Modern
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Intelligence for Wholesale Distribution Professionals

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■ *Succession Planning in Distribution, Part 2*

Executing the Strategy

Best practices for implementing a succession plan

Even if a company has a vision, strategy and talent for its succession plan, challenges remain for ensuring it will prosper beyond its current leadership. Distributors share their best practices for succession, from identifying talent to forming new C-suite positions to creating employee stock ownership plans.

By Eric Smith

Succession planning is easy to define but not always easy to execute. That's especially true for distributors, who routinely list it as a pain point for their own businesses, as well as for the industry, because of an aging workforce and growing talent gap. Beyond creating a vision and strategy, and then working to attract and retain talented employees as outlined in Part 1 of MDM's look at succession planning, distributors must incorporate succession planning into their culture.

When electronics distributor Arrow Electronics Inc., Centennial, CO, last year named Andrew Bryant as COO of the company's global components and global enterprise computing solutions businesses, company President and CEO Michael Long mentioned succession planning as part of the reason for the appointment. It remains top of mind for the company, which hosts annual talent workshops where department managers identify high-potential employees for promotion.

"The critical element of succession planning, historically, is continuity," says Donna Tikkanen-Davis, Arrow's vice president, human resources, global employee capability. "I think the new element of succession planning and management is attracting and retaining talent."

Graybar, St. Louis, MO, also works throughout the year with managers and senior leadership as part of the distributor's "people strategy," which is designed around the identification and development of talent within its ranks.

"We make sure we're all working together on the same page to identify who our talent is and help all our employees grow within the organization," says Beverly Propst, the company's senior vice president, human resources. "Having a good assessment of your talent is so important."

The process of identifying and grooming candidates for C-suite positions should begin early, according Bob Mucciarone, recently appointed to the new position of COO at F.W. Webb Company, Bedford, MA.

"Companies should assess their strengths and weaknesses in the sales function and operationally, and to evaluate both these aspects in terms of their organizational chart," he says. "Once the review is completed, companies can begin the employee training process to bring along their key performers. It all starts with early training and placing employees in positions where they can excel and move up in the organization."

Some companies have made succession planning such a high priority they create positions to ensure it occurs. Earlier this month WinWholesale named Matt Newcomer as director of talent acquisition and succession planning to "recruit and groom future leaders and entrepreneurs who will get the opportunity to run a distribution business," says Corporate Communications Manager Maury Williams.

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Forecast: Mostly Cloudy and Competitive

There's a good chance we may be looking back on 2015 as a tide turner. Let's look at the puzzle pieces to see what that means for a distribution company and what's at stake.

First, the economic tea leaves have finally settled to the bottom of the cup. Stability was the missing element over years of a slow recovery. The first quarter and leading indicators show momentum. We are by most predictions at the beginning of multi-year slow-growth trajectory.

Second, as I mentioned in my last commentary, there's a definite change in conversations about share gains and losses taking place. Investments made in sales, marketing and technology during and after the recession are starting to yield dividends as some competitors are targeting traditional and new markets more effectively.

Third, M&A activity is white hot. Even less-than-stellar performance companies are being targeted for geographic and product-line expansion. Traditionally, that has been thin ice to skate on, but it's a sign of this stage of a stable and growing business cycle.

The final piece is technology. Regardless of platform, there has been an explosion in customized solutions and applications. But how many have not adjusted their management of IT resources to a more strategic approach? Are you waiting for a more integrated solution to appear to keep life simple? Don't hold your breath!

An often-cited benchmark for annual IT spend by distributors has been in the range of 1 to 2 percent of annual revenues. My anecdotal sense is that while that spend level has increased in the past 12 to 24 months, there are still many companies holding back. They have not elevated IT to a more strategic level. The result is they are feeling more controlled by IT than empowered, particularly in the areas of e-commerce and CRM – both powerful growth tools.

There are three key levers to differentiate and compete – talent, technology and tenacity. Tenacity is defined by the leadership and culture within a company. The technology tools are there. What's missing is the talent to take more control internally of a more complex IT environment.

There is great growth opportunity shaping up in 2015 and beyond, but the price tag is managing increasing levels of complexity. More than ever, it's time to challenge assumptions and develop or import the right talent to manage it. That's the only way to reframe the future story for your company.

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Succession Planning
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The appointment underscores the Dayton, OH, distributor's aim to build on the success it saw in 2014 with double-digit revenue growth by opening more locations and adding employees.

"Succession planning is a prudent step and Matt will take an active role in making sure we identify and prepare the right people to move into key positions, both at local companies and at corporate," Williams says.

While replacing a CFO who retired after decades, developing a high-potential employee before she bolts for a competitor or appointing a new president because the last one died unexpectedly can seem to be daunting tasks for a company otherwise absorbed with expanding market share, adding products or deciding where to build its next distribution center, these moves are essential to any company's long-term prosperity.

