Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 45, NO. 5
MARCH 10, 2015

■ *Succession Planning in Distribution Case Study*

Mayer Electric: Protecting the 'Goose'

Succession planning should not be spontaneous in family businesses

Mayer Electric, Birmingham, AL, has been a family business since its founding in 1930. CEO Nancy Collat Goedecke spoke with MDM about the processes the family developed and the challenges they have overcome to keep the company healthy and thriving.

This article is part of a series on succession planning in distribution.

By Jenel Stelton-Holtmeier

Preparing a business for succession increases the likelihood of a smooth transition, according to Craig Aronoff, co-founder and principal consultant for The Family Business Consulting Group Inc. "Preparing the ground is probably more important in 90 percent of the cases than who you actually select," he says.

That means beginning the discussion well before the current leadership or ownership is ready to step aside.

When Nancy Collat Goedecke was about 30 years old, her father, Charles Collat, asked her and her siblings if they understood what it meant to be potential future owners of a business. "We said that we thought we did," recalls Goedecke, now CEO and co-owner of Mayer Electric. "He said, 'I don't think you do.'"

Laying the Groundwork

Collat didn't leave the discussion at that. Instead, he launched a process to prepare the siblings for their eventual roles, beginning with sharing the fable "The Goose that Laid the Golden Egg." While the siblings were in their 20s and 30s, the story they heard often as children went a long way toward bringing them together.

"They told us we had to keep that goose – Mayer Electric – healthy," Goedecke says. "And that goose – Mayer – was bigger than any one of us individually. That was the premise and our foundation for moving forward."

The family engaged Aronoff to help lay the groundwork for eventual succession.

"You really need to understand the environment in which the business is operating," Aronoff says. "You really need to understand the business and its strengths and its weaknesses."

Goedecke's parents and the company's CFO began teaching the Next Generation – which is how the siblings referred to themselves at the time – about the business, from reading and understanding financial statements to the responsibilities of ownership.

And it meant addressing some questions that can be very difficult for family businesses, beginning with: Should the company stay a family business?

As with all families, the siblings didn't agree on everything, but when it came to the business they were unanimous on three critical pieces around succession. The first was that they wanted Mayer to remain a family business.

"We wanted it to be there for our children and our grandchildren and our associates' children and grandchildren," Goedecke says.

The second thing they agreed on: They wanted the best person to run the company – even if that person wasn't a family member.

"In many family businesses, there's the notion that a family member is going to lead the business, and it's regardless of their skill set or ability," Aronoff says. "The old notion is that businesses were treated

continued on p.3 of this section

INSIDE

PERSPECTIVE ■ Commentary by Eric Smith

Mixed Signals on U.S. Economy

Good news arrived last week from the Bureau of Labor Statistics: Nonfarm employment increased by 295,000 jobs in February, exceeding economists' expectations of 240,000, while the unemployment rate fell to 5.5 percent, the lowest since May 2008.

Among the highlights for distributors, construction employers added 29,000 jobs in February and 321,000 over the past year, reaching the highest employment total in six years, as the sector's unemployment rate fell to an eight-year low of 10.6 percent.

Construction is forecasted to expand more in 2015 than it has in the past decade, according to a recent survey from the Associated General Contractors of America, which also said 80 percent of firms plan to expand their work force this year – up from 57 percent in 2014.

Just a few weeks earlier, feuding sides resolved their labor dispute at West Coast ports, meaning dockworkers at 29 facilities from Washington to California will be offloading trans-Pacific cargo containers in a much timelier fashion, which is sure to boost the economy and help supply chains everywhere recuperate.

But a deeper look into this spate of positive developments presents a mixed message for the U.S. economy.

It could take the ports many months to decongest as they deal with a backlog of shipments. The construction firms that plan to hire expect to make only modest increases, with 90 percent of them reporting they will expand by one-quarter or less.

Wages increased only 2 percent from the previous year, while the labor participation rate of 62.8 percent in February didn't change much and remains far below the pre-recession average of 66 percent. And manufacturing hiring slowed last month, gaining just 8,000 jobs, down from a monthly average of 18,000 in 2014, with the oil & gas sector hit especially hard as projects were shelved.

Ambivalence to begin the year isn't too surprising. Distributors and manufacturers told us in the last MDM-Baird Distribution Survey that they had high expectations for 2015, albeit after a slow start during the first quarter.

Where do you think the economy is headed? Do you see the falling unemployment rate as a bellwether for brighter days? Or do strong headwinds remain in the form of consumer doubt and a slumping oil & gas industry? Drop me a line at eric@mdm.com to share your thoughts on the economic trends we should be covering that concern your business.

MODERN DISTRIBUTION MANAGEMENT

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

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

ISSN 0544-6538

Succession Planning
Continued from page 1

like royal houses." It didn't matter what the first in line for succession knew or could do, he was the heir. "If that started wars with other countries, so be it."

The Next Generation recognized that this approach wasn't necessarily the best way to keep the business healthy and growing, which meant they had to learn how to recognize who would be the best person for the job and then figure out how to inject objectivity into the process.

