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Preparing for the Worst

The importance of supply chain strategies in a disruptive world

Disruptions such as natural disasters and the recent West Coast port slowdown – now resolved but still facing months of backlog cleanup – are pain points for any distributor with a global supply chain. And while no one can predict the next labor dispute or earthquake, companies can mitigate risk by preparing for ways to deal with unexpected threats.

By Eric Smith

Overdue cargo has become the new normal at HVAC and refrigeration distributor ACR Supply Co. because of the West Coast port slowdown. Cargo ships stacked with the Raleigh, NC, company's air conditioning and refrigerating supplies, alongside countless other goods manufactured in Asia for U.S. wholesalers and retailers, have been idling outside Long Beach, CA, unable to dock due to congestion caused by a months-long labor dispute between shippers and longshoremen.

That means much of the company's air conditioning equipment is languishing at sea on a trans-Pacific container vessel when it should be barreling toward ACR's North Carolina distribution center on an eastbound freight train.

While the slowdown has kept goods from reaching their destinations on time, it also has kept distribution executives like ACR Supply Chain Director Mark Bray awake at night. When Bray called his supplier earlier this year and was told that the company's cargo was "all on the water right now," he knew ACR couldn't let its inventory dwindle. So he began devising ways to manage this supply chain kink that showed no signs of straightening out.

"We said, 'OK, let's stock up; we've got to buy a little bit more than maybe what we normally would buy to prepare for that,'" Bray says. "Hopefully they won't be out, but if they are, if we plan ahead and buy up some inventory now, we'll be the ones who have it in stock and maybe our competition won't have it."

Though the West Coast port slowdown was resolved in February, congestion won't clear for months because of a severe backlog. What is clear is that the labor dispute and subsequent shipping delivery interruption became a pain point for companies – an "absolute disaster," as one plastics distribution executive described it – and shed light on the need for distributors to prepare for supply chain disruptions that can occur in a number of forms and strike at any time.

"Companies have to develop their own strategies for some of these things and often they don't," says Cliff Lynch, a logistics and supply chain consultant and the owner of C.F. Lynch & Associates. He says the last five or six years have been the "most volatile" he has seen with regard to disruptions.

"They assume it's going to be a perfect world," Lynch says. "I think companies need to develop a contingency plan. What if your carrier goes out of business? What if there's a natural disaster?"

A Disruptive World

Natural disasters provide the least predictable and most disruptive hit to a business. In 2011, a tsunami that devastated Japan also disconnected a major link in the global supply chain, shuttering factories, interrupting shipments and causing U.S. companies to scramble for new suppliers. The same year, a volcano erupted in Iceland, grounding flights across Europe and forcing companies to reconfigure transportation networks.

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INSIDE

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Think Globally, Service Locally

I just finished a stretch of travel sharing our research on distribution industry trends to groups from California to Germany. My far-flung conversations triggered many thoughts and a few recurring themes. One such thought is that the old slogan – think globally, act locally – is a universal truth for distribution.

This industry is in a unique transition stage with high levels of disruption and opportunity at the same time. While disruption will continue, the opportunity phase is really kicking in this year.

We have been through disruptive business cycles and technology shifts before (those heady dot-com days). But the global scale of pricing transparency and online sourcing exploding across B2B and B2C is the big differentiator today. It is why AmazonSupply is getting far more attention than it deserves based on its actual B2B market success to date.

Amazon's digital power should strike fear into any product seller that doesn't adapt the business model to changing buyer behavior. But you can say the same about any technological shift we have experienced – steam engine, automobile or personal computer, just to name a few.

The key competitive edge is that it is easier for a distributor to build more customer-friendly online service tools than for digital sellers (Amazon) to build local, customized relationships and services. Industrial product markets are extremely difficult environments in which to apply cookie-cutter solutions that may work in other markets and expect similar results.

My recent conversations in Europe reinforced the power of thinking big but delivering highly localized service and value offerings. North American industrial product markets are highly fragmented; European markets are even more so. As reported by MDM this week, the IPH Group, a France-based industrial distributor, made its latest acquisition of an Italian company, bringing its total annual revenue to more than $1 billion across six European markets. Also this week, Affiliated Distributors closed the launch cycle of its new power transmission division with 27 charter members.

The most powerful value propositions historically bring the scale of a larger organization to a customized local offering, whether it is through a national company with a local-market focus or some coalition of smaller distributors.

Relationships are key and hard to displace. Some things can be digitized, others can't.

