Bureau.

Privately owned housing starts in December were at a seasonally adjusted annual rate of 1,089,000, according to the U.S. Census Bureau and the Department of Housing and Development. This is 4.4 percent above the revised November estimate of 1,043,000 and 5.3 percent above the December 2013 rate of 1,034,000.

December 2014 construction spending was estimated at a seasonally adjusted annual rate of $982.1 billion, 0.4 percent above the revised November estimate, according to the U.S. Census Bureau of the Department of Commerce. The December figure is 2.2 percent above the December 2013 estimate. For 2014, construction spending was $961.4 billion, 5.6 percent above the total for 2013.

Construction employment expanded in 257 metro areas, declined in 43 and was stagnant in 39 between December 2013 and December 2014, according to a new analysis of federal employment data by the Associated General Contractors of America.

Construction firms added jobs in 40 states and the District of Columbia between December 2013 and December 2014 while construction employment increased in 38 states and D.C. between November and December, according to an analysis of Labor Department data by the Associated General Contractors of America.

The January **PMI** was 53.5 percent, 1.6 percentage points lower than December, according to the latest Manufacturing ISM Report on Business. The **New Orders Index** registered 52.9 percent, a decrease of 4.9 percentage points from December.

The **Conference Board Leading Economic Index** for the U.S. increased 0.5 percent in December. The **Coincident Economic Index** and the **Lagging Economic Index** increased 0.2 percent and 0.3 percent, respectively.

Canadian investment in new housing construction rose 3.7 percent to C$4.1 billion (US$3.3 billion) in November compared with the same month in 2013.

Canadian wholesale sales declined 0.3 percent to C$54 billion (US$43.6 billion) in November, according to Statistics Canada.

Canadian manufacturing sales declined 1.4 percent to C$51.5 billion (US$42.5 billion) in November.

The **Canadian Industrial Product Price Index** decreased 1.6 percent in December, mainly because of lower prices for energy and petroleum products. The **Raw Materials Price Index** declined 7.6 percent in December, largely as a result of lower prices for crude energy products.

Compared with November 2014, December **industrial producer prices in Europe** fell 1 percent in both the euro area (EA18) and the EU28, according to Eurostat, the statistical office of the European Union. Compared with December 2013, industrial producer prices fell 2.7 percent in the euro area and by 3.1 percent in the EU28.

Heating, Air-conditioning and Refrigeration Distributors International reported 9.4 percent sales growth for November. The annualized growth through November is 6.9 percent, at the upper edge of its range for 2014.

The **ISA Manufacturer Index** increased from 53 in November to 61.3 in December, while the **ISA Distributor Index** rose from 63 in November to 66.6 in December, according to the Industrial Supply Association Economic Indicator Report.

Manufacturer News

Continental AG, Hanover, Germany, has acquired U.S. rubber company **Veyance Technologies Inc.**, Fairlawn, OH. **Veyance** will become part of Continental's **ContiTech** division.

St. Paul, MN-based **3M** reported sales for 2014 of $31.8 billion, up 3.1 percent over the previous year. Organic local-currency sales grew 4.9 percent. Profit increased 6.4 percent to $5 billion. During the fourth quarter, sales were $7.7 billion, up 2 percent year-over-year. Profit grew 6.9 percent to $1.2 billion. Organic local-currency sales grew 6.3 percent.

Parker Hannifin Corp., Cleveland, OH, reported sales for the second quarter of $3.1 billion, up 0.6 percent year-over-year. Profit increased 6 percent to $267.3 million, compared to the prior year quarter. Fiscal year to date, sales were $6.4 billion, up 1.1 percent over the prior-year period. Profit increased 10 percent to $547.3 million.

continued on p.4 of this section

Copying or reprinting all or parts of this newsletter without specific permission violates federal law!

MARKETS UPDATE SUPPLEMENT P. 4

News Digest
Continued from p. 3 of this section

Parker Hannifin named Thomas L. Williams as CEO and Lee C. Banks as president and COO, effective Feb. 1.

Illinois Tool Works Inc., Glenview, IL, reported sales for 2014 of $14.5 billion, up 2.5 percent from 2013. Profit increased 75.5 percent to $2.9 billion. For the fourth quarter, sales were $3.5 billion, down 1.4 percent from the same period a year ago. Profit was $450 million, up 10.3 percent.

Kennametal Inc., Latrobe, PA, reported second-quarter sales of $676 million, down 2 percent from the previous year, with organic sales also decreasing 2 percent. The company reported a loss of $388 million, as compared to a profit of $24.2 million the same quarter a year ago.

The Timken Company, Canton, OH, reported sales for 2014 of $3.1 billion, up 1.3 percent from the previous year. Profit decreased 35.8 percent to $168.7 million. Sales for the fourth quarter were $762.2 million, up 1.7 percent year over year. Profit decreased 19.7 percent to $42.3 million.

TimkenSteel Corporation, Canton, OH, reported sales for 2014 of $1.7 billion, a year-over-year increase of 21.2 percent. Profit increased 17.3 percent to $105 million. Sales for the fourth quarter were $408.3 million, up 23.7 percent year-over-year. Profit decreased 34.8 percent to $17 million.

Pentair plc, Manchester, UK, reported sales for 2014 of $7 billion, up slightly over sales in 2013. Core sales increased 2 percent. Profit was $222.9 million, compared with profit of $536.8 million a year ago. For the fourth quarter, sales were $1.8 billion, down 2 percent in a year-over-year comparison. Core sales increased 2 percent in the quarter. Profit fell 19 percent to $128.8 million.

Switzerland-based power and automation company **ABB** reported sales for 2014 of $39.8 billion, a decrease of 4.8 percent from 2013. Profit decreased 6.9 percent to $2.6 billion. Fourth quarter sales were $10.4 billion, down 9 percent from the prior-year period. Profit increased 29.5 percent to $680 million.

RBC Bearings Inc., Oxford, CT, reported sales for the third quarter ended Dec. 27, 2014, of $106.3 million, an increase of 5.7 percent from the previous year. Profit for the quarter increased 10.1 percent to $14.1 million. For the first nine months of the fiscal year, sales were $331.9 million, up 8.7 percent from the previous year. Profit increased 3.1 percent to $43.3 million.

Snap-on Inc., Kenosha, WI, reported sales for 2014 of $3.3 billion, up 7.2 percent from the previous year, with organic sales up 6.9 percent. Profit increased 20.4 percent to $421.9 million. Sales for the fourth quarter were $857.4 million, a 7.5 percent increase year-over-year, with organic sales up 9.8 percent. Profit increased 23 percent to $116.2 million.

Diversified industrial manufacturer **Eaton Corp.**, Dublin, Ireland, reported 2014 sales were $22.6 billion, up 2.6 percent from the previous year. Profit decreased to $1.8 billion. Sales for the fourth quarter were $5.6 billion, an increase of 0.5 percent year-over-year. Profit grew 21.3 percent to $585 million.

Grainger
Continued from p. 1 of this section

from volume. The 4 percent volume growth in Canada was led by higher sales to customers in the government and utilities end markets.

Sales for the other businesses increased 13 percent for the 2014 fourth quarter versus the prior year. Sales growth in the other businesses was driven by MonotaRO in Japan and Zoro in the U.S. and Mexico, partially offset by lower sales from Fabory in Europe.

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 dillon@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.

Copyright © 2015 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish or quote material, please call 303-443-5060.