Modern
DISTRIBUTION
MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 45, NO. 11-12
JUNE 10 & 25, 2015

Special Double Issue

Good & Bad News for U.S. Economy

Oil & gas remains a drag on economic growth

Halfway through 2015, the U.S. economy is once again in a "good news, bad news" situation. The country can't seem to break free from the turbulence and uncertainty that has defined the years since the great recession. At the same time, wholesale distribution continues to outperform the overall economy on a year-to-year basis.

The industry was cautiously optimistic coming out of the fourth quarter, but a variety of factors resulted in unmet expectations. As one respondent in the first quarter MDM-Baird Distribution Survey noted: "It's been surprisingly flat. This was unanticipated, we thought the economic barometers were more promising entering the year."

And yet, many distributors remain optimistic about the second half – although they're maintaining the "cautious" qualifier. Expectations are for moderate growth in most sectors, the glaring exception being distributors and manufacturers with exposure to oil and gas.

The sharp decline in oil prices earlier this year had a steeper impact than many expected, and a rebound to the days of $100 a barrel doesn't appear to be in the cards. The U.S. Energy Information Administration forecasts that the price for West Texas Intermediate crude will average around $62 in 2016; Moody's is more bullish, but keeps the average WTI price below $80.

This, too, is a good news/bad news scenario.

"Low oil or low energy costs are going to be a net positive to the U.S. economy," says David Parks, president of Hydradyne LLC, Fort Worth, TX. "But, unfortunately, with so many of our larger operations in Texas, Louisiana and Oklahoma, for us we like $4 a gallon gas. We have a saying around here, we say we can afford $4 a gallon gas, its $2 a gallon gas we can't afford."

2015 Distribution Trends Report

Outside of oil and gas, things are a bit brighter, albeit not as robust as many had hoped. Average revenue growth for MDM's Top 40 Industrial Distributors was 11.3 percent in 2014 – and much of that was driven by acquisition.

Merger and acquisition activity is on an upward trajectory right now, and there is more competition for good companies. Burt Schraga, CEO, Bell Electrical Supply, Santa Clara, CA, says acquirers contact him all the time about selling, an indication of how the industry is changing – yet also a reminder of how the same sound business principles apply, even during a period of consolidation.

"The ones that want to stay independent better be nimble and be on their toes and be able to see upcoming trends," Schraga says. "And CEOs better be working on the business, not in the business."

The acquisitions have also trended toward more transformational acquisitions, says Guy Blissett, wholesale distribution specialist leader for Deloitte Consulting LLP. It's not just about getting into new geographies of product lines. Acquirers are also considering the IT platforms or other unique service offerings that a company brings with it.

"At the end of the day it's all about diversification," says Don Fritzinger, president of Singer Equities, Pearland, TX. "If you're diversified geographically, you're diversified with your product mix, you're diversified with your services, you can generally steer around some of those icebergs."

INSIDE

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Is Your Company Disrupter or Disrupted?

Five years ago, I outlined the need for a new distributor model to emerge from the recession – a stronger, hybrid company that is lighter, leaner, more productive, and more focused on serving and growing defined customer segments.

Five years later, what's changed? Speed. The accelerating forces of technology and economy have combined to threaten those companies that have not adjusted their business model. It brings to mind the 1998 book *Who Moved My Cheese?*, which outlined a way to think about dealing with disruption, only today the better question for distributors is: "Who moved my model?"

Traditional distribution models can be disrupted in more ways, more quickly. That's not to say it's time to overreact and hit the panic button, but it is critical to take stock, challenge assumptions and map out how your company can best build a more innovative and adaptive model.

That's where MDM can help. This June double issue is our benchmark issue that examines emerging and continuing trends in wholesale distribution. The need for benchmarking is more important than ever, but what you measure needs to be challenged, constantly. How you make it actionable defines success.

Many challenges and opportunities don't change much year-to-year. But the relative importance to your market environment and how you respond does. This issue identifies the primary ways that leading companies are exploiting gaps – in technology, talent, productivity – that create their ability to take market share, grow new markets and build competitive advantage.

Also in this issue is the 2015 MDM Market Leaders list (see page 20), our annual ranking by revenue of the top distributors. We also profile a select group of MDM Market Movers, distributors we identify annually as innovative and adaptive. The complete Market Leaders report is available at www.mdm.com.

Last year in this column, I wrote that the real value in trend analysis is to benchmark against not only direct competitors, but across industry sectors and even outside business models. Benchmarking against business models outside traditional distribution was the most important emerging trend, I argued. This year it's table stakes. What does your model look like now? What will it look like in 2016? Is it closer to disrupter or disrupted?

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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

Distributors Get Back to the Basics

Distributors routinely hear they must deploy analytics or drastically upgrade their technology to remain competitive, but Scott Bebenek, president, Independent Distributors Inc., Mississauga, ON, thinks some company owners should instead refocus their efforts on business fundamentals before adopting the latest tools.

"I don't think we talk about the basics for the independent distributor enough," Bebenek says. "We talk about stretching yourself a lot – 'Oh, you've got to get into analytics … you've got to have a catalog on your website, you've gotta, gotta, gotta.'

"In the meantime, I'm wondering if the independent distributor really knows how to determine what their true value proposition is. And that's only 50 percent of it. I don't think they're very good at implementing it through their organizations and developing a consistent and convincing message."

In other words, Bebenek says, businesses shouldn't forget their core strength – a sound distribution model built of well-trained personnel who know how to sell products, market the company's strengths, demonstrate financial savvy and deliver excellent customer service.