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Supply Chain Disruption
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But supply chain disruptions go beyond labor discord and natural disasters. Factory fires decimate inventories, suppliers go bankrupt, manufacturers recall products. An estimated 50 containers simply fall off cargo ships into the ocean each week, according to Paul Dittmann, executive director of the Global Supply Chain Institute at the University of Tennessee-Knoxville. Government regulations can render one product obsolete and drive up demand for another. And a sudden raw material shortage can sink even the most ambitious product, something Apple could face if the company can't secure the gold needed for its new watch.

The list of disruptions could stretch from Shanghai to Seattle, which is why mitigating the risks to your company's supply chain is imperative, says Dittmann, co-author of the book "The New Supply Chain Agenda." With so many disruptions lurking, it's only a matter of time before one of them hits home, he says.

"Even though any one event might be highly unlikely and have low probability, like the volcano in Iceland or tsunami in Japan, there are so many things that can happen," he says. "If nothing bad has happened to you in a long time, the probability is pretty high that something major will happen."

The cost is also high. A broken supply chain can lead to increased overhead, added shipping expense, overtime pay, inefficient distribution centers and a loss of customers looking for a distributor that can deliver.

"A company's overall financial health, their shareholder value, is highly dependent on an efficient supply chain," Dittmann says.

Alternative Solutions

Companies responded to the West Coast port slowdown with a variety of solutions, from finding alternate ports on the East or Gulf coasts or in Canada or Mexico to importing goods via air to finding new suppliers locally or abroad.

"You can probably find another supplier in a nanosecond, unless it's one spec supplier from one of the OEMs and special products – then they're up the creek," says Bill Childers, vice president and managing director of the newly formed power transmission division at Affiliated Distributors, Wayne, PA. "But if you're dealing with a supplier in the U.S. and the plant burns down, what do you do?"

Childers is former president of bearing manufacturer C&U Americas, Plymouth, MI, where the slowdown caused much "heartache," he said last fall as the port situation worsened. But he says most distributors have beefed up their supplier "bench strength" in recent years, and those who haven't should do so now.

"One of the common traits of these new Tier 2, Tier 3 suppliers is inconsistency. Product quality, product delivery, service, all of that," Childers says. "You move from one to the other over time until you find one that really does perform and you stick with them. Then all of a sudden maybe you have a port stoppage, which is not of their doing, and then you have the others as backup."

In addition to additional suppliers, distributors should have alternate shipping options for their products. The Icelandic volcano disrupted Sigma-Aldrich, a life sciences distributor, when it grounded flights in Europe and prevented the company's critical, time-sensitive products from moving along the supply chain.

Within 24 hours of the eruption, the company was able to reorganize its distribution network chain to serve customers in Europe and Asia via ground transportation, says Karin Bursa, vice president of marketing for Logility, a supply chain management company that works with companies on their supply chain strategies.

"That is lightning fast in their business," Bursa says. "Their customers had virtually zero impact from a service level perspective, whereas their competition wasn't as quick to respond and they had delays and backups. And it was an opportunity for Sigma-Aldrich to service some new customers. It was all from a network planning and distribution planning perspective. They were able to deliver when their competition wasn't able to deliver."

Proactive, Not Reactive

ACR, Sigma-Aldrich and many other distributors have taken steps to ensure deliveries despite disruptions.

"When it comes to the basic fundamentals of supply chain, companies are doing better and better at that," Dittmann says. "Some are getting extremely sophisticated. The problem that we found is that when it comes to one-off special events like risk events, people simply aren't prepared for that. They're too busy to worry about the things that aren't necessarily going to happen."

Dittmann outlines a three-step process to manage and mitigate risk in their supply chains. First, he says, identify the possible risks that could affect your supply chain; create a long list of everything that could cut supply. Next, prioritize the risks that are most impactful, narrowing it down to three to five that could potentially happen and would certainly disrupt your supply chain. The last step is mitigating or managing risk, which occurs by creating a contingency plan that would keep the supply chain moving or at least return it to operation quickly should one of these risks occur.

"It takes time and effort and money to mitigate against risk, and the risk may not happen," Dittmann says. "And sometimes people think it's another part of the company that's going to see the loss. But it has to be given priority and attention in companies which, in general, is not being done in companies today."

George Muha, a supply chain consultant with Keystone Dedicated Logistics, a non-asset based third-party logistics service provider, sums up the need to create a contingency plan if one isn't already in place with a personal story.

Muha lives in New Jersey, and when Superstorm Sandy tore through his hometown in 2012, it knocked out power to his home. He and his family were without electricity, heat and water for two weeks. As the temperature plummeted, he kicked himself for not having a generator as he watched neighbors who did stay in their homes and avoid the disruption of checking into a hotel. But buying a generator after the storm hit meant paying a premium, and he quickly saw how a contingency plan could prevent a host of hardships.