"I've never met a business leader who doesn't say that people are critical to their business," says Graybar's Propst. "Sometimes they will even say people are the most important part of their business. We certainly believe that people are the most important part of our business, and if that's the case, succession planning is not something you would want to leave to chance."

That means not waiting until the last minute – a resignation, retirement or even untimely death – to find a successor but instead actively seeking talent at all times, says Emily Saving, vice president of professional and program development for Heating, Air-conditioning & Refrigeration Distributors International, which advises members to begin succession planning if they haven't already. Saving suggests that companies develop a process for filling the pipelines of all positions, assess its current bench strength and create a road map to address turnover.

"You need to always be on the lookout for talented people and always figuring out who's next to fill those gaps," Saving says. "It requires a precision focus on the future."

Owens & Minor Inc., Richmond, VA, recently displayed that focus on the future when the company's board of directors announced a search to replace retiring President and CEO James L. Bierman. The board said Bierman informed it of "his own horizon for retirement and asked that a search for his successor be initiated."

"Transitioning from one leader to another is a significant event for any company, and we believe it is vital that we identify the right person to lead Owens & Minor into the future," Bierman said. "In looking ahead, I recognized that this executive leadership transition could take a significant amount of time. Therefore, I thought it was appropriate to begin the process now, in order to ensure a seamless transition."

But with distribution executives citing a talent gap in the industry, a seamless transition might seem unattainable, says John Salveson of Salveson Stetson Group. That may mean looking outside of the industry for the right person, something his firm always does when it conducts a search for a senior-level wholesale distribution position.

"There are other areas that have done a better job of developing people," Salveson says. "There's a lot of people in (wholesale distribution) leadership roles who have been there for a long time, really are experts in the company for which they work, may or may not have a family connection or ownership connection, which makes them people who are not going to move. It would be very rare for us to present a slate of candidates for wholesale distribution role that doesn't include people from outside that sector."

Smaller, family-owned companies must be especially mindful of their succession needs, which might be centered on talent acquisition and retention but also include strategies beyond replacing an outgoing executive with another. One option is selling to a private equity firm or a competitor. Consolidation is an ongoing theme in distribution and manufacturing, and divestment could be the right exit plan for companies that aren't concerned with legacy, don't have offspring to take over or simply want to cash out.

Another option is an employee stock ownership plan (ESOP), in which the owner sells shares of the company to its workforce, something cfm Distributors, Kansas City, MO, implemented 15 years ago. President Tom Roberts said the plan hinges on paying attention to three components – ownership, leadership and tasks – while also making sure the stakeholders carefully consider the desired outcome for the company and the options that will help them achieve it.

"A leadership succession plan is more than placing a name in a slot," Roberts says. "It is the development of necessary skills to accomplish the required tasks, learning to listen and communicate with staff, vendors and customers to

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develop solutions, constantly accessing strategic opportunities and threats, while all the time charting a course to success for all. None of this is possible for the successor leaders without organizational support, for the buy-in of the lead is more important than the skills of the leader."

No matter what the succession plan looks like, Propst says focusing on a few basics – "knowing who your top talent is, what kind of skills you need in your organization today and what you think you're going to need in years to come" – will pay huge dividends.

"If you take that information, process it and put together a plan so that it all comes together at the end, you'll be well-invested for the future," she says. "It doesn't need to be a complicated process, but it does need to be something that you pay attention to."

■ *Customer Profitability Analytics, Part 2*

3 Margin Levers of Customer Profitability

Best practices for using customer profitability analytics to drive improvement

Customer profitability analytics are an effective way to drive improvements in gross and net margins. This article looks at how distributors can apply the information they have uncovered to improving profitability.

Part 1 of this series covered the basic concepts behind customer and transactional cost analysis and presented some key limitations.

By Steve Deist

Once a company has a relatively accurate picture of customer profitability, how can they put that information to use? The first step is to share it. Too often companies treat contribution profit data as if it's a state secret and then wonder why they've failed to see any benefit from their investment in obtaining it.

Every salesperson and customer service rep should be conscious of the relative profitability of their customers. They don't need to know the president's salary or size of the annual rebate checks, but they should have an understanding of where the company makes money and where it doesn't. Often, just communicating is enough to generate improvements. When inside sales reps learn that some of their high-maintenance "star" customers are actually big-time losers, they think differently the next time one of those customers asks for a discount. Replacing anecdote with data can have a profound impact.

Beyond providing visibility, customer profitability data can be used to drive margin improvements in three broad categories:

- Account profit improvement plans (PIPs)
- Pricing optimization
- Services and channel alignment

Profit Improvement Plans

Of the three levers, profit improvement plans, or PIPs, are the most tactical and lowest risk. Each sales rep creates a set of target accounts for profit improvement. The process is similar to growth targeting, but the goal is to grow bottom-line contribution dollars rather than top-line revenue dollars. The rep reviews the profitability of her assigned accounts, identifies a small number of customers that she feels are good candidates for improvement, sets improvement goals for each and develops action plans to reach the goals.