Other industry experts agree, including Ranga Bodla, wholesale distribution industry lead, NetSuite. He says instead of asking about the next big thing, better questions for a distributor should include, "Do I have the right foundation in place?" and "What's hype versus what do I actually need to do?"

The focus on technology can be a problem, says Roger Woodward, president, Alliance Distribution Partners LLC, Gallatin, TN. Many distributors don't yet have the business disciplines built into the business before they plunge into adding analytics staff or investing capital in new equipment.

"They still need to formalize the basics," he says, so that the information provided across platforms is consistent. "Too much info is still locked up in someone's mind."

The need to return to business basics is resonating with many distributors this year. Technology investments can help meet the basic needs of the customers, but at the end of the day the business is the same regardless of the tools, says Bob Dooley, president, Global Industrial, Port Washington, NY.

"We have to have ways to help our customers beyond looking for a product and finding it, we have to be able to help them source or even

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help with projects," he says. "It's constantly providing value without providing additional cost to them."

To avoid unnecessary costs, distributors must be careful about getting caught up in the latest buzzword, such as the cloud, or the newest technology, such as a mobile app, because they might not provide a benefit for the customer or the bottom line, says Kevin Boyle, president of Industrial Distribution Consulting LLC.

Boyle says he worked with a company 15 years ago that was on the "bleeding edge rather than cutting edge" of technology, going so far beyond the trends at the time and losing touch with its clientele that it eventually went out of business.

"They were very innovative, but they made a strategic decision, which would seem like nothing today – they decided, what difference does it make to a customer where I have my inventory as long as he gets it when he wants it?" Boyle says. But it did matter to the customer, who took its business to a distributor that considered its needs.

"We're at an inflection point in maturity for many distributors," says Guy Blissett, wholesale distribution specialist leader, Deloitte Consulting LLP. "Consolidation, growth and capital investment have brought us to a point where many distributors have outstripped their existing operating model. There are no centers of competency or excellence in these situations."

Bebenek says a disregard for business 101 is happening too often, especially among smaller independent distributors who struggle to differentiate themselves. Even with all the technical bells and whistles dangling in front of them, the secret to success remains constructing a solid foundation and then building skyward.

"You keep adding floors onto the house, but if the foundation wasn't built for the sixth and seventh floors, the building is going to crumble, right?" Bebenek says. "Independents are beautiful because they're a small, nimble, business model. That's why they'll never go away. That's why purchasers like them. But when you're small and nimble and always moving and darting around, it makes it even more important to make sure that your vision is always at the core of what you're doing."

Online Resources

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'Doubling Down' on Distributor Relationships

Historically, wholesale distributors have relied on relationships for sales. And while the distribution business model is still reliant on relationships, the timbre of those relationships has shifted, thanks in part to evolving customer and supplier expectations and the proliferation of the Internet as a commerce tool in the business-to-business environment.

"Industrial distribution is still a relationship business," says Pete Biocini, president of R. S. Hughes Company Inc., Sunnyvale, CA. "But if you are only focused on the relationships, you are kind of a dinosaur. And if you are only on the Internet you may be a little ahead of your time. You have to blend the relationships with suppliers and customers."

Managing relationships in the current environment requires a more sophisticated, holistic approach, says Guy Blissett, wholesale distribution specialist leader for Deloitte Consulting LLP. The number of touchpoints with customers and suppliers makes it more difficult to leave it to the salespeople.

"There's also a tug-of-war over who owns the relationship," Blissett says. "Is it the salesperson or the company?" As sales become more management-directed, management is also trying to lay a stronger ownership claim to the relationship – and make sure it's not tied to a single person.

The Internet has made it easier for customers to do their own research on products and application, says Bernard Martin, president and founder, Rapid Production Marketing, meaning distributors have to bring something more to the relationship.

"There's more demand for alternatives – new solutions, new products," he says. "Something that will do it better or in a different way, that's the value."

Business relationships have to be deeper, says Roger Woodward, president of Alliance Distribution Partners LLC, Gallatin, TN. Distributors have to provide the higher level of consultation; they have to better understand the business of their customers into order to provide that additional level of value.

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"The (old style of) relationship is what will get you in the door to have the bigger conversations," he says. But they won't keep you in the door if you can't have the bigger conversations around cost savings or inventory management, for example.

And that directive goes up the supply chain, as well. "(Manufacturers) are developing direct relationships with customers, as well," says Andy Behr, director of marketing for Hisco, Houston, TX. "So it's becoming incumbent to clearly define the value the distributor brings to the supply chain – being more cogent about the value proposition you bring and what that's worth."

That said, some manufacturers are "doubling down on the distributor relationship," says Ranga Bodla, wholesale distribution industry lead for cloud technology provider NetSuite. They may have tried going direct through online channels already and realized there's more to it than just posting a price.

Relationships will likely always have a role in distribution, but the new environment requires distributors to be more nimble about how they manage those relationships.

"There are some cases where you might have a fantastic relationship, and you've been dealing with someone for 10 years or more. Then, all of a sudden, you lose the business because it went to a large contract where there were products being bundled," says Don Fritzinger, president of Singer Equities, Pearland, TX. "It happens to the independent distributor all the time.

"But at the end of the day, to continue with those relationships, you have to be able to continue to be the guy who's bringing on new products, new services, and being involved in diversification in certain ways that helps you steer your way around some of those icebergs."