"It's just like your supply chain," he says. "With that analogy, you can see that companies need to have some kind of alternate plan in case something goes out, some kind of insurance. When something does happen, like if they're relying on a port they can have a plan in case the port shuts down for a week. Having an alternative plan in place – even if you never dust it off – could be a life saver."

Case Study: The Disruptive Holiday

Supply chain disruptions surface in many forms, from geopolitical crises that close shipping lanes to labor strikes that shutter ports to erupting volcanos whose ash reroutes airplanes. But some have a degree of predictability, such as the Chinese New Year celebration, when an entire nation's workforce goes on holiday and its factories and ports shut down for the festivities.

Not all distributors routinely look at the calendar to see when the holiday will occur in a given year – it falls between Jan. 21 and Feb. 20 – but Chan Bohacheff, director of global supply chain at electronics and audio-visual supplier SnapAV, Charlotte, NC, makes sure she knows the exact date. China's holiday is an annual headache for her company, so each fall she prepares for the labor and shipping shutdown by placing pre-holiday orders as early as the fall and post-holiday orders in December.

"We have the space booked, we try our best to have orders delivered on time and make sure that any exceptions are addressed promptly," she says. "If we don't watch it, our inventory can get out of control very quickly."

Bohacheff says the process of planning around Chinese New Year to avoid delayed shipments includes a complex balance of deploying enough working capital, precisely managing inventory, accurately analyzing trends and correctly forecasting six-month product demand. She says SnapAV follows a meticulous process for handling its Chinese New Year orders, and it became especially crucial this year in light of three additional disruptions: the West Coast port slowdown, tightened capital pressure and inclement winter weather that impeded sales.

The company's process:

- Create a clear inventory strategy.
- Leverage a supply chain management company to help with forecast accuracy and order recommendations.
- Establish communication with vendors for delivery expectations.
- Weigh pre- and post-holiday orders against capacity.
- Work with freight forwarders to secure container spaces and avoid last-minute shortages.
- And, most importantly, define roles and responsibilities within the company to monitor progress and minimize disruptions.

"Every year we put so much time and strategy and meeting into how we plan better," Bohacheff says. "We have to do the best job with what we can control, so that makes the things that we cannot control a little bit better."

-Eric Smith

Thinking Globally

Bursa, whose company works with wholesale distributors, says executives in the industry don't always consider supply chain risk because they are focused on other aspects of the business.

"They're very good at sales, they're very good at promotion, they're very service-oriented, but they're not necessarily all good at managing their supply chains," she says. "The nature of wholesale distribution is you carry a big honking product portfolio. In that, you've got some fast movers, but a big piece of that inventory base is usually a boatload of slow movers."

With a diverse inventory and range of suppliers in an increasingly volatile world, distributors must properly manage the movement of goods because the B2B marketplace is growing more competitive and less tolerant of service interruptions.

"Even if you're a regional wholesale distributor, someone in your supply base is global," she says. "Somebody who is serving you, one of your trading partners, is going to be global in nature. And you need to understand the importance of that supplier on your ability to serve customers and you need to look at lead times within your network on that service and what the inventory levels are. All business is global these days."

Bray's company is a regional distributor whose reliance on a global supply chain has caused disruption, but when summer hits its peak and ACR has enough air conditioners in stock, he can credit the company's success to one simple adage.

"He who has the best supply chain wins," he says. "It's become such a big thing. It used to be the necessary evil of business, and the warehousing, transportation and procurement was back-office stuff while everybody focused on sales and marketing. But now it's become a core competency and the thing that's driving business. There's a lot that goes to it, and it's something you've got to be good at it if you want to be in it for the long haul."

Four Steps to Get Price Change Buy-In

Sales reps understand the need for price increases but fear the consequences

Price increases are a part of doing business. The challenge is getting sales reps and customers on board with the changes. This article offers a road map for getting buy-in from the sales team and, as a result, a better return on the price increase initiatives.

This article is a summary of the MDM Webcast: How to Help Your Sales Team Execute Price Changes Successfully.

By Jenel Stelton-Holtmeier

A mere 2 percent increase on the top line can translate into "20, 30 or even 40 percent gains" on the bottom line, according to Ryan White, founder and managing partner of INSIGHT2PROFIT. But often, an initiative to increase prices by 2 percent results in a much smaller increase.

And without buy-in from the sales team, the chances of achieving any desired price increase, even a small one, goes down.

"Sales reps aren't used to talking about price and value naturally," White says. "They may have lines they can use, but when they get push-back, they concede price."

The solution is to engage the sales team through four "phases of involvement," he says.

Educate

The first phase of involvement is educating sales reps, which means making sure they have the right information at the right time. Provide data to the team rather than having them rely on anecdotes and gut feel to sell an initiative.