The third critical decision made by the Next Generation was that, if possible, they wanted a "blood Collat" to be chairman of the board to maintain the family connection to the business.

Challenging the Decisions

"It's easy to say those three things, but it's very different to walk the talk," Goedecke says. The first challenge arose in the mid-2000s when a large, well-known company expressed interest in buying Mayer Electric. Goedecke's parents were making the final decision, but the Next Generation was old enough to discuss the prospect and come to their own conclusions.

If the deal had gone through, the family's children and grandchildren "would probably have been set for life," Goedecke says. But what would it mean for the associates and their families? How would it impact the suppliers and the customers?

"Understanding what the business meant for so many, it was a very easy decision," she says. Goedecke, her brother and her sisters came back and said they weren't interested – their parents had already arrived at the same decision.

In 2007, a challenge to the second decision arose. The company's president – a nonfamily member who had been with the company for more than 30 years – announced his intent to retire. Because of Mayer's culture, the family decided to launch the search for a successor internally. They engaged Aronoff and other outside resources to help with the process.

Nine internal candidates initially put their hats in the ring – "an incredible number," Aronoff says. That pool was winnowed down to five finalists – one family member and four nonfamily associates.

Eventually a nonfamily member, Wes Smith, was selected as the president. Smith had started as a temporary worker in Mayer's Montgomery, AL, warehouse and worked his way up through the company. "To me, that speaks volumes to all of our associates that you can be whatever you want at Mayer Electric," Goedecke says. "You don't have to be born lucky, like I was."

Even though the family member wasn't chosen to lead the day-to-day operations of the company, everyone involved in the process agrees that the best decision was made. Three of the four remaining candidates – including the family member – are still with Mayer.

The Challenge of Family

The biggest challenge many family businesses have to face is family.

"As close as we were, learning to work together, forming as a group, storming as a group, norming and performing as a group takes time," Goedecke says. And with a nine-year age difference between her – the oldest sibling – and her brother – the youngest – it also required them to learn to respect where they each were in their lives.

When they began the process, Goedecke was in her early 30s with kids; her brother was just graduating college. Their priorities in life were significantly different. For example, when it came time for the group's fall meeting, her brother would say he couldn't meet because Alabama had a football game that weekend.

"We would get frustrated because to us it was just some football game," Goedecke says. "But it was important to him at the time." Fast forward 15 years, to when Goedecke's children were in college, and she found herself saying she couldn't meet that weekend because Alabama had a football game.

"It's hard to appreciate where other people are in their lives," she says.

Another challenge is parental involvement. It can be difficult for any parent to allow their children to make their own decisions and potential mistakes, but allowing them to go through their own process can be a great learning experience.

"When I first started working with the Next Generation group, it became clear that we had to tell daddy and mama to butt out – in much nicer terms, of course – and to let them have their own meetings," Aronoff says.

The siblings took on the responsibility for running their own meetings, without an obligation to report on what happened. They had to work out their own issues to come together as that cohesive group to be able to make the right decisions for the business – to continue protect-

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ing the goose.

As difficult as it is to get siblings on the same page, the challenges are compounded when families grow and the business gets passed down to other generations. "Siblings are raised in the same house with the same values," Aronoff says. "With cousins, they're in different houses, and spouses and different values are introduced."

As the number of owners increase, the dynamics of the ownership group change, he says. Families need to place more emphasis on how they organize the ownership group, not just how they organize the business.

For companies the size of Mayer – which had sales of about $741 million in 2014 – succession should not be spontaneous, whether ownership or management succession, Aronoff says. Policies should be established to inject objectivity into each decision, and processes should be in place to ensure the best people are identified early and prepared for the future roles they will play.

And there are no special favors for family members at Mayer. Goedecke's ownership group established clear policies for future family members that want to be involved in the business of Mayer Electric. If they want to work full-time at Mayer, they are required to have a four-year college degree, work outside the business for at least two years, and be successful in that job, such as earning a promotion. And there must be an opening at the company they are a fit for – a position won't be created for them.

The first member of the fourth generation – G4 – met the requirements and joined Mayer Electric full-time in October 2013.

Looking to Future

Succession planning isn't just for family members or management teams. Mayer Electric has launched discussions to ensure critical roles filled by outside resources – including Aronoff – also have a continuity plan.

"One day I was meeting with the group, and Nancy's father came in," Aronoff recalls. "He took me aside and said: 'Look we're talking about succession for everyone – for the chairman, for the board, for the executive positions. We're talking about succession for everyone – except you. Who's going to be your successor?'"

Because Collat viewed Aronoff as a permanent resource filling a critical role for the company, he wanted to make sure that when Aronoff could no longer fill that role that there would be someone else already ready to take on the responsibility.

They also saw an opportunity to start preparing G4. Between the four siblings in G3 – which is what the Next Generation is now called – there are 10 children. At the time of Collat and Aronoff's discussion, they ranged in age from 7 to 17 years old.