Distributors Embrace, Expand Online Customer Base

The Web is growing in importance for many distributors, and while investment has been slow over the last few years, many distributors, such as R. S. Hughes in Sunnyvale, CA, have recognized the urgent need to provide a functional platform.

"We've invested heavily in not only revamping our whole website over the last two and a half years, but in everything," says Pete Biocini, president of R. S. Hughes. "We've brought in outside people to help with content so it's original, we're understanding SEO and how to work with ad words – not only as a lead generator, but as a profit center because Web orders are more profitable for us. … Generally speaking, there's no bargaining on a website."

Many distributors are surprised by how many of their customers are quickly adapting to new technologies – and it's not just the young ones, says Guy Blissett, wholesale distribution specialist leader for Deloitte Consulting LLP. "Everyone's more comfortable with tablets and smartphones now, and they're using them everywhere," he says. Thanks to online retailers such as Amazon, they're more comfortable researching and transacting in this way.

While some B2B buyers are looking for a B2C experience, it's not as simple as merely creating an e-commerce site like Amazon's and then watching the online orders roll in. Punchouts and other traits unique to the B2B ordering and purchasing process can limit an e-commerce offering.

"The majority of business that's done requires some form of approval process and is external to the suppliers' process, so what we're looking at is the entire process – from the estimating process all the way to the billing process and even the payment process – and what kind of solutions might be able to be put in place at every step of the way," says Scott Sellers, executive vice president, operations, McNaughton-McKay Electric Co., Madison Heights, MI.

On the other hand, many distributors are more open to providing a "quasi-B2C experience" on their websites, as well, says Suchit Bachalli, president of North America for Unilog. "I see a lot of wholesale distributors embracing the concept that they should be able to reach out to the end users a little bit more," he says.

The end user isn't the target customer for distributors, but they aren't actively discouraging them from purchasing on the website at list price. These types of users don't have to log in to place an order or access customized data. And because the initial investment in servicing them is low, there's little concern if they aren't repeat customers.

That's the approach Houston, TX-based Hisco has taken with its website.

"The major driver for us around that is to make sure that those transactions are profitable – that's what's attractive about e-commerce," says Andy Behr, director of marketing at Hisco. "They can self-service, and we can just knock

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that transaction out and increase the level of profitability for those B2C-type customers, even though they may be a business. It's about time, price and availability to them and they make the purchase decision on that."

Distributors are also embracing e-commerce because it allows them to spend more time on the high-value orders from existing customers rather than on "regular, repeat reorders," says Ranga Bodla, wholesale distribution industry lead for NetSuite. "Distributors want to change the equation too."

While the margins on individual orders may be better when they are placed online without intervention from a sales rep, an e-commerce platform can't be a one-and-done investment. It has to be approached strategically and integrated with other sales channels, Bodla says. Customers expect real-time, up-to-date information whenever they access the site and will have little patience if they don't get that.

Another challenge is that the Internet has the potential to "accelerate the commoditization of the products industrial distributors sell," says David Parks, president of Hydradyne LLC, Fort Worth, TX. "What makes up the difference between commodity and innovation? You go into a commodity phase when the customer knows as much about the product and how to acquire it as you do.

"In every product life cycle, it moves from innovation to commodity," he says. "The distributor's challenge is to continue to provide services and information moving toward technology and innovative applications, where the customer needs the help."

While there are still some distributors who have not embraced the role e-commerce can play in their businesses, the numbers are lessening. The industry as a whole has moved away from "if" and "maybe" to "when" and "how," Bodla says.

"If you asked me 10 years ago how we were going to grow, I was going to keep doing what we had always done, which was put more feet on the street," R. S. Hughes' Biocini says. "I'm not saying that's dead by any means because we still need feet on the street, but when you look at the millennial buyers coming in, I don't think having an e-commerce platform is an area any smart distributors can ignore."

Distributors Seeking 'Lean' Supply Chain

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Business owners always look for an edge, something that will differentiate them from the competition. So it's not surprising that there's renewed interest from distributors in a time-tested method of eliminating waste within an organization – lean.

Developed by Toyota, the lean process historically has been more popular among manufacturers, especially in the automotive industry, but more distributors are looking to the concept's guiding principles as a way to shore up their businesses in 2015.

Randy Aardema, executive vice president, supply chain, US LBM Holdings LLC, Green Bay, WI, learned lean principles in his 30-year career with an automotive and aerospace manufacturer. He says those industries are ahead of distribution when it comes to lean, but any organization in the supply chain can apply it.

"Mistakes and variability happen throughout the supply chain, and our role in the supply chain is to make that process faster," Aardema says. "If we can help builders build a house a lot more efficiently and effectively by eliminating variability and a lot of waste in the supply chain, that builder is going to get a lot more business. People are going to want to go to them because they can design their house and get them in it a lot faster than builders that have not gone through a lean process or don't use a lean distributor providing them the material."

Lean principles also are vital to the culture and business model at Field Fastener, a Machesney Park, IL-based fastener distributor.

"We think it's the key to our growth," says President Jim Derry. "I'm not sure if the industry is doing it, but they should be. Because it just works. To look at the lean and value stream mapping of what happens in customers' facilities, how they get material, how material gets from our suppliers to us, we're a huge proponent of that."

Derry says Field Fastener, in conjunction with one of its largest suppliers and one of its largest customers, performed a collaborative value stream mapping, in which they detailed inefficiencies at each link in the chain, while working to understand how a product gets from the source to the customer through the distributor as smoothly as possible.