As with a growth target, the objective is dollar improvement, not percentage improvement. A large account with a slightly negative contribution percentage may be a better target than a medium-sized customer that's underwater.

Customer profitability data can guide the rep's planning. If the gross margin is lower than that of comparable customers, the rep can consider adjustments in pricing or improvements in product mix.

The rep should also look for errors or inconsistencies in pricing matrices or contracts used for the customer. A powerful tool is the product gap or "Swiss cheese" report, which identifies "holes" in the product bundle purchased by the customer. The tool returns excellent results because it is based on data from internal peers. For example: "The average rep in our company sells $5 in safety products for every $100 in supplies from paper mills. You get less than $1."

Profitable customers are rarely positive on every single line. They usually buy a mix of high- and low-margin items. If a customer is cherry picking, it's probably not selecting high-margin items. I recently went through this exercise for a "strategic" account with a national sales manager. After looking at the data, he sheepishly concluded that they only "buy the stuff where we made a pricing mistake." The rep had a frank conversation with the customer in which he gave them a choice of an across-the-board price increase or an agreement to buy more product categories. They chose the latter.

If the profitability data indicate the problem is high transaction costs, the rep can look into reducing the cost to serve. This is often a win/win proposition for the customer, as there are always two sides to a transaction. If a customer's behavior is costing the distributor more, it's probably costing the customer more, as well. Armed with this information, a sales rep is perfectly placed to explain the difference between price and cost.

Offering operational discounts in conjunction with price increases can be a great tactic. For example, a sales rep may implement a 1 percent price increase but give a 1 percent discount on orders transmitted by EDI or via an automatic replenishment system. Some companies implement a delivery fee that is waived on the first order of each week, thereby encouraging order consolidation.

If the profitability data show a high cost to sell, then the rep may have a lot of control over the situation. In some cases the account may have significant growth potential, so extra sales time represents a worthwhile investment. In others, however, the rep may be over-servicing the account, making just-in-case sales calls or failing to fully leverage other company resources.

The sales manager can be a powerful coach for these situations. Perhaps the rep is afraid to lose control of the account and feels he can't trust customer service to take their orders or the quotations department to provide job bids. One of the most common dynamics is that reps simply overestimate their personal influence on their large, annuity accounts and underestimate the opportunity cost of their time. Swinging by the plant buyer twice a week may just seem prudent until they realize that a sales call costs $250 and the buyer would rather get some work done.

Plugging Pricing Leaks

Profit improvement plans are a great approach for making customer-specific pricing improvements quickly. But to get broader margin gains, distributors often take a more systematic approach, embarking on large-scale projects to optimize their pricing levels.

Most readers are probably familiar with some approaches for using transactional data to implement sensitivity pricing. A customer is said to be sensitive to a price if a small change has a big impact on demand. With thousands of customers buying thousands of products, it is not usually feasible to analyze the sensitivity for each item bought by each customer. Some distributors use the frequency or dollar value of purchases as a starting point. The idea is that a customer will be less sensitive on the price of a product that he buys infrequently or one that constitutes a small portion of his total spending.

Using current customer profitability as the basis for pricing changes is dangerous, because it can lock in the existing customer base. Good customers are rewarded, and bad ones are punished.

Prospects and developing customers are usually among the least profitable because they require intensive sales effort and are not yet buying their full potential. Raising their prices is probably not going to accelerate their development. The right starting point for a large-scale price level optimization is needs-based segmentation (which will be covered in Part 3 of this series), not current profitability.

Although it's not great for setting price levels, current profitability is helpful for improving pricing processes. Think of this as finding and fixing pricing leaks: The plumbing is there; it just needs to be patched. It's quite common to see far higher margin gains from fixing these process leaks than from more grandiose sensitivity pricing projects.

With contrition and gross margin at the transactional level, they can be analyzed by customer. They can also be analyzed by pricing category (e.g., matrix, contract, override) and order writer (e.g., Frank, Mary, Branch 17, telesales). This provides plenty of data with which to find the major leaks.

Some of the most common leaks are:

- **Mental margin caps –** Sales and customer service reps limit themselves to some arbitrary markup. Addressing the root causes of this type of thinking can yield huge benefits.
- **Last price paid (LPP) ratchet –** Systems often show the last price a customer paid for a product rather than the "right" price. As a result, pricing travels one way: down. The customer calls Larry on the order desk and begs for a lower price "just this one time." Larry obliges and the new, lower price is now displayed on the order entry screen. Next time the customer calls Curly and requests another discount, which Curly agrees to do. The downward LPP spiral can be a major pricing leak.
- **Overly broad categories –** If a customer

negotiates a deep discount for a single item or set of products, don't automatically give him that level on everything he buys. Limit contracts to the specific categories, conditions and time frames quoted. Keep discounts as narrow as possible. It sounds obvious but it's often fastest for a sales rep to apply a single factor across the board. Make it just as easy to quote the right price as it is to quote a low price.