"Being 60-plus, I'll admit to not being able to relate to 20-somethings as well as I can relate to 40-, 50- and 60-somethings," Aronoff says. "So it made sense to bring in a younger consultant from my team to work with the next generation."

So they tapped Stephanie Brun de Pontet to be G4's adviser.

While the group was younger than G3's members when they started preparing, "I think we had something going for us in that they had seen the value and the importance that their parents had placed on having these meetings," Goedecke says.

The first family meeting bringing G4 into the fold began the same way that G3's did, with the fable "The Goose that Laid the Golden Egg." The meeting included many fun activities focused on learning to work together.

Because G4 grew up connected to the company, it's likely they already had a sense of how their parents' ownership group worked together. But it wasn't until a later family meeting that G3 really saw how well they understood.

A then-11-year-old member of G4 asked to attend the big family meeting and was told he could participate but had to sit quietly. "I thought he was playing on his iPod Touch the entire time," Goedecke says. "But after the meeting, he handed his iPod Touch to his mom, who handed it to me. … He was taking notes the entire time."

What he wrote at 11:

- The spirit of the family will move us along.
- Don't step up too quickly. We have 25 years to do this.
- Don't let conflict get in the way.

"There was a good bit more, but at the end he wrote in big capital letters: AND PARENTS, LAY OFF!" Goedecke recalls. "While he was young, he got it. It was a lesson for us, because as parents we still form and storm and norm as a group, but we had to let them go through the same processes that we did. "

Improve Market Access to Unlock Potential

Achieve better service and sales alignment with customer profitability analytics

Improved market access can drive long-term growth in both a distributor's profitability and its market share. But it requires an analytical look at customers and opportunities.

This article is the final installment in our series on customer profitability analytics.

By Steve Deist

Market access is the key to unlocking a distributor's true potential. Think of the ridges and gaps on a key as your company's sales and marketing resources, and the pins on a lock as the needs of the market. When the key and the lock pins line up, everything works. High-growth distributors have learned how to provide just the right level of services, neither overserving nor underserving their customers.

Here are three steps for achieving alignment.

Step 1: Segment Customers Based on Their Needs, Not Yours

Your customers don't care about how much they cost you; they care about the value you provide them. And your customers are the ones with the money. If we can solve their problems more economically than anyone else, we can sustain high profitability for a long time. If we don't, we may be able to temporarily gain higher margins through trickery or deception, but sooner or later customers will recognize the disconnect between cost and value.

This doesn't mean that we need to become Apple or invent some new service no one else has thought of. It simply means we tailor our offerings to customers based on what they value – in other words, what they are willing to pay for.

This is where many profitability projects get the problem backward. Instead of figuring out how customers want to be served and using this insight to improve profitability, they categorize customers based on current profitability and use these categories to design their customer services. This approach is dangerous and provides zero insight into how to maximize lifetime customer value. It represents narrow, internal thinking at its most toxic. Knowing that an account bought a million dollars from you last year tells you exactly nothing about how to maximize its profitability. Instead, knowing that you have a 10 percent share of the customer's total spend, that it uses centralized procurement and that its location managers are measured on asset utilization tells you a great deal.

Real segmentation involves more than analyzing transactional data. It involves insight. Most distributors already possess the required knowledge about their customers; they just need to put it into the right framework. You can't rely on what customers say or their customer survey scores, but how they act. Usually, their actions are driven by the economics of their business or their organizations' dynamics. For example, a customer that will swap your product out for a 0.5 percent price difference is telling you that it does not care about how often your sales rep visits. If your product is a small portion of a customer's total material cost but a large portion of their customers' experience, they will be reluctant to risk failure with a new supplier for a small price difference.

Grouping customers based on how they act is called behavioral segmentation. And once distributors grasp the concept, the insights can be profound. The key is to let go of your sales instincts and be brutally honest about what customers really want from you.

Step 2: Prioritize Growth and Profit Opportunities

Once you have real segments, customer profitability data provide important insight on their current and potential profitability. Some customer segments will prove to be consistently, structurally unprofitable because their needs are a poor fit for your capabilities. Others may have a mixture of winners and losers. With some adjustments in how you serve them, the segments could be more consistently profitable.

Ultimately you will see that some segments value your current mix of services. These present a profit opportunity because you may be in a position to raise prices overall. Others may value a set of services that you could provide fairly easily but don't. These present a revenue opportunity because some tweaks could help you enjoy more of their business. Finally, you will uncover segments that won't ever be a good fit. Don't waste time and money optimizing their cost to serve; you are playing a game you just can't win.

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As a distributor, your resources are constrained. You simply can't afford to invest sales and marketing into marginal customer segments because the opportunity cost is too high. You need to focus on being the No. 1 choice for some, like Cadillac is, rather than No. 4 for everyone, like Oldsmobile was.