"That was powerful, because nobody saw all the different components of this before," Derry says. "The customer just used it; they didn't really know or care what we did. And the people that were producing it, they didn't know what actually happened to it, so it was enlightening to get the three main players in the supply chain into a two-day value stream mapping event to see what happened."

Hydradyne LLC, Fort Worth, TX, recently began incorporating lean principles into the business for the same reasons listed above, and it has proven to be a wise decision for the distributor.

"Our goal is to go completely through the company in every aspect and use lean principles to improve our process," says Hydradyne President David Parks. "We're already having some really big success with it, and we're learning a lot more than we expected to learn."

Aardema says leadership is key for lean to work, requiring someone at the top to proclaim: "We're going to do this and we're going to make the commitment to make sure it happens."

Though sending employees through Lean Six Sigma certification requires an upfront investment, Aardema says the payoffs are huge – "just gigantic" – and encouraging employees to become the cornerstone of a company's success will improve workflow and, eventually, the bottom line.

"As soon as one distributor, one supply chain, one vendor and one builder get together and collaborate with Lean Six Sigma and drive waste from the process, others are going to have to do this because they're not going to be competitive," Aardema says. "They're going to go out of business unless they do it. As soon as you see a handful of these empowered, enlightened, builders and distributors partner together and start making this a focus, then it's going to take off."

Distributors Adapt to More Sophisticated Supply Chain

The factory of the future will be a more sophisticated animal, with machines self-monitoring their health through the use of sensors and the Internet of Things. As weaknesses appear, the machine will be able to send a message to the maintenance team or service technician before it actually breaks.

Some manufacturers have already begun

to test the feasibility of sensors for this type of monitoring, says Jim Barnes, ISM services managing director.

"They see a lot of opportunity to increase the uptime of machinery through smart sensors that let you know when something's about to go bad. That makes their products more valuable, more durable," he says.

"There's a tremendous amount of investment happening as the supply chain gets more sophisticated," says Guy Blissett, wholesale distribution specialist leader for Deloitte Consulting LLP. The Internet of Things and sensors may not be considered mainstream now, but "it is happening today, and it's picking up pace quickly," he says, particularly in the electrical, electronics and utility sectors.

Such "smart factories" will also require a more sophisticated inventory management process, one that is more automated, according to Jim Safran, president of CribMaster. "What it's all about is driving toward that smart factory," he says.

The sophistication of inventory management programs has already increased, as have the distributors implementing them. "Customers continue to carry far less inventory," says Jon Schreibfeder of Effective Inventory Management. "And they expect the distributor to fill that need."

At the same time, distributors have placed renewed emphasis on having no excess inventory themselves. "It's a balancing act," Schreibfeder says.

"They want us to be able to magically predict their demand patterns and make sure they never run out and not have any excess inventory at the same time," says Jim Derry, president of Field Fastener, Machesney Park, IL.

Advances in software have helped customers and distributors be more aware of managing seasonal, weather-related products. Better modeling is available for variable items in these categories that may bring in more information from outside sources, Schreibfeder says.

And the introduction of dashboards can make excess inventory more visible to all levels of the company, allowing for easier and more frequent checks on the effectiveness of existing management techniques.

Vending – a topic that was front of mind for many just a few years ago – still plays a critical role in vendor managed inventory programs,

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but the view of it as a standalone solution has diminished. Distributors are being more deliberate about how those machines play a role in a more comprehensive inventory management program. That may include the use of RFID or enhanced software that allows for information to be more easily shared across locations.

Distributors are placing more focus on being partners and sole providers for key customers, Schreibfeder says, because comprehensive vendor managed inventory programs can increase stickiness with these customers. In an era of increased competition from the Internet and big-box stores, it is becoming more critical to provide services that can't easily be price-shopped and that can have their value documented.

"They are looking for areas where they can maximize their ROI and also have high engagement with their customers to enhance those relationships and build long-term loyalty," CribMaster's Safran says.

Inventory levels are rising some, but cautiously. Management is requiring more justification before approving increased levels, Schreibfeder says. Increases can't be based on "our sales might rise." Rather, it has to be a response to actual increases.

Distributors are also looking for alternatives when they consider adding product lines, according to Roger Woodward, president of Alliance Distribution Partners LLC, Gallatin, TN. They're turning to master distributors, such as Alliance, to help them test new product lines without having to make a large financial investment up front, he says.

Results from the first quarter MDM-Baird Distribution survey reflected this sentiment, as a vast majority of distributors (82 percent) expected to maintain or seasonally increase inventory levels through the second quarter.

Achieving a better balance requires a change in mindset, according to Schreibfeder. It's easier to focus on the actual numbers, but focus should be on the availability instead. Just saying that there always has to be 12 of an item on the shelf, for example, doesn't accurately reflect actual usage or seasonal changes in demand. Using internal and external data will help refine actual patterns and help move distributors away from the anecdotal "just to be safe" mentality.

Online Resources

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Distributors Combine Traditional, New Means for Recruiting

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Distributors overwhelmingly cite talent as a key concern for their companies and for the industry – whether it's recruiting and training employees or grooming them to become the next generation of leaders. Companies use a myriad of strategies for their people acquisition and retention strategies, but when discussing their foremost human resource concerns, distributors and consultants resort to a familiar metaphor.