- **Ignoring existing contract rules –** There are far too many examples of distributors negotiating fair and reasonable agreements with customers, only to have the key conditions ignored from day one. A simple, periodic audit is often sufficient to end this unnecessary unilateral disarmament.

This is not an exhaustive list of pricing process leaks, but it provides some ideas for how to use data to find the biggest sources of margin loss.

Service and Channel Alignment

There is often an unstated assumption behind profitability improvement projects: The sales force is just not trying hard enough. Once they've gained new business by low-balling, they never go back and raise prices. If we leave them in control of pricing, everything will be a loss leader. Many distributor executives complain that reps seem to work for their customers more than their employer.

Of course reps will use low prices if that's the only way they can win. But they don't want to undercut themselves any more than the executives do. More gross margin dollars from customers generally means more commission dollars for them. Most sales professionals would love to sell value instead of price, but they often have no way of doing so. Price is the only differentiator when competing suppliers are equal in all other aspects. Nine times out of 10 the race to the bottom is driven by a lack of market access, not the sales force's laziness, incompetence or disloyalty.

Market access refers to how well sales, marketing and service resources are aligned with customer needs and market opportunities. It indicates whether a distributor is selling what the customer is actually buying. It is likely to be the single most important factor in determining a company's overall profitability and long-term growth.

Market access is a strategic opportunity that can't be delegated to the sales force. Executives have to make the decisions about how the company sells and services different customer segments.

Part 3 of this series will focus on how to use customer profitability analysis to improve your company's market access.

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Grainger Tackles the Data Challenge

Clean data is only the first step in a searchable platform

E-commerce remains a priority for Grainger, as sales through online channels continue to grow. Paul Miller, vice president of global e-commerce, customer information and innovation for Grainger, spoke with Editor Jenel Stelton-Holtmeier at the 2015 Grainger Show, a trade show for Grainger's employees, customers and suppliers. Miller discussed how the $10 billion distributor is addressing data challenges that come from having such a broad portfolio and how it is trying to streamline the process for customers.

By Jenel Stelton-Holtmeier

Sales through e-commerce continue to make up a larger percentage of revenue for Grainger, Chicago, IL. But challenges remain for ensuring that customers can find what they want when they want it, according to Paul Miller, vice president of global e-commerce, customer information and innovation for the distributor. Miller spoke with MDM at the recent 2015 Grainger Show, its annual event for employees, customers and suppliers.

"A million and a half products creates a computational and data problem that exponentially grows as you add more products," Miller says.

Tackling that data issue has been a huge focus for Grainger, because it impacts the functionality and usability of its e-commerce channel. Everyone has their own way of searching for items; the key is making sure that each of those ways works to find the right items.

There are many different scenarios for how people search, Miller says. Sometimes people search with the exact product number; some just know the general descriptions. For example, if a customer is looking for a power tool with a nickel-cadmium battery, he may search using NiCd, NiCad, Ni Cad or some other variation. Each of those terms should direct them to what the customer is looking for.

"How do we make sure that they find the right product in each of these cases?" Miller says. "Not one size can ever fit all, you've got to be able to understand those search scenarios or those use cases and know which are going to be most problematic for customers."

To that end, Grainger has an entire team focused on taxonomy and making sure those connections are made. "A lot of this gets back to grungy, gnarly data work," he says.

And then there are the customers who know what they need something for – a certain task or a certain power output, for example – but don't know how to search for the specific parameters. Grainger has developed a tool to help customers search for the correct motors, called "Motor Match," that walks them through a set of questions to winnow down the options "to just the right motor for them," Miller says. The distributor is looking at ways to replicate the tool into other product categories, as well.

Another challenge is that the initial data needs to be complete and standardized. Working with vendors lessens the problem at the origin, but Grainger also designed its system to minimize the variance. When manual entry is required, the system includes drop-down boxes for common attributes, creating "harmony" in the descriptions, Miller says.

"I'm not ever going to say that the data is perfect, but I am going to say it's getting better and better," he says. "The barometer for us is we look at search. … We've seen dramatic increases in what we call 'search to cart.'" More of the products that are searched for are being placed in customer carts, which Grainger translates as meaning the customers were able to find the product they wanted through the search function.

"We're thinking about, from top to bottom, what does it take to be not just a player, to not be just somebody who has a channel called e-commerce, but for e-commerce – and mobile – to be something that really drives value to our customers," Miller says.

Mobile has been one of the fastest growing channels for Grainger, with about 20 percent of website traffic coming from mobile devices. "It's not a question of if our customers are going to embrace mobile, it's not even a question of when," Miller says. "It's now."