Step 3: Match Services to Fit the Segments

With a clear understanding of your segments, you are in a position to align your services to customer needs. For example, you may want to consider Web sales and telesales for price shoppers, dedicated project management services for bid work or less frequent deliveries for customers that are labor-constrained rather than space-constrained.

Because selling costs are probably the largest part of your controllable expenses, adjusting the structure of your sales organization is likely to be a big part of this step. This is why you can't just leave it up to the sales force. An outside rep would rather keep a low portion of a price shopper's business than give it up to an inside rep, even if this is the right call for your company overall. In many cases you will find that you don't have to walk away from unprofitable customers, you just need to provide them a lower cost sales channel.

A few years ago we completed a strategic plan for a distributor that sells to many small businesses. After going through the behavioral segmentation exercise, the company's sales executives realized that some of its customers were fundamentally business people who got into the industry to make money. Others had grown up in the industry, learned to love it and then found themselves running their companies. The first group was generally bored with the details of the business but was hungry for ways to improve profitability. The second struggled to read even simple spreadsheets but enjoyed industry gossip and new trends.

As a result of this basic insight, the company revamped its entire sales structure. It stopped trying to sell business advice to the industry-oriented owners, because that's just not what they were buying. It assigned technical sales reps to these industry-oriented owners and left them free to talk shop. It assigned its few consultative sales reps to the business-oriented owners with the mission of helping them grow. This is a classic example of aligning resources to fit the customer needs – market access at its finest.

A year after making these changes the CEO wrote, "We've navigated successfully through these difficult times and, in fact, are earning share. Last year our company grew almost 11 percent; profits have improved over 400 percent."

For many distributors, the answer will involve investing more in technology and marketing, and less in classic field sales. Most high-growth distributors have become far better aligned with their markets by using more specialized selling roles than in the past. They deploy specialists, outbound Web sales and telesales, hybrid inside/outside reps, full-time marketing analysts, etc.

Looking Forward, Not Back

Customer profitability analysis helps identify tactical opportunities for growing margin and can provide critical strategic insight. But it is not a market strategy. Relying solely on numbers from your order history means that you are evaluating customers based on how you've chosen to serve them in the past rather than how you could capture their full potential in the future.

These are exciting times for distributors. Big data gives them the tools to understand their customers and their own businesses far better than in the past. The winners have harnessed these tools to adapt their organizations for the future. They stay ahead of the competition by understanding the real drivers of customer behavior and continuously aligning their resources to match.

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.

AD Alters Competitive Landscape with Launch of Power Transmission Division

North American buying and marketing group Affiliated Distributors, Wayne, PA, is expanding into the bearings, power transmission and motors market.

Initial founding committee members include APEX Industrial Automation, Baldwin Supply Co., Bearing Service Inc., Eastern Industrial Automation, IBT Industrial Solutions, Purvis Industries, Troy Industrial Solutions and Van Meter Inc.

"It's a natural migration of our value proposition into another vertical," says Jack Templin, president of AD's industrial supply division.

AD's electrical division is its core, formed in the early 1980s, and today accounts for roughly half its member revenues, according to sources. It formed the industrial supply division in 1994 and now has more than 130 members.

MDM Analytics, estimates the core U.S. electrical products market to be more than $100 billion (not including controls), and the core U.S. industrial supply market to be between $100 billion and $150 billion, depending on how narrowly the product portfolio is defined.

The next largest product category is power transmission, which MDM Analytics estimates at roughly $55 billion, depending on product categories included. About $8 billion of that is in bearings, the largest single category, with more than a dozen additional fragmented product categories rounding out the portfolio.

In recent years, these three product verticals have seen the walls between them melting. Each has complementary products to sell for each of the respective specialists. And from a national accounts perspective, AD starts to fill the gaps its competitors had been systematically filling.

"Channel convergence is alive and well in the industry and for our members," Templin says. "That said, we have strict membership criteria established by the founding members to make sure that people in the group are active participants in the bearings and power transmission vertical, not just people who'd like access to certain lines."

Power transmission distributors have been acquiring industrial supply companies to broaden their offerings. More recently, there have been several strategic acquisitions between PT and electrical products distributors. Through its SupplyForce sister company, AD will now have a platform to go after national account business held in large part by the top three power transmission distributors.

Competitively, this announcement impacts the primary buying/marketing group in power transmission – IDC-USA. The cooperative, formed in 1987, has 85 members with about 300 locations nationally. AD, a privately held company with seven divisions, has historically had a policy of exclusive membership – member companies can't belong to competing buying/marketing organizations. According to sources, six IDC members – five electrical division members and one industrial supply division member – will leave IDC for AD.

"Our entry into the bearing and power transmission vertical is was in no way an effort to target another group; many of our founding members were unaligned with any group," Templin says. "Our value proposition is different than that of others in the space; we saw the opportunity to offer the similar value proposition that we offer in our other divisions to independent bearing and power transmission distributors."