Does the sales team understand what differentiates the company from the competition? Often, sales reps don't actually know what it is that the company does better than everyone else, White says. And if they don't know, they can't sell that value to customers.

And often, sales reps hear only the negatives, so they go into negotiations with a bias that they're already on an uphill climb.

"Data will help identify differences," White says. Ask customers what it is that your company does better than others and what it does worse. This can be done through anonymous customer surveys or by simply asking purchasers what they value about your company.

The MDM Webcast: How to Help Your Sales Team Execute Price Changes Successfully *is available on DVD at mdm.com / successful-price-change*

Another critical piece to educate the sales team on is why the price increase is necessary. Don't just use the excuse "it's the manufacturer," White says.

Use real data points, such as the raw materials prices or freight costs, to show the sales team why prices are trending upward. If they understand why the prices are increasing, they can better communicate to their customers why a change is necessary.

Finally, break down customer price data by rep to show each one how much price variation there is just with their customers. "A graphical representation of real data, not theory, that's their data, is a very powerful tool to get them to realize they have to do something different," White says.

Extend that analysis to include all the factors that impact the "pocket" or real price that customers pay after discounts, freight costs or rebates. Make them aware of how much other elements are reducing the revenue.

For example, one distributor noted that if every customer paid list price for every product, it would be a $328 million business. But due to the size and magnitude of discounts and other factors, the actual revenue was $275 million.

Engage

Once the sales reps have the data, give them choices that allow them to identify the best opportunities. Reps may recognize the need to increase price, especially after they've been given the data, but still worry about losing business if they push too hard.

Engage them in the decision-making process about how to achieve the price increase, White says. Some customers may be less sensitive to increases that come from changes in discounts or freight. Take the analysis of the prices that customers pay and let the sales reps use the information to determine how to approach their customers.

Targeted price increases, rather than blanket ones, can be much more effective, White says. And it can bring some of the customers who are consistently paying less for many products more in line with what the market actually supports.

Build a model to give guidance on how to optimize the relationship. For example, mapping out clients based on products, risk and relative price point can help identify where the price sensitivity is.

"Corporate can't tell where the risks are," White says. Give the reps a price increase "budget" but let them drive the price increase where it's best for their customers. Hold them accountable to the overall impact but allow them to refine the specific approach.

Train

Veteran salespeople believe in their success. "They think they know what they're doing," White says. But the truth is that they could always do better.

"The buyers that they are going against are going to training. They wake up every morning talking about how they're going to get a better deal from you," White says. "We need to arm the sales team with those same skills, balance the scales of how we interact with purchasing."

It is critical to practice this type of communication. Bring in representatives from your own procurement team to talk about their strategy for getting better deals from your suppliers. "What would they say if sales brings a price increase to them?" White asks.

Salespeople don't often think of the sale from the same perspective as purchasers, but role-playing as purchasers will allow them to get a better sense of the mindset they are up against.

Doing this with other sales reps will also provide exposure to what they experience with their own customers – different questions or concerns – which will provide new tools for responding to the situations.

Measure

Even the best-laid plans fail if there's no way of measuring the impact. Reps need to be held accountable for results after the initiative has been launched, White says. There are always some people who are just "nodding through the meetings" but who aren't really on board with the plan.

Simple dashboard and scorecards are an easy way to show reps how they compare to others, White says. Track the price performance of their customers against the wider company. Ask them to justify outliers.

Make sure the reps understand what the company wants and can explain what they're doing to help it get there.

The most important determinant of whether an initiative will succeed is if sales reps are confident that they can achieve the goals.

"It's not about the science," White says. "It's about the engagement throughout and supporting them through the process." If they believe they can make it happen, they are more likely to follow through on what needs to be done to succeed.

Overcoming the Barriers to Analytics

Distributors lack tools, experience to implement advanced analytics

Analytics tools are playing an increasingly important role in distribution. But many distributors recognize that they lack the capabilities to implement an effective analytic strategy in their businesses.

By Jenel Stelton-Holtmeier

Distributors recognize that advanced analytics will play a critical role in their future success, according to new research from the National Association of Wholesaler-Distributors. "Analytics is the future of distribution," says Mark Dancer, author of *Becoming a Digital Distributor*, a book based on the results of the research around the adoption and use of digital tools by wholesale distributors.

Advanced analytics was identified as one of the top priorities for distributors – and an area where most of them lacked the skills and capabilities to implement an effective plan. Only about a quarter of participants said they were experienced users of analytics tools.

The problem is that there are two other significant barriers to building analytics capabilities, Dancer said in an interview with MDM.