"You've got to have people that will fill the bench," says Skip DeVilling, president of DeVilling & Associates LLC. "People are starting to see that. They start looking ahead and see a VP or sales manager that's on the brink of retirement, and they realize they have no bench."

Many companies lament their inability to recruit and hire their share of new faces, and now the "demographic clock is working against most distributors," says John Salveson of Salveson Stetson Group.

"I often see companies that have a lot of employees that have been there a long time, very good at what they do, maybe not the most innovative, maybe not the most open to change, but they've been there a long, long time," Salveson says. "And those folks are getting to retirement age. Those people are aging and the business is changing."

As a distributor's bench thins and the industry changes, the consensus is that distributors should empower their HR or talent acquisition departments – or establish one of these, if necessary – to actively address the company's current and future needs, and then create ways to meet them.

"Companies need to think about developing a job-specific marketing plan as part of their recruitment strategy," says David Gordon, Channel Marketing Group. "It's not as simple as just taking an ad and dropping it on Monster. You've got to think about what you're writing. You've got to think about what the job description is, what the performance metrics are. You've got to think what type of audience you want to attract and place it where that audience is."

Once they identify the position they need to fill, they can begin searching for the right candidate. A popular choice is to align with a university program, something SRS Distribution Inc., McKinney, TX, has done for two decades.

"We really have been investing in industry-leading recruiting, college recruiting programs for sales and management trainees for 20 years," says President and COO Dan Tinker. "And so we have a huge advantage in depth and a significant investment in future leaders and future sales managers."

This proactive approach is especially popular because distribution isn't as "sexy" as other industries, such as high-profile tech firms in Silicon Valley, says Ed Smith, president of Electronic Marketing Americas for Avnet Inc., Phoenix, AZ. That perception can make recruiting younger employees a challenge while also highlighting the need to get in front of them early through internships.

"We take in a lot of interns from different colleges, a lot of the programs from Texas A&M and other prestigious supply chain programs," Smith says. "Then we give them jobs and many of them find out they actually like it and then stay."

WinWholesale, Dayton, OH, has been intentional about its desire and need to recruit qualified employees, even hiring a vice president of talent acquisition earlier this year, whose sole task is to "find new blood, find new younger leaders from the outside," says Corporate Communications Manager Maury Williams.

In addition to traditional recruiting efforts, WinWholesale also looks at an institution that provides transferrable real-world and leadership skills in addition to academics – the armed services.

"When you are an officer in the military, whether it is the Air Force, Army, Marines, whatever the case may be, you have that decision-making ability and the ability to run your unit, whatever it is you were in charge of," Williams says. "You have that same kind of decision-making ability and self-governing with a WinWholesale company. We have enticed quite a number of ex-officers into our company."

And still others, such as Alliance Distribution Partners LLC, Gallatin, TN, are looking outside distribution. For example, the company hired someone from the publishing world to help bring structure to data presentation, says President Roger Woodward, who believes the right candidate can be trained on the distribution business – a growing consensus among industry execs.

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Competition for potential hires is heating up as distributors target similar candidates, according to Prudence Thompson, Egret Consulting, who says "times are weird" because consolidation has transformed the job market, giving job seekers, not job hirers, the upper hand.

"We're seeing more and more candidates getting multiple offers," she says. "This year we are seeing a big bidding war for talent again, with multiple distributors in one market all looking for the same type of person."

With more baby boomers retiring and millennials joining the workforce, distributors are taking less of an "us versus them" approach to the generational shift, understanding better the need to recruit across all ages for unfilled positions and adapting to the new workforce's preferences.

For example, the baby boomer generation took pride in staying in one place for a long time, which isn't as important with millennials, notes James Webster, vice president Bearings & Power Transmission Division, DXP Enterprises Inc., Houston, TX. What is important, however, is knowing how millennials fit and how they can grow in a company.

"You can train them to do things if they have a winning attitude," Webster says. "We have to create that environment for them because they really want that – and I don't blame them. But you have to constantly reinforce what they're doing, give them constructive criticism and tell them when they really seem like they are picking it up fast. That's the tough part because it is a different mindset."

Part of that mindset means recognizing that millennials have something to offer veteran workers, says Roger Woodward, president, Alliance Distribution Partners LLC, Gallatin, TN. Veterans can train newcomers on distribution and those newcomers, in turn, share their technology and social media skills.

Distributors would love to be able to hire someone with many years of experience, thinking "that's going to be the secret sauce that's going to create some upside organic growth for us," says Don Fritzinger, president of Singer Equities, Pearland, TX. But the reality is that that's not always possible, so it's important to focus on development and retention within your organization, "to limit the amount of talent that might turn over," he says.

That's why Jessica Yurgaitis, vice president of sales and marketing, Industrial Supply Company Inc., Salt Lake City, UT, says her company tries to "take advantage of all the trainings that are out there that the supplier puts on, especially if there's a way to become certified in something or have the ability to come back and train the rest of our staff on it or implement it at a customer level."

Along with providing the right leadership skills, distributors are finding a need to pass institutional knowledge to the next generation of executives, says Guy Blissett, wholesale distribution specialist leader for Deloitte Consulting LLP, who believes the industry faces a massive issue around knowledge transfer.

"Very few professional service firms do knowledge transfer well," he says. This provides a big opportunity here for someone to figure out how to do this well, which could wind up being another differentiator for a company.

The last HR component – and perhaps the one distributors struggle with the most – is succession planning.