It sets up a contrasting set of value propositions. IDC built a strong platform for independent distributors to be more competitive with the dominant national distributors – Motion Industries, Applied Industrial Technologies and Kaman Industrial Technologies. Specific value-proposition strengths of IDC have been its warehousing network, IDC-branded products to complement its support of select brands and inventory sharing. AD has no plans to inventory product or offer private label brands.

Of the founding members announced in AD's PT division, IBT is ranked 10th in the 2014 MDM Market Leaders list of the largest North American power transmission distributors with estimated 2013 revenues of $138 million. Van Meter was ranked the 24th largest electrical distributor in the 2014 MDM Market Leaders list with 2013 revenues of $235 million. Both companies have been IDC members.

Bill Childers will lead the new division as vice president/managing director of Bearings & Power Transmission. He is the former president of bearing manufacturer C&U Americas.

"Bill is an established veteran of the PT and bearing world, an area we admittedly have no expertise in," Templin says. "So it was important to find someone who brought that expertise and credibility to our efforts."

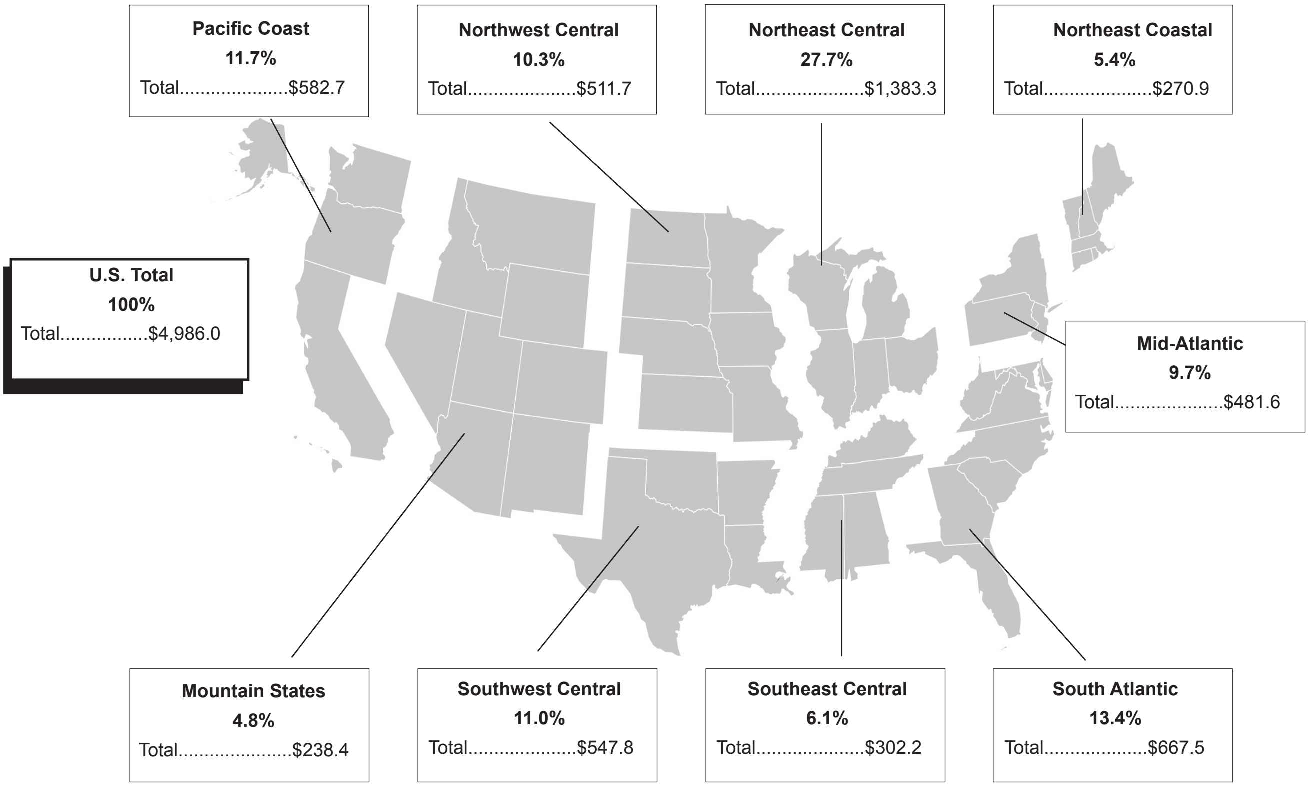
Affiliated Distributors reported in January that sales for all AD members, across all AD divisions and countries, grew by 9 percent in 2014 to $31.2 billion.

-Thomas P. Gale and Jenel Stelton-Holtmeier

MARKET ANALYSIS: Cutting Tools Consumption in North America

Consumption of Cutting Tools in the U.S. was $5 billion in 2013, according to data from Industrial Market Information.