The first barrier is that ERP systems aren't set up to make information accessible and applicable, he says. A wealth of information is there, but because it is inaccessible, it's just sitting there. "It needs to be easier to get information out of the ERP system when someone inside the distributor wants it," Dancer says. Overcoming this barrier may require investment in better tools, whether that is a different ERP system with the capabilities already built in or add-on tools that will mine the data and provide reports.

But once the information is retrieved, it is often in a format that doesn't make it understandable to someone without advanced analytics experience.

The second barrier is a lack of people with the right skill sets. Distributors need someone in place who can look at that vast amount of data and find patterns or gaps, Dancer says. And they need to be able to apply those patterns and gaps to the things that are important to the distributor's business model, such as improving margins and profitability.

There are two solutions for overcoming the second barrier, according to Dancer. The first is a long-term approach that involves hiring someone who already has experience with analytics and letting them learn about the business and priorities. "That strategy says, 'Let's hire someone, give them our data and see where we can go," Dancer says.

Bringing a person onto the team can be beneficial because it allows them to gain a better understanding of the specific requirements and priorities of the specific business. It allows for more in-depth discovery work and testing, Dancer says, but it also requires a longer term financial investment.

The other solution is to look to software-as-a-service providers that will overlay an analytics module around identified priorities, such as improving pricing, on the data retrieved from the ERP system. "The advantage here is that distributors can engage these companies by buying their solutions and taking advantage of the training and consulting they may offer," Dancer says.

Ultimately analytics is about aligning a distributor's business model with the data. "It's about leveraging the data that flows through a distributors business and the unique position a distributor has in the middle of the value chain," Dancer says. "It's about sharing data, sharing information and offering a proof of value in the long run."

Advanced analytics allows distributors to create a system for the "full and frank exchange of information" between distributors and their partners to ensure that the value of the relationship is understood by all parties. In the current age of disruptors, it's more important than ever for distributors to prove their value and show that they're meeting needs in the most effective way possible.

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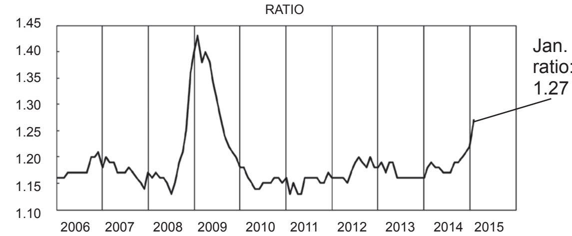
Monthly Wholesale Trade Data

Wholesale revenues in January were $433.7 billion, down 3.1 percent from the revised December and down 1 percent from January 2014 level. January sales of durable goods were down 1.4 percent from last month, but were up 5.8 percent from a year ago. Sales of nondurable goods were down 4.6 percent from December and down 6.7 percent from last January.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2006-2015

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories. Inventories were $548.7 billion at the end of January, up 0.3 percent from the revised December level and up 6.2 percent from the January 2014 level. January inventories of durable goods were up 0.6 percent from last month and up 7.7 percent from a year ago. Inventories of nondurable goods were down 0.1 percent from December and up 3.7 percent from last January.

Inventories/Sales Ratio. The January inventories/sales ratio for merchant wholesalers was 1.27. The January 2014 ratio was 1.18.

Sales and Inventories Trends: January 2015

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 12/14-1/15	Percent Change Sales 1/14-1/15	Percent Change Inventory 12/14-1/15	Percent Change Inventory 1/14-1/15
42	**U.S. Total**	**433,730**	**548,720**	**1.27**	**-3.1**	**-1.0**	**0.3**	**6.2**
423	**Durable**	**212,296**	**341,386**	**1.61**	**-1.4**	**5.8**	**0.6**	**7.7**
4231	Automotive	36,165	56,475	1.56	2.5	10.2	1.6	8.7
4232	Furniture & Home Furnishings	5,682	9,102	1.60	-2.6	9.2	1.2	7.0
4233	Lumber & Other Construction Materials	10,899	15,300	1.40	-1.1	9.4	-1.0	4.1
4234	Prof. & Commercial Equip. & Supplies	40,285	43,598	1.08	0.6	6.2	0.2	9.7
42343	Computer Equipment & Software	22,602	19,300	0.85	1.3	3.4	-1.1	12.2
4235	Metals & Minerals	14,120	30,845	2.18	-4.1	8.2	1.5	13.1
4236	Electrical Goods	38,254	38,779	1.01	-4.4	8.4	2.4	10.2
4237	Hardware, Plumbing, & Heating Equipment	10,104	21,211	2.10	-2.2	2.8	1.2	13.5
4238	Machinery, Equipment & Supplies	39,677	99,448	2.51	-0.9	5.4	0.2	6.6
4239	Miscellaneous Durable	17,110	26,628	1.56	-4.5	-9.2	-3.0	-3.0
424	**Nondurable Goods**	**221,434**	**207,334**	**0.94**	**-4.6**	**-6.7**	**-0.1**	**3.7**
4241	Paper & Paper Products	8,127	7,658	0.94	1.2	4.7	3.0	1.0
4242	Drugs	42,978	48,043	1.12	-3.6	14.3	1.7	18.4
4243	Apparel, Piece Goods & Notions	13,264	25,560	1.93	-0.6	9.0	1.1	5.8
4244	Groceries &Related Products	52,843	35,228	0.67	-1.3	5.4	0.3	7.0
4245	Farm-product Raw Materials	19,117	20,301	1.06	-2.9	-7.7	-4.6	-5.9
4246	Chemicals & Allied Products	10,578	12,720	1.20	-3.4	-2.5	-1.0	1.1
4247	Petroleum & Petroleum Products	42,253	16,540	0.39	-13.5	-37.1	-1.1	-20.8
4248	Beer, Wine & Distilled Beverages	11,046	15,072	1.36	0.2	4.5	-1.0	3.7
4249	Miscellaneous Nondurable Goods	21,228	26,212	1.23	-4.2	3.9	-0.4	4.2