"We actually manage our planning on three levels," says Tim O'Keefe, CEO, G.L. Huyett, Minneapolis, KS. "There's an owners plan – we try to be really careful to keep ownership and management segregated – a management strategic plan and then we have a succession plan. The succession plan would be our version of the depth chart on an athletic team. We are looking at what do we have on the bench, who do we have in the game and what's happening in the game that's going to require us to have more people coming off of the bench."

Keeping an eye on the bench at all times – being keenly aware of who is getting playing time, who needs to get on the court, who is playing out of position, who bolted for another team – is an essential responsibility for any leader.

"Every company ever invented in the world will tell you people are their most important resource," says John Salveson of Salveson Stetson Group. "Everybody says that – and then you find out who acts that way. And my experience in the past with distributors is they didn't always act that way. They didn't have strong programs to develop people, ... and there was a lot of doing things the way we've always done it.

"Now, today, I think they are saying, 'We have got to get more serious. The future is here. The things we thought were going to happen are now happening.'"

AJ Adhesives Takes Service to New Level

Adhesives distributor sets lofty goal of making customers "insanely happy"

St. Louis, MO-based adhesives distributor AJ Adhesives Inc. was selected as an MDM Market Mover for its creative approach to customer service, which includes a trademarked tagline and even a theme song.

A happy customer is unacceptable at AJ Adhesives Inc., a St. Louis, MO-based distributor of industrial adhesive products. Nothing less than an *insanely* happy customer is the company's goal, so much that it created an entire branding campaign around that aim, replete with a trademarked tagline and even a theme song.

President Andy Schwartz says the "Insanely Happy Customers" concept is more than just a marketing slogan; it's an ideal that pervades every aspect of the company culture. And it helps AJ Adhesives stand out in an industry where, as Schwartz points out, a customer can "sit on a beach in the Bahamas and buy nuts and bolts at 2 in the afternoon."

The idea for the customer service-first mantra began in 2012 when AJ Adhesives hired a branding company to conduct a marketing brainstorm session. The employees scribbled ideas on Post-It notes and whiteboards as they tried to craft the perfect message, something that would sum up the company's attitude toward the clients it serves and the value it strives to uphold.

"And at the end of the day, what really stuck out is we wanted happy customers," Schwartz says. "And then for us happy isn't good enough. You've got to make them insanely happy."

Soon after coining and trademarking the phrase, the company hired Nichole Fischer as its Insanely Happy Customer branding ambassador, the longest title she's ever heard but also the coolest – "better than the captain of a ship," she says with a laugh.

"We started the conversation of what does this look like? How do we put this out into the world?" Fischer says. "And that's when we started talking about a website that would be linked to our AJ website but fully dedicated to how we care for our customers and how we differentiate from people that are in our sector."

The company measures customer happiness with a one-question survey it sends three days after an order asking if they would recommend AJ Adhesives to a colleague and leaving room for a comment on how the company is performing. Fischer tracks these responses and shares them weekly with the customer service and management teams, all of whom collaborate on addressing any issues that have emerged.

"I've tried to ingrain it in everybody that works with me that, at the end of the day, we take care of the customers," Schwartz says. "If we didn't have any customers, there wouldn't be any need for anybody else. So they come first."

AJ Adhesives has found creative ways to spread its message of putting the customer first. One is a theme song. Fischer and the creative team wrote the lyrics, and The Traumatics recorded the "Insanely Happy Song," which plays on the company's website.

Another is social media. Not all distributors are convinced channels like Facebook, Twitter and YouTube work for B2B, but it's a space where AJ Adhesives believes it can drive website traffic by improving search-engine optimization while also showcasing the company's unique approach to customer service.

"We have a core value here and it's a commitment to embrace change," Fischer says. "And since social media is something different for our sector, it's important to be able to embrace that change ahead of time."

The company also uses social media to share industry and client news, and it works to promote its brand while also engaging with customers by retweeting their updates, liking their posts or favoriting their photos.

"The distribution model has not changed a ton over the last several decades," Schwartz says. "What is the next change? We don't know, but we know on social media it keeps us relevant and that's what we want to do. We want to stay relevant. And we know people buy stories. And so if we can communicate our stories, we think it will have significance."

2015 MDM Market Movers

Distributor: AJ Adhesives Inc.
Headquarters: St. Louis, MO
Leadership: President Andy Schwartz
Details: Adhesives distributor takes customer service to an "insanely" high level with a branding campaign built around the tagline of "Insanely Happy Customers."

Plumbers Supply's "Win-Win-Win-Win"

Service Business Evolution program provides 'complete channel lift'

Louisville, KY-based HVAC and plumbing distributor Plumbers Supply Co. was selected as an MDM Market Mover for its program to provide training and support to its contractor partners that are facing a labor shortage.

Nearly two-thirds of field technicians in the HVAC industry are expected to retire in the next 10 years. At the same time, it is getting more difficult to find young people to take up the trade.

"Not only do they not understand the trade, but young people don't think that there's money to be made in it either," says Scott Ritchey, vice president of sales and marketing for Plumbers Supply Co., Louisville, KY.

The looming labor shortage has many contractors and distributors asking two questions: How do we make this an attractive career for young people? And, how do we maximize the productivity of the techs we do have?

The solution for Plumbers Supply came in the form of a York HVAC-exclusive program called the Service Business Evolution. The distributor is one of four participating in the pilot program, and since its launch in January, SBE has exceeded all expectations.

The premise of SBE is to teach field techs how to have an honest conversation with homeowners about the value of replacing or repairing older HVAC units.