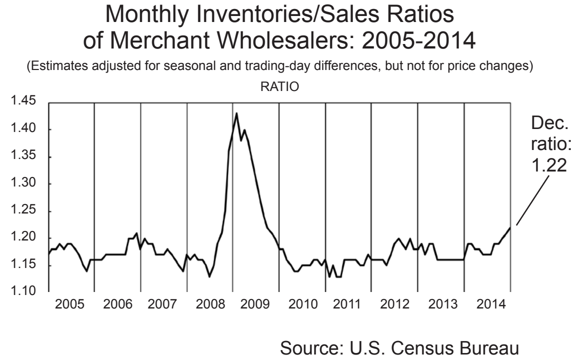
Customers are not differentiating between the platforms they use to access the information, so the information has to be accessible and usable across all of the platforms. Additionally, customers want the experience to be seamless across the platforms.

Staying ahead of customer needs is becoming more challenging because the time between development and adoption is much more compressed than it has been in the past. It requires identifying issues before the customer knows they have them.

For example, Grainger recently launched "personal lists" to help customers manage their product portfolios based on varying attributes, such as location or customer. Based on the idea of wish lists on business-to-consumer sites, these lists will pop up the specific needs of a specific location – for example, the right light bulbs for a particular branch – when the individual walks into that location. "That saves time, that saves effort," Miller says.

In order to keep ahead of the game, however, Grainger needs to stay in touch with its customers' needs. Feedback is a critical piece to make sure the company is addressing the "right things," Miller says. As a result, Grainger has incorporated numerous feedback channels on its website to give those customers easy access to Grainger agents at any time.

Monthly Wholesale Trade Data



Wholesale revenues in December were $449.8 billion, down 0.4 percent from the revised November level and up 1.4 percent from the December 2013 level. December sales of durable goods were up 1.1 percent from last month and up 7.3 percent from a year ago. Sales of nondurable goods were down 1.7 percent from November and down 3.5 percent from last December.

Inventories. Inventories were $547.6 billion at the end of December, up 0.1 percent from the revised November level and up 6.7 percent from the December 2013 level. December inventories of durable goods were up 0.2 percent from last month and up 7.8 percent from a year ago.

Inventories of nondurable goods were down 0.1 percent from November and up 4.9 percent from last December.

Inventories/Sales Ratio. The December inventories/sales ratio for merchant wholesalers was 1.22. The December 2013 ratio was 1.16.

Sales and Inventories Trends: December 2014

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 11/14-12/14	Percent Change Sales 12/13-12/14	Percent Change Inventory 11/14-12/14	Percent Change Inventory 12/13-12/14
42	**U.S. Total**	**449,792**	**547,648**	**1.22**	**-0.4**	**1.4**	**0.1**	**6.7**
423	**Durable**	**216,134**	**339,320**	**1.57**	**1.1**	**7.3**	**0.2**	**7.8**
4231	Automotive	35,435	55,401	1.56	0.4	6.1	0.3	9.3
4232	Furniture & Home Furnishings	5,841	8,971	1.54	0.6	10.8	1.2	5.4
4233	Lumber & Other Construction Materials	11,107	15,560	1.40	5.4	11.2	-0.2	6.6
4234	Prof. & Commercial Equip. & Supplies	39,898	43,486	1.09	-1.0	3.6	0.8	9.5
42343	Computer Equipment & Software	22,148	19,507	0.88	-2.1	1.3	2.6	12.6
4235	Metals & Minerals	14,844	30,300	2.04	-0.8	14.3	0.4	13.0
4236	Electrical Goods	40,147	37,716	0.94	3.4	13.4	-1.7	4.8
4237	Hardware, Plumbing, & Heating Equipment	10,435	20,903	2.00	-1.4	6.3	0.4	12.8
4238	Machinery, Equipment & Supplies	40,215	99,405	2.47	1.5	7.6	0.3	8.0
4239	Miscellaneous Durable	18,212	27,578	1.51	1.5	-2.1	0.4	-0.9
424	**Nondurable Goods**	**233,658**	**208,328**	**0.89**	**-1.7**	**-3.5**	**-0.1**	**4.9**
4241	Paper & Paper Products	8,029	7,409	0.92	1.3	2.2	1.1	0.6
4242	Drugs	44,675	47,361	1.06	4.8	17.8	-0.6	19.9
4243	Apparel, Piece Goods & Notions	13,308	25,266	1.90	-1.5	7.4	-0.6	5.5
4244	Groceries &Related Products	53,779	35,110	0.65	0.3	7.7	1.1	5.9
4245	Farm-product Raw Materials	19,978	21,695	1.09	1.4	-5.8	0.8	-1.4
4246	Chemicals & Allied Products	11,017	12,861	1.17	2.3	3.9	3.4	1.1
4247	Petroleum & Petroleum Products	49,895	16,912	0.34	-13.7	-29.4	-6.2	-19.1
4248	Beer, Wine & Distilled Beverages	11,006	15,266	1.39	1.7	3.2	1.6	7.1
4249	Miscellaneous Nondurable Goods	21,971	26,448	1.20	4.6	5.7	0.6	7.1

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

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Industrial & Construction Markets Update

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'Evolving Industry' Drives Change at United Stationers

United Stationers Inc., Deerfield, IL, along with partner brands Azerty, LagasseSweet and ORS Nasco, will reposition under a single brand, Essendant. The move is a response to a rapidly evolving industry, according to President and CEO Cody Phipps.