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



End-User Consumption of Cutting Tools in Canada (US$): $543.3 million

End-User Consumption of Cutting Tools in Mexico (US$): $503.7 million

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

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

End User		Estimated Consumption
336412	Aircraft Engine and Engine Parts Manufacturing	$398.1 million
333120	Construction Machinery Manufacturing	$287.7 million
333111	Farm Machinery and Equipment Manufacturing	$251.3 million
332710	Machine Shops	$241.9 million
336390	Other Motor Vehicle Parts Manufacturing	$241.3 million
336411	Aircraft Manufacturing	$156.2 million
333618	Other Engine Equipment Manufacturing	$154.2 million
333517	Machine Tool Manufacturing	$152.0 million
336111	Automobile Manufacturing	$151.1 million
333911	Pump and Pumping Equipment Manufacturing	$105.3 million

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

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Industrial & Construction Markets Update

VOL. 45, NO. 5 | MARCH 10, 2015

MAPI Quarterly Forecast: Lower Oil Prices Spur Consumer Spending

Lower oil prices mean more purchasing power for U.S. consumers and a relatively positive near-term economic outlook, according to the Manufacturers Alliance for Productivity and Innovation Quarterly Economic Forecast.

The MAPI Foundation's quarterly economic forecast predicts that inflation-adjusted gross domestic product will expand 3 percent in 2015, up from 2.8 percent in the November 2014 report, and 2.7 percent in 2016, a decrease from 3 percent in the previous forecast.

Manufacturing production is expected to outpace GDP, with anticipated growth of 3.7 percent in 2015 (an increase from 3.5 percent in the previous forecast) and 3.6 percent in 2016 (a decline from 3.9 percent in the November report).

"Consumer spending is stronger because of lower oil prices, and manufacturing job growth is being pulled by increased production," said MAPI Foundation Chief Economist Daniel Meckstroth. "The fact that employment is continuing to grow shows the U.S. economy is maintaining its momentum. Confidence indicators are strong, the unemployment rate is low, and credit is available. More people with more income tends to be self-reinforcing."

Production in non-high-tech manufacturing is expected to increase 3.4 percent in 2015 and 3.1 percent in 2016. High-tech manufacturing production, which accounts for approximately 5 percent of all manufacturing, is anticipated to grow 6.1 percent in 2015 and 9.1 percent in 2016.

The forecast for inflation-adjusted investment in equipment is for growth of 8.4 percent in 2015 and 6.9 percent in 2016. Capital equipment spending in high-tech sectors will also rise. Inflation-adjusted expenditures for information processing equipment are anticipated to

continued on p.3 of this section

Distributor News

European distributor **Wolseley plc** has acquired a "substantial shareholding" in **BathEmpire.com**, a B2C online bathroom retailer in the United Kingdom, with an option to acquire the remaining equity stake at a future date.

Plumbing distributor **Ferguson,** Newport News, VA, has acquired **Builders Appliance Center**, Englewood, CO, and **Ar-Jay Building Products Inc**., Cedar Rapids, IA.

Building materials distributor **US LBM Holdings LLC**, Green Bay, WI, has acquired building products distributor **Lampert Lumber**, St. Paul, MN.

Kaman Corp., Bloomfield, CT, reported sales for 2014 of $1.8 billion, up 8.5 percent from the prior year. Profit grew 1.4 percent to $57.9 million. For the fourth quarter, Kaman Corp. sales were $477.9 million, up 10.9 percent year-over-year. Profit increased 17 percent to $15.1 million.

Building products distributor **ABC Supply Co. Inc**., Beloit, WI, has acquired the exterior building products division of **The Ar-Jay Center** in Cedar Rapids, IA.

Arrow Electronics Inc., Centennial, CO, agreed to acquire value-added distributor **immixGroup Inc.**, McLean, VA.

Houston-based **GHX Industrial LLC**, a subsidiary of **The United Distribution Group**, has acquired Memphis, TN-based fluid sealing and fluid transfer products distributor **Fugitt Rubber and Supply Co**.

The Fastenal Company, Winona, MN, reported sales for February of $298.2 million, an 8.6 percent increase over the same period a year ago. Daily sales increased 8.6 percent to an average of $14.9 million.

Janitorial supply distributor **Brady Industries LLC**, Las Vegas, NV, has acquired the Idaho Falls, ID, operations of custodial and supply equipment company **Nevco**.

Memphis, TN-based gases and welding supplies distributor **nexAir** has agreed to acquire **Welders Supply & Equipment Co. Inc.**, Montgomery, AL, a distributor for welding and medical equipment, gases and safety supplies with two locations in Alabama.

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.

Builders FirstSource Inc., Dallas, TX, 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

continued on p.2 of this section

News Digest

Continued from p. 1 of this section

percent over the same period a year ago. Profit fell 46.5 percent to $2.4 million.

NOW Inc., Houston, TX, reported sales for 2014 of $4.1 billion, a decrease of 4.4 percent from the previous year. Profit decreased 21.1 percent to $116 million. Fourth quarter sales were $1 billion, a decrease of 3.4 percent from the same period the previous year. Profit decreased 53 percent to $16 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.