"It allows the homeowners to feel comfortable in telling the technicians what they really want without being sold," Ritchey says. As a general rule, the technician is the person the homeowner trusts the most in the transaction. Under SBE, the technician begins the conversation about what the homeowner needs in a new unit to build trust before the transaction.

By allowing the homeowner to deal with the technician, they end up closing the opportunity "right there on the spot," and there's no risk of losing the sale to a bid process, Ritchey says. The technician learns how to have these open conversations with the homeowners, creating faster project turnaround, which increases individual productivity.

Revenue for the contractor goes up, making it possible to increase the wages – which in turn, makes a field technician career more attractive for young people. And the homeowner wins because they weren't put into a high-pressure situation with a sales rep just trying to get commission by closing a deal.

2015 MDM Market Movers

Distributor: Plumbers Supply Co.
Headquarters: Louisville, KY
Leadership: President & COO Jay Johnson
Details: HVAC & plumbing distributor launches plan to help contractor partners make a field technician career more attractive while increasing individual productivity for techs.

The distributors partner with their contractor customers to enroll in the training program, a two-year process, Ritchey says, and both play essential roles for success.

Each contractor assigns a coach to provide training sessions that continuously develop the tech's skills and provide a check on how the training is being applied.

"The coach helps the tech understand: You're not selling; you're having a conversation that informs the homeowner that if they want to make this decision, then they can go ahead and make that with you," Ritchey says.

The distributor, meanwhile, assigns a territory manager to meet with the contractor coaches. The territory manager goes through the same training process and, as a result, understands the entire process.

Having the distributor participate in coaching the coaches helps improve buy-in at the contractor level, Ritchey says, and it helps strengthen the partnership.

Goals are set locally and an app helps monitor application of the skills learned. The app allows techs to monitor their progress, but also provides a check to make sure they're behaving ethically, Ritchey says. The coach or manager can see each of the transactions that the tech completes and identify any red flags that might appear. For example, if a tech sees this program as an opportunity to earn more money by becoming more of a sales person than a tech, that will show up in the numbers on the app.

While it's still early in the program for Plumbers Supply, they've seen some of their contractors double their revenue per technician per truck.

SBE provides "a complete channel lift," Ritchey says, strengthening the relationship between consumer, contractor, distributor and manufacturer. "It really is a win-win-win-win situation," Ritchey says. "Everyone benefits."

Culture Drives Success for ERIKS NA

CEO: It's a difficult concept to define, but you know it when you see it

2015 MDM Market Leader Profile

In 2011, Netherlands-based ERIKS acquired Lewis-Goetz, Pittsburgh, PA – itself a consolidator in industrial distribution. Since then, the company has continued to expand in North America and globally. Jeff Crane, president and CEO of ERIKS North America, spoke with Editor Jenel Stelton-Holtmeier about how to successfully integrate acquired businesses into an organization and the role of e-commerce.

MDM: How has business been?

Jeff Crane: We've grown to be a very end-market diverse distribution business. No end market represents more than about 15 percent of our total sales. So oil and gas isn't an end market that we're dependent upon. We benefited from the growth of that market when it was growing and expanding – and we expect it will, again, in years to come. But in the meantime we're going to have to rely on other sectors of the business to help us grow.

Generally speaking, growth in the broader industrial economy has been frustratingly slow. We see pockets of growth. We see quarters of growth. But as the Q1 GDP figures indicate, we tend to take two steps forward and one step back.

MDM: What are some of the changes that you've seen in the industry, in your career so far?

Crane: Clearly, the consolidation of the industry is the most dramatic change. And yet, the industry remains quite fragmented. So there's still a lot of consolidation still to come. We're very fortunate to have positioned ourselves to be one of those consolidators both as Lewis-Goetz and now as ERIKS North America. And we will continue to be an acquirer and position ourselves as the acquirer of choice in those segments that we choose to play in.

MDM: The integration of Lewis-Goetz into ERIKS seems to have been pretty successful. What does it take to have a successful integration from that perspective?

Crane: I can tell you as a buyer or a seller, the key question is culture. You can look at end markets and products and business model – and all of those things are very important – but if you have all of the right fits in terms of products and end markets and business model but you don't have a cultural fit, acquisitions are going to be a huge challenge.

Culture is something that is very difficult to define. You know it when you see it. But we spend an awful lot of time getting to know people in the industry. And we're not venturing far outside of our space. Through association meetings and industry gatherings, we're able to get to know the players in the market very, very well and to understand the people that are really a cultural fit.

Culture is about people. It's about your approach to customers, your approach to your associates, how you run your business. So speaking from Lewis-Goetz, it even goes back to when we were bought by the private equity firm Audax in 2007. Largely, we chose Audax because of the fit we felt with the people and their approach to how they managed businesses.

The same was true when we were approached by ERIKS in 2011. We got to know the executives. We got to know their business and quickly became very comfortable with their approach to the marketplace, their approach to their people and the role that we could play in helping them grow in North America.

MDM: With it being such a difficult concept to define, what are some of the questions that need to be asked to identify a cultural fit?

Crane: If we're thinking about an acquisition, we want to understand the approach that company takes towards their customers. What sort of relationships do they have? How do they add value? How do they document that value? What's the nature of the relationships? And how long term are those relationships? How did they think about their people from pay practices, benefit practices, the tenure of the people? Those kinds of things begin to give you a sense of the kind of leaders and the people within the organization that you're going to find.