"Our industry is evolving rapidly, and it's being shaped by four forces," Phipps said. "The first force is the impact of the digital workplace. This, to me, is the combination of the iPad effect, cloud storage and the millennials entering the workplace. And we all know what that is doing to the consumption of office products."

The continuing shift from brick-and-mortar to e-commerce, the blurring of traditional channels and the convergence of B2B and B2C were further drivers for change, he said. "Simply put, all consumers want an Amazon-like experience when they shop online," Phipps said. "That's coming to the B2B space and we have to be prepared for it."

The competitive landscape also continues to change, including the pending merger of Staples and Office Depot and how "Amazon is building massive scale with no end in sight," two developments that reinforced the company's need to streamline its operations and provide single source for all customers.

Phipps said Essendant will diversify and expand offerings for United Stationers customers, highlighted by recent purchases of MEDCO and CPO with hints of more acquisitions to come.

Essendant will be the name of the common operating and information technology platform for all United Stationers companies, including LagasseSweet, ORS Nasco, MEDCO and CPO.

Though the soft launch of the Essendant brand begins immediately, the company won't formally change its name until June when it seeks shareholder approval.

Distributor News

Grainger, Chicago, IL, reported daily sales for January increased 3 percent over the same period a year ago. U.S. segment sales were up 4 percent year-over-year, and Canadian segment sales were down 4 percent. Other businesses segment sales increased 14 percent.

Graybar, St. Louis, MO, has opened a sales office in the historic Graybar Building in New York, NY.

Motion Industries, Birmingham, AL, has acquired **Oil & Gas Supply**, Anchorage, AK.

Motion Industries reported sales for 2014 of $4.8 billion, an increase of 7.7 percent compared to the previous year. Operating profit increased 15.4 percent to $370 million. Fourth-quarter sales were $1.2 billion, an increase of 10 percent compared to the same period a year earlier. Operating profit increased 31.3 percent to $96.3 million.

Parent company of **Motion Industries**, **Genuine Parts Co**., Atlanta, GA, reported sales for 2014 of $15.3 billion, up 9 percent compared to the previous year. Profit increased 4 percent to $711 million. Fourth-quarter sales were $3.8 billion, an increase of 9 percent compared to the same period a year earlier. Profit increased 10 percent to $166 million.

Arrow Electronics Inc., Centennial, CO, agreed to acquire **ATM Electronic Corp**., an electronic component distributor based in Taiwan with operations in China and 2014 sales of $500 million.

Arrow Electronics Inc. has acquired **United Technical Publishing**, a division of Hearst Business Media and digital provider of product information to the global electronics components industry.

Matheson Tri-Gas Inc., Basking Ridge, NJ, has acquired **Sims Welding Supply**, Long Beach, CA. Matheson is a subsidiary of **Taiyo Nippon Sanso Corp**., a producer of industrial, medical, electronics and specialty gases headquartered in Japan.

Builders FirstSource Inc., Dallas, TX, has acquired **Timber Tech Texas**, Cibolo, TX.

Builders FirstSource Inc. reported sales for 2014 of $1.6 billion, up 7.7 percent over the previous year. Profit for the building products company was $18.2 million, compared to a year-ago loss of $42.7 million. The company reported sales for the fourth quarter of $396.7 million, up 7.5 percent over the same period a year ago. Profit fell 46.5 percent to $2.4 million.

ABC Supply Co. Inc., Beloit, WI, has opened branches in Cumberland, MD, and Sacramento, CA.

Anixter International Inc., Glenview, IL, agreed to sell its OEM supply – fasteners segment to **American Industrial Partners**.

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest
Continued from p. 1 of this section

Bearing Distributors Inc., Cleveland, OH, has acquired industrial distribution company **Munnell & Sherrill**, Portland, OR.

Northern Safety Co. Inc., Frankfort, NY, has acquired **Southland Industrial Supply Inc.**, Flowery Branch, GA, a distributor of safety and industrial supplies with locations in Georgia, Delaware, Missouri and Kansas.

United Stationers Inc., Deerfield, IL, reported 2014 sales of $5.3 billion, an increase of 4.8 percent from the prior year. Profit decreased 3.2 percent to $119.2 million. Fourth-quarter sales were $1.3 billion, an increase of 8.9 percent from the prior-year period. Profit decreased 24.3 percent to $25.8 million.

MRC Global Inc., Houston, TX, reported sales for 2014 of $5.9 billion, an increase of 13.4 percent from the previous year. Profit decreased 5.3 percent to $144.1 million. Fourth quarter sales were $1.5 billion, an increase of 12.5 percent from the same period the previous year. Profit increased 33.7 percent to $31.2 million.