The **Bossard Group**, Switzerland, reported sales for 2014 of CHF 617.8 million (US$640.6 million), a 2 percent increase compared with 2013. As reported in local currencies, sales grew 3.1 percent. Profit was CHF 57.1 million (US$59.2 million), up 2 percent from 2013. In the fourth quarter, group sales increased 1.4 percent (but declined 0.1 percent in local currencies) to CHF 147.8 million (US$153.3 million).

Canadian distributor **Wajax Corp**., reported sales for 2014 of C$1.5 billion, a 1.6 percent increase compared to the previous year. Profit decreased 13.6 percent to C$41.2 million. In the fourth quarter, sales were C$386.1, a decrease of 1 percent compared to the same period a year ago. Profit decreased 8.2 percent to C$11.2 million.

DXP Enterprises Inc., Houston, TX, reported sales for 2014 of $1.5 billion, an increase of 20.8 percent compared to the same period a year ago. The company reported a net loss of $45.2 million, down from a profit of $60.2 million in 2013. The company reported sales for the fourth quarter of $382.5 million, an increase of 21.9 percent compared to the same period a year ago. The company reported a net loss of $88.1 million, down from a profit of $16.9 million in 2013.

Bunzl plc, the international distribution and outsourcing group, has reported sales for 2014 of £6.2 billion (US$7 billion), up 1 percent from the previous year. Profit increased 1.9 percent to £210.7 million (US$239.2 million).

Bunzl acquired **Quirumed S.L.** based in Valencia, Spain, and **Jan-Mar Sales Ltd.** based in Toronto, Ontario.

Building materials distributor **Huttig Building Products Inc**., St. Louis, MO, reported sales for 2014 of $623.7 million, an 11 percent increase from the previous year. Profit decreased 31.3 percent to $2.2 million. Sales for the fourth quarter were $145.2 million, up 8 percent from the prior-year period. The company reported a loss of $0.5 million for the fourth quarter, compared to a loss of $0.4 million for the same period the previous year.

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.

Stock Building Supply Holdings Inc., Raleigh, NC, reported sales for 2014 of $1.3 billion, an increase of 8.2 percent from the previous year. Profit was $10.4 million, compared to a loss of $6.5 million reported in 2013. Fourth quarter sales were $317.1 million, an increase of 3.9 percent from the same period the previous year. Profit increased 5 percent to $3.1 million.

A. M. Castle & Co., Franklin Park, IL, a global distributor of specialty metal and plastic products, reported sales for 2014 of $979.8 million, down 7 percent from 2013. The company reported a net loss of $134.7 million, compared to a loss of $34 million a year ago.

Ingram Micro Inc., Santa Ana, CA, reported sales for the fiscal year ended Jan. 3 were up 9 percent to $46.5 billion. Profit declined 14 percent to $267 million. Sales for the fourth quarter were $14 billion, up 18 percent compared to the same period a year ago. Fourth-quarter profit was $119 million, up 6 percent from 2013.

Interline Brands Inc., Jacksonville, FL, reported sales for fiscal 2014 of $1.7 billion, up 4.9 percent over the prior-year period. The company reported a loss of $47.1 million for the year, compared to a loss of $6.3 million in the prior-year period. The company reported sales for the fourth quarter of $415.8 million, up 6.6 percent year-over-year. The company reported a loss of $9.6 million for the quarter, compared to a profit of $1.2 million in the fourth quarter of 2013.

VWR Funding Inc., the parent company of laboratory supplies and equipment distributor **VWR International**, Radnor, PA, reported sales for 2014 of $4.4 billion, a 4.5 percent increase compared to the previous year. Profit was $152.6 million, compared to $14.1 million in 2013. Sales for the fourth quarter were $1.1 billion, a year-over-year increase of 4 percent. Profit was $48.8 million, compared to a loss of $3.2 million for the same period a year ago.

Motion Industries has announced the retirement of Chairman Bill Stevens, effective March 1, after 37 years with the company. Tim Breen, named president and CEO in 2014, succeeds Stevens to lead the company.

Airgas Inc., Radnor, PA, has named Pamela J. Claypool, senior vice president of human resources, as the successor for Shaun Powers as president of Airgas North division, following his retirement in August.

Electronic components distributor **TTI Inc**., Fort Worth, TX, an indirect, wholly owned subsidiary of **Berkshire Hathaway**, has announced several changes to the company's senior management structure. Effective April 1, 2015, Mike Morton, president, TTI Americas, will be named senior vice president and president, TTI Global Sales and Marketing. Glyn Dennehy has been appointed president, EMEA (Europe, Middle East, & Africa), Anthony Chan has been promoted to president, Asia Pacific, and Yigal Funk has been named president, TTI Israel. Don Akery has been named senior vice president, TTI Global Business Operations. Akery also will directly lead the newly announced Global TTI Supply Services (TSS) Division.

PPG Industries, Pittsburgh, PA, promoted Michael H. McGarry, currently CEO, to president and CEO, effective March 1.