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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Sonepar Continues Pursuit of 'Unique Assets'

France-based Sonepar Group has accelerated the distribution industry's consolidation story while also expanding the distribution giant's footprint with seven acquisitions before the end of the first quarter.

The brisk activity calls to mind the company's compelling, landscape-shifting purchase of IDG in September. As Jason Kliewer, managing director for the investment banking firm Baird told MDM last year, Sonepar saw a "unique asset" worth pursuing. And the company has continued that approach in the new year by amassing targets in U.S. markets and around the globe.

One of its most recent purchases, the acquisition of Electrical Distributors, Dallas, TX, expands Sonepar's reach in Texas and the Southwest. That purchase came just a week after the company announced plans to acquire Denver, CO-based Quality Electrical Distribution, which has 13 locations throughout North Dakota, Arizona, Colorado, Nevada, Utah and Wyoming.

Sonepar also agreed to acquire Netherlands-based Van Egmond Group, which employs 100 associates and had sales of €50 million (US$45.9 million) in 2014. Van Egmond Group operates through two companies: Van Egmond Elektro Groothandel, providing electrical products and services, and Van Egmond Industriële Automatisering, specializing in industrial automation and control services.

February saw Sonepar acquire the German electrical wholesale distributor Solar Deutschland, which has 27 branches and 360 employees and expands the company's presence in northern Germany.

The company in January said it would purchase Vanas Beyond Tools, Antwerp, Belgium, a family-owned distributor of tooling and lifting accessories that employs 45, and also that it

continued on p.4 of this section

Distributor News

Grainger, Chicago, IL, reported daily sales for February increased 2 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 10 percent, but up 1 percent in local currency. Other businesses segment sales increased 8 percent compared to February 2014, or 20 percent in local currency.

Plumbing distributor **Ferguson Enterprises Inc**., Newport News, VA, has acquired **Redlon & Johnson Supply**, Portland, ME, a division of **The Gage Company**.

Ferguson, Newport News, VA, has acquired **Equarius Inc.**, Torrance, CA.

France-based electrical distributor **Sonepar** has agreed to acquire Netherlands-based **Van Egmond Group**, which employs 100 associates and had sales of €50 million (US$45.9 million) in 2014.

Sonepar USA, a subsidiary of **Sonepar Group**, has agreed to acquire **Electrical Distributors**, Dallas, TX, which also has locations in Irving, TX, and Houston, TX.

Sonepar USA, has agreed to acquire Denver, CO-based **Quality Electrical Distribution**, which has 13 locations throughout North Dakota, Arizona, Colorado, Nevada, Utah and Wyoming.

St. Louis, MO-based **Graybar**, a distributor of electrical, communications and data networking products, reported sales for 2014 of $6 billion, a 5.7 percent increase compared to 2013. Profit increased 7.9 percent to $87.4 million. For the fourth quarter, sales were $1.6 billion, up 11 percent over the same period a year ago. Profit fell 26.5 percent to $16.6 million.

Beacon Roofing Supply Inc., Herndon, VA, opened a new branch in Ocala, FL.

Lyon, France-based **IPH Group**, a distributor of industrial supplies in Europe, has agreed to acquire 50 percent of Italian distributor **Minetti Group**.

Interline Brands Inc., Jacksonville, FL, distributor and direct marketer of broad-line maintenance, repair and operations products to the facilities maintenance end-market, has unified five of its brands – AmSan, CleanSource, JanPak, Trayco and Sexauer – into a new national brand called **SupplyWorks.**

Houston Wire & Cable Co., Houston, TX, reported sales for 2014 of $390 million, a 1.8 percent increase from 2013. Profit increased 89.5 percent to $15 million. Fourth quarter sales were $89.5 million, a 5.2 percent decrease from the same period the previous year. Profit for the quarter increased 16.5 percent to $3.1 million.

Park-Ohio Holdings Corp., Cleveland, OH, reported sales for 2014 of $1.4 billion, a 14.6 percent increase from 2013. Profit increased 6.8 percent to $46.9

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News Digest
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million. For the fourth quarter, the company reported sales of $373 million, a 20.6 percent increase over the same period a year ago. Profit increased 21.7 percent to $12.4 million.

Summit Electric Supply, Albuquerque, NM, has hired Paul Jeffries as president and COO, a new position within the company.

Airgas Inc., Radnor, PA, a supplier of industrial, medical and specialty gases, has named Matthew B. Whitton president of Airgas Northern California & Nevada Region.

The newly formed bearings and power transmission division at North American buying group **Affiliated Distributors**, Wayne, PA, has 27 charter members with combined annual sales of $2.4 billion.

Economic News

January **U.S. cutting tool consumption** was $181.9 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 1.9 percent from January 2014 and down 1.7 percent from December.

January **U.S. manufacturing technology orders** totaled $341.2 million according to the Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was down 32.9 percent from December and down 4.8 percent compared to January 2014

The **Chicago Fed National Activity Index** edged lower to -0.11 in February from -0.10 in January. The index's three-month moving average, CFNAI-MA3, declined to -0.08 in February from +0.26 in January.

Industrial production increased 0.1 percent in February after decreasing 0.3 percent in January, according to the Federal Reserve. In February, manufacturing output declined 0.2 percent, its third straight monthly decrease. **Capacity utilization** for the industrial sector decreased to 78.9 percent in February.

The combined value of **distributive trade sales and manufacturers' shipments** for January, adjusted for seasonal and trading-day differ-

Calculation of MDM Inflation Index for February 2015

		BLS Price Indices Feb '15	BLS Price Indices Jan '15	BLS Price Indices Feb '14	% Sales Weight	Weighted Indices Feb '15 (1)X(4)	% Change Feb '15 Jan '15	% Change Feb '15 Feb '14
1136	Abr. Prod.	572.3	571.7	572.0	19.1	109.32	0.10	0.05
1135	Cutting Tools	506.0	505.7	492.9	18.9	95.63	0.05	2.64
1145	Power Trans.	811.0	808.2	803.2	15.4	124.90	0.35	0.97
1081	Fasteners	510.1	509.6	510.1	9.0	45.91	0.11	0.00
1149.01	Valves, etc.	966.1	966.9	962.6	7.6	73.43	-0.08	0.37
1132	Power Tools	369.1	367.1	360.7	6.5	23.99	0.54	2.33
1144	Mat. Handling	594.6	585.4	575.1	6.2	36.87	1.57	3.39
0713.03	Belting	833.4	833.4	838.8	6.1	50.84	0.00	-0.65
1042	Hand Tools	779.8	778.5	777.1	8.1	63.17	0.18	0.35
108	Misc. Metal	478.6	478.3	476.6	3.1	14.84	0.06	0.41

"New" February Index	333.8	February Inflation Index	638.87	0.22	0.90
"New" January Index	333.1	January Inflation Index	637.47		
		February 2014 Inflation Index	633.18		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247 ences but not for price changes, was estimated at $1,302.5 billion, down 2 percent from December and down 0.3 percent from January 2014, according to the U.S. Census Bureau.

The **producer price index** for final demand fell 0.5 percent in February, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. Final demand prices moved down 0.8 percent in January and 0.2 percent in December. On an unadjusted basis, the index for final demand decreased 0.6 percent for the 12 months ended in February.

Privately owned housing starts in February were at a seasonally adjusted annual rate of 897,000, according to the U.S. Census Bureau and the Department of Housing and Development. This is 17 percent below the revised January estimate of 1,081,000 and 3.3 percent below the February 2014 rate of 928,000.

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, according to the Associated General Contractors of America.

Construction firms added jobs in 43 states and the District of Columbia between January 2014 and January 2015 while construction employment increased in 31 states between December and January, according to an analysis of Labor Department data by the Associated General Contractors of America.

Construction employment expanded in 247 metro areas, declined in 56 and was stagnant in 55 between January 2014 and January 2015, according to a new analysis of federal employment data by the Associated General Contractors of America.

Prices for U.S. imports increased 0.4 percent in February following declines of 3.1 percent in January and 2.5 percent in December, according to the U.S. Bureau of Labor Statistics. An upturn in fuel prices led the February rise. **U.S. export prices** edged down 0.1 percent in February, after a 1.9 percent drop the previous month.

Total **January exports** were $189.4 billion and **imports** were $231.2 billion, according to the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce. This resulted in a goods and services deficit of $41.8 billion, down from $45.6 billion in December. January exports were down $5.6 billion from December, and January imports were down $9.4 billion from December.

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

The **Conference Board Employment Trends Index** increased in February to 127.8, up from 127.6 in January. This represents a 6.7 percent gain in the ETI compared to a year ago.

The **NFIB Small Business Optimism Index** rose 0.1 points to 98 in February. NFIB owners increased employment by an average of 0.16 workers per firm in February (seasonally adjusted), unchanged from January. Twenty-nine percent of all owners reported job openings they could not fill in the current period, up 3 points and the highest reading since April 2006. Fourteen percent cited the availability of qualified labor as their top business problem, the highest since September 2007.

Canadian wholesale sales decreased 3.1 percent to $53.7 billion in January, which more than offset the gain in December, according to Statistics Canada. Sales were down in four of seven subsectors, led by motor vehicle and parts. In volume terms, wholesale sales fell 3.3 percent.

Canadian manufacturing sales decreased 1.7 percent in January as declining prices for petroleum and coal products led to an 11.9 percent drop in sales in the industry, according to Statistics Canada. Lower sales of machinery, chemicals and primary metals also contributed to the decline. Excluding petroleum and coal products, manufacturing sales fell 0.5 percent. Sales were down in 14 of 21 industries, representing just under half of all Canadian manufacturing.

Canadian industries operated at 83.6 percent of their **production capacity** in the fourth quarter, up slightly from 83.2 percent in the previous quarter, according to the latest report from Statistics Canada. Mining and quarrying and oil and gas extraction industries as well as manufacturing industries were the main sources of the

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MARKETS UPDATE SUPPLEMENT P. 4

News Digest
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gain in the fourth quarter.

Canadian investment in new housing construction rose 4.6 percent to C$3.5 billion (US$2.8 billion) in January compared with the same month in 2014. Spending in apartment and apartment-condominium building construction led the advance, up 6.4 percent to $1.1 billion (US$0.9 billion).

Canadian municipalities issued building permits worth C$6.1 billion (US$4.8 billion) in January, down 12.9 percent from December. The increase in January resulted mostly from lower construction intentions for non-residential buildings in Alberta, British Columbia and Ontario.

Compared with December 2014, January **seasonally adjusted production in the construction sector** grew by 1.9 percent in the euro area (EA19) and by 1 percent in the EU28, according to Eurostat, the statistical office of the European Union. Compared with January 2014, production in construction grew by 3 percent in the euro area and by 1.4 percent in the EU28.

Compared with December 2014, **seasonally adjusted industrial production** in January decreased 0.1 percent in the euro area (EA18) and remained stable in the EU28, according to estimates from Eurostat.

The **ISA Manufacturer Index** increased from 58.9 in January to 62.5 in February. The **ISA Distributor Index** rose from 57.8 in January to 63.4. The increases indicate accelerating growth for both member segments.

Heating, Air-conditioning and Refrigeration Distributors International reported 2.3 percent sales growth for January. The annualized growth through January is 5.9 percent, just under the lower edge of the 2014 range of between 6 and 7.

Annual production in commercial printing production is 2.3 percent above the year-ago level, although internal trends suggest slower growth will persist in the near term, according to the **Quarterly Paper Industry Economic Outlook Report** from the National Paper Trade Association in partnership with the Institute for Trend Research.

Manufacturer News

Motion control manufacturer **Allied Motion Technologies Inc.**, Amherst, NY, reported 2014 sales of $249.7 million, a 99 percent increase from 2013. Profit increased to $13.9 million, compared to $4 million the previous year. Sales for the fourth quarter were $61.9 million, a 23 percent increase year-over-year. Profit increased 266 percent to $4.9 million, compared to $1.3 million in the same period a year ago.

Actuant Corp., Milwaukee, WI, reported sales for the second quarter of $301 million, an 8.2 percent decrease from the same period a year ago. The company posted a net loss of $64.8 million, down from a profit of $41.4 million a year ago. For the first six months, the company reported sales of $628.8 million, a 5.8 percent decrease from the same period a year ago. The company posted a net loss of $40.2 million, down from a profit of $77.4 million a year ago.

Sonepar
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had bought Gruppo Matel Spa, Padua, Italy, an electrical distributor that operates primarily in northeast Italy but also in Romania.

Also in January, Sonepar USA affiliate OneSource Distributors LLC, Oceanside, CA, acquired RASKO Supply, Honolulu, HI, and RASCO Supply, Kaua'I, HI.

-Eric Smith

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