Watsco Inc., Miami, FL, reported sales for 2014 of $3.9 billion, an increase of 5 percent from the previous year. Profit increased 18.5 percent to $151.4 million. Sales for the fourth quarter were a record $877 million, a 6 percent increase over the same period a year ago. Profit increased 39 percent to $24.1 million.

Reliance Steel & Aluminum Co., Los Angeles, CA, reported sales for 2014 of $10.5 billion, an increase of 13.3 percent from the previous year. Profit increased 15.5 percent to $371.5 million. Fourth quarter sales were $2.6 billion, an increase of 11.7 percent from the same period a year ago. Profit increased 49.4 percent to $92.3 million.

Rexel, Paris, France, had sales of €13.1 billion (US$14.9 billion) in 2014, up 0.5 percent on a reported basis and up 1.1 percent on a same-day basis. Profit for the year was down 5.2 percent to €200 million (US$228.2 million). In the fourth quarter, sales in Europe were up 1.1 percent on a reported basis and down 0.8 percent on a constant and same-day basis. Sales in North America in the fourth quarter were up 12.8 percent on a reported basis and up 5.1 percent on a constant and same-day basis.

Lawson Products Inc., Chicago, IL, reported sales for 2014 of $285.7 million, up 6 percent from the previous year. The distributor of MRO

Calculation of MDM Inflation Index for January 2015

		BLS Price Indices Jan '15	BLS Price Indices Dec '14	BLS Price Indices Jan '14	% Sales Weight	Weighted Indices Jan '15 (1)X(4)	% Change Jan '15 Dec '14	% Change Jan '15 Jan '14
1136	Abr. Prod.	571.7	572.9	573.5	19.1	109.20	-0.21	-0.31
1135	Cutting Tools	505.7	497.6	492.7	18.9	95.57	1.63	2.64
1145	Power Trans.	808.2	806.3	803.2	15.4	124.46	0.23	0.62
1081	Fasteners	509.6	508.5	510.4	9.0	45.86	0.21	-0.16
1149.01	Valves, etc.	966.9	964.5	964.5	7.6	73.49	0.25	0.25
1132	Power Tools	367.1	362.5	359.1	6.5	23.86	1.28	2.22
1144	Mat. Handling	585.4	583.7	571.1	6.2	36.30	0.29	2.51
0713.03	Belting	833.4	832.1	836.9	6.1	50.84	0.15	-0.42
1042	Hand Tools	778.5	777.8	775.4	8.1	63.06	0.09	0.40
108	Misc. Metal	478.3	478.9	476.6	3.1	14.83	-0.12	0.36

"New" December Index	333.1	January Inflation Index	637.47	0.38	0.71
"New" November Index	331.8	December Inflation Index	635.07		
		January 2014 Inflation Index	632.98		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247 products reported a loss of $4.4 million for the year, compared to a loss of $5.1 million in 2013. Fourth-quarter sales were $70.3 million, up 6.9 percent from the prior-year period. The company reported a loss for the quarter of $2.7 million, as compared to a loss of $2.9 million for the same period a year ago.

Beacon Roofing Supply Inc., Peabody, MA, reported sales for the fiscal first quarter of $596 million, an 8 percent increase from the previous year. Profit decreased 13.7 percent to $12.9 million.

BlueLinx Holdings Inc., Atlanta, GA, reported sales for 2014 of $2 billion, a 3 percent decrease from the previous year. The company reported a loss for the year of $13.9 million, compared with a year-ago loss of $40.6 million. Fourth-quarter sales were $454.1 million, a decrease of 3 percent compared to the same period a year earlier. The company reported a fourth quarter loss of $7.6 million, compared to a loss of $2.5 million in the fourth quarter of 2013.

Pool Corp., Covington, LA, reported sales for 2014 of $2.3 billion, an increase of 8 percent from the prior year. Profit increased 14 percent to $110.7 million. Fourth-quarter sales were $376.4 million, an increase of 10 percent from the same period a year ago. The company reported a loss for the fourth quarter of $2.2 million, compared to year-ago loss of $5 million.

Economic News

The **U.S. trade deficit in manufactures** in the fourth quarter rose by 14 percent, compared with 2013, and increased by 12 percent for calendar year 2014, according to the MAPI Foundation, the research affiliate of the Manufacturers Alliance for Productivity and Innovation. MAPI estimates this led to a net loss of 425,000 American manufacturing jobs.

December **U.S. cutting tool consumption** was $168.2 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 20.3 percent from December 2013 and 7.2 percent from November.

December **U.S. manufacturing technology orders** totaled $506.9 million according to AMT – The Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was up 32.7 percent from November and up 4.7 percent when compared with the total of $484.1 million reported for December 2013. With a year-to-date total of $5,079.1 million, 2014 is up 3.1 percent compared with 2013.