And we watch for business practices that don't match our own. They may be growing, but some customers are falling off the back. They keep going into new industries to find that growth even as older industries and older customers fall off. If they've got high turnover from an HR standpoint, those are all red flags for us, signs that maybe we don't have a target here that's committed to the long term, whether it's with their own people or with their customers.

Our goal is not getting an order. Our goal is developing a long-term relationship with our customers, and that's a key question for us in any acquisition target we're looking at. And you can take that same question and relate it to the people within the organization. Do you have people that are loyal, dedicated and willing to charge the hill with you? Or do you have turnover problems that may be an indication of management's commitment to their people?

MDM: How does ERIKS approach e-commerce as part of its business strategy?

Crane: E-commerce does and will continue to play a pretty central role on how we approach our customers. Our goal with e-commerce is to use it as a value-added tool to facilitate the relationship that we have. It's not going to be a general tool that we use to approach the market. We see it as an opportunity to enhance the very in-depth, sticky relationship that we have with our customers and a way to make those relationships even more sticky.

Our customers have very wide-ranging needs and capabilities as it relates to e-commerce. So tailoring our approach to the customer does a couple of things. It's a very customer-focused, customer-centric approach, specific to that customer's needs and capabilities. It forces us to better understand the needs and the capabilities of that particular customer.

We're still a very technical product and service-oriented provider. Not an off-the-shelf provider of products, if you will. And e-commerce can help facilitate some of the transactional efficiencies that we know we need to provide but without losing site of the very tailored nature of the product and services that we offer.

MDM: What are your thoughts on the role Amazon is going to play in distribution and on the distribution market?

Crane: For distributors that provide products that are more and more off-the-shelf SKU driven, the threat from Amazon is more acute, although I think those distributors still have compelling supply chain efficiency value propositions to sell that Amazon will continue to be challenged to replicate. For us in the technical product and service space where products are critical to the operation of a customer, it requires local know-how, problem solving, application knowledge. We continue to believe that our value proposition is one that's difficult for Amazon or many of the broader MRO distributors to replicate and provide locally, let alone on a global scale.

The lessons we take from looking at Amazon and the other more advanced e-commerce platforms is: How do we take the knowledge and the advancements of those e-commerce platforms, learn from them and apply them in a way that is useful in our business? We see it as an opportunity to learn from them and apply those lessons to our business even as we don't see the immediate threat from Amazon or other e-commerce players immediately impacting the more technical product and service space.

MDM: Is there anything you'd like to add about the direction of ERIKS North America?

Crane: ERIKS North America – and ERIKS globally – is in a unique position to tell a very exciting story about industrial distribution and about being a consolidator on a global scale. As exciting and dynamic and large a space as industrial distribution is in North America and globally, ERIKS is in a pretty unique position to be able to tell that story to customers, associates and young talent that we're trying to recruit to the business.

Much of what we've talked about – you think about cultural fit, you think about relationships and people whether it's with associates or customers – so much of that comes down to communication. In a far-flung organization with 100 locations across North America, one of the things that I do worry about is how do we send a consistent message to a customer in Seattle that has a sister facility in Houston and a headquarters in Philadelphia? That's a key consideration for us.

Our growth strategies will just continue to support the compelling story that we have to tell to all of those different constituencies. We're excited about the future. We're excited about the growth trajectory of the last several years and the growth trajectory we're going to see in the next several years and the unique opportunity that gives us to tell a very unique story.

Online Resources

Read more from MDM's interview with Jeff Crane at mdm.com/marketleaders.

TTI's Strategic Approach to Global Growth

Knight: Current success not a challenge to future performance

Moving from a multiregional to a truly global company is a key initiative for electronic component distributor TTI Inc., Fort Worth, TX, a wholly owned subsidiary of Berkshire Hathaway. Associate Editor Eric Smith spoke with Michael Knight, senior vice president, TTI Americas, about how the company is approaching global growth, the importance of culture to successful acquisitions and what's in store for the rest of 2015 and beyond.

MDM: How's business going?

Michael Knight: Some years it's easier to answer that question than others. This one has been a bit confusing. The punchline is we had a pretty good first quarter. We were a little behind expectations in the first quarter in North America but ahead of expectations in Europe and Asia.

There was a lot of noise in the first quarter and in North America, in particular. Some of it was, of course, related to the weather. Some of it related to the FX (currency exchange) thing that's going on with the strong dollar. But when it was all said and done, it was a pretty decent first quarter, and I think that's for the most part true of the electronic component industry.

The second quarter, though, is going to be a bit of a different story. We've had much more of a stutter step coming into this quarter, especially on new incoming orders.

MDM: Any especially strong growth opportunities for the company of late?

Knight: One of my fears when you become so dominant in a particular product center, geography or an industry is that growing ahead of market becomes all but impossible. I choose to look at that as the silver lining in the TTI cloud. We're pretty dominant in the things we do, but we're not so dominant that it's impossible for us to outperform, especially in things like connectors where we still, for the most part, have non-dominant shares.

That product space is highly fragmented. And there's a growing need for our type of distribution by customers who consume connectors – and that's globally. That's driving a big piece of our growth here in North America, as well as Europe and Asia. And it's driving us into market segments that historically we haven't had much of a presence in, first and foremost transportation, in particular non-automotive transportation.

2015 MDM Market Leader Profile

These are very connector-rich environments, and it's an industry that hasn't historically used distribution. And for a variety of reasons it has more complicated supply chains, more rapid turnover in terms of models so