Economic News

Led by improvements in production-related indicators, the **Chicago Fed National Activity Index** edged up to +0.13 in January from -0.07 in December. The index's three-month moving average, **CFNAI-MA3**, ticked down to +0.33 in January from +0.34 in December.

Real gross domestic product for the U.S. increased at an annual rate of 2.2 percent in the fourth quarter, according to the second estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 5 percent.

continued on p.4 of this section

Forecast

Continued from p. 1 of this section

increase by double digits – 12.8 percent in 2015 and 11.8 percent in 2016. The MAPI Foundation expects industrial equipment expenditures to advance 10.4 percent in 2015 and 6.4 percent in 2016. The outlook for spending on transportation equipment is for an increase of 3.8 percent in 2015 preceding a 1.4 percent decline in 2016.

Spending on nonresidential structures is anticipated to decrease by 5.1 percent in 2015 due to a major decline in mining and drilling activity before rebounding to 5.3 percent growth in 2016. Residential fixed investment is forecast to increase 10.4 percent in 2015 and 11.4 percent in 2016. Meckstroth anticipates 1.17 million housing starts in 2015 and 1.34 million in 2016.

A strong dollar and strong economy relative to our trading partners will slow economic growth this year and next. Inflation-adjusted exports are anticipated to increase 3.3 percent in 2015 and 2.9 percent in 2016. Imports are expected to grow 6.3 percent in 2015 and 6.7 percent in 2016. The MAPI Foundation forecasts overall unemployment to average 5.6 percent in 2015 and 5.3 percent in 2016.

The outlook is for an increase of 282,000 manufacturing jobs in 2015, a jump from the 202,000 anticipated in the November report. Meckstroth envisions 162,000 manufacturing jobs to be added in 2016, a healthy increase from 16,000 in the previous forecast.

The refiners' acquisition cost per barrel of imported crude oil is expected to average $49.50 in 2015 and $59 in 2016, a significant downward revision from $80 and $80.60, respectively, in the November forecast.

News Digest
Continued from p. 3 of this section

MARKETS UPDATE SUPPLEMENT P. 4

New orders for manufactured goods decreased 0.2 percent to $470 billion in January, according to the U.S. Census Bureau. Excluding transportation, new orders decreased 1.8 percent.

Manufacturing sector productivity decreased 0.1 percent in the fourth quarter as output increased 4.3 percent and hours worked increased 4.4 percent, according to the U.S. Bureau of Labor Statistics. Productivity increased 0.5 percent in the durable goods sector and decreased 1.5 percent in the nondurable goods sector.

January construction spending was estimated at a seasonally adjusted annual rate of $971.4 billion, 1.1 percent below the revised December estimate of $982 billion, according to the U.S. Census Bureau of the Department of Commerce. The January figure is 1.8 percent above the January 2014 estimate of $954.6 billion.

Reports from the 12 Federal Reserve Districts indicate that economic activity continued to expand across most regions and sectors from early January through mid-February, according to the **Federal Reserve Beige Book.** Six districts noted that the local economy expanded at a moderate pace since the prior reporting period.

The February **PMI** was 52.9 percent, 0.6 percentage points lower than January's 53.5 percent, in the latest ISM Manufacturing Report on Business. The **New Orders Index** registered 52.5 percent, a decrease of 0.4 percentage point from the reading of 52.9 percent in January.

The widening rift between the U.S. deficit and Chinese surplus in trade in manufactures showed no sign of abatement in the fourth quarter of 2014, according to an **analysis from the MAPI Foundation**, the research affiliate of the Manufacturers Alliance for Productivity and Innovation.

The February **ISA Economic Indicator Report** from the Industrial Supply Association indicated that growth slowed in January for both Manufacturers and Distributors. "The ISA Manufacturer Index decreased from 61.3 in December to 58.9 in January, while the ISA Distributor Index fell from 66.6 in December to 57.8,"

The **Canadian Industrial Product Price Index** decreased 0.4 percent in January, largely as a result of lower prices for energy and petroleum products. The **Raw Materials Price Index** declined 7.7 percent in January, largely as a result of lower prices for crude energy products.

The **Canadian wholesale services price index** decreased 0.4 percent in the third quarter. Among the eight major wholesale sectors, margins were up in four and down in four. Year over year, the WSPI advanced 3 percent in the third quarter.

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.

Canadian residential construction investment totaled C$28.5 billion (US$22.9 billion) in the fourth quarter, up 6.8 percent from the same quarter in 2013. Renovation spending accounted for most of the increase at the national level, rising 10.3 percent to C$12.9 billion (US$10.4billion).

Manufacturer News

3M, St. Paul, MN, has entered into a definitive agreement with **Polypore International Inc**. to acquire its **Separations Media** business.

European building materials supplier **Saint-Gobain** reported sales for 2014 of €41.1 billion (US$46 billion), a decrease of 1.7 percent from the previous year. Profit increased 60.2 percent to €953 million (US$1067.2 million) from the previous year. Fourth quarter sales were €10.2 billion (US$11.4 billion), a decrease of 1.4 percent from the same period the previous year.

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