Privately owned housing starts in January were at a seasonally adjusted annual rate of 1,065,000, according to the U.S. Census Bureau and the Department of Housing and Development. This is 2 percent below the revised December estimate of 1,087,000, but is 18.7 percent above the January 2014 rate of 897,000.

Industrial production increased 0.2 percent in January after decreasing 0.3 percent in December, according to the Federal Reserve. **Capacity utilization** for the industrial sector was unchanged in January at 79.4 percent.

The combined value of **distributive trade sales and manufacturers' shipments** for December, adjusted for seasonal and trading-day differences but not for price changes, was estimated at $1,331.2 billion, down 0.9 percent from November, but up 0.9 percent from December 2013, according to the U.S. Census Bureau.

Prices for **U.S. imports** decreased 2.8 percent in January, after falling 1.9 percent in December and 1.8 percent in November, according to the U.S. Bureau of Labor Statistics. **U.S. export prices** declined 2 percent in December.

The **producer price index** for final demand fell 0.8 percent in January, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. Final demand prices moved down 0.2 percent in both December and November.

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

The **NFIB Small Business Optimism Index** fell 2.5 points to 97.9 in January. NFIB reported last week that in the three month period which ended in January, small businesses added an average of 0.16 employees per firm, following a December reading of 0.20.

Canadian wholesale sales rose 2.5 percent to C$55.4 billion (US$44.3 billion) in December,

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MARKETS UPDATE SUPPLEMENT P. 4

News Digest
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according to Statistics Canada. In volume terms, wholesale sales increased 2.4 percent. On an annual basis, wholesale sales totaled C$633 billion (US$506.7 billion) in 2014, up 6.4 percent from the previous year.

Canadian manufacturing sales rose 1.7 percent in December. Sales were higher in 17 of 21 industries in December, representing nearly 80 percent of total manufacturing.

Canadian municipalities issued building permits worth C$7.1 billion (US$5.7 billion) in December, up 7.7 percent from November.

Canadian investment in new housing construction rose 5.1 percent to C$3.7 billion (US$3 billion) in December compared with the same month in 2013.

Compared with November 2014, **seasonally adjusted industrial production** in December was stable in the euro area (EA18) and rose by 0.1 percent in the EU28, according to estimates from Eurostat, the statistical office of the European Union. Compared with December 2013, industrial production decreased by 0.2 percent in the euro area and increased by 0.3 percent in the EU28.

Compared with November 2014, December seasonally adjusted **production in the construction sector** fell by 0.8 percent in the euro area (EA18) and by 0.5 percent in the EU28, according to Eurostat. Compared with December 2013, production in construction fell by 3.5 percent in the euro area and by 0.5 percent in the EU28.

Heating, Air-conditioning and Refrigeration Distributors International reported 7.7 percent sales growth for December. The annualized growth through December is 6.1 percent, at the lower edge of its range for 2014.

The **Power Transmission Distributors Association Business Index** reading for the fourth quarter was 66.5, down from the third quarter's reading of 67.5, indicating slowing but continued positive growth.

Manufacturer News

Brady Corp., Milwaukee, WI, reported sales for the second quarter ended Jan. 31, 2015, of $282.6 million, a year-over-year decrease of 2.9 percent. Profit decreased 29.5 percent to $11.6 million. For the first six months of the fiscal year, sales were $592.9 million, down 1 percent from the prior-year period. Profit decreased 37.6 percent to $25.2 million.

Regal Beloit Corp., Beloit, WI, reported sales for 2014 of $3.3 billion, an increase of 5.2 percent from the previous year. Profit was $36.1 million, compared to $126 million a year ago. Sales for the fourth quarter were $775.6 million, up 6.6 percent year-over-year. The company reported a loss of $115.8 million for the quarter, compared to a year-ago loss of $32.8 million.

Lincoln Electric Holdings Inc., Cleveland, OH, reported 2014 sales of $2.8 billion, a decrease of 1.4 percent from the previous year. Profit decreased 13.3 percent to $254.7 million. Fourth-quarter sales were $684 million, a decrease of 4.3 percent compared to the prior-year quarter. Profit decreased 14.8 percent to $75.2 million.

Barnes Group Inc., Bristol, CT, reported sales for 2014 of $1.3 billion, up 15.6 percent from the prior year. Profit for the year decreased 56.2 percent to $118.4 million. Fourth-quarter sales were $310.2 million, an increase of 6.5 percent compared to the same period the previous year. Profit for the quarter increased 17.5 percent to $31.5 million.

Generac Holdings Inc., Waukesha, WI, reported sales for 2014 of $1.5 billion, down 1.2 percent from 2013. Profit increased to $174.6 million, compared to $174.5 million in the previous year. Fourth quarter sales were $404 million, up 7.4 percent year-over-year. Profit was $49.4 million, an increase of 1.9 percent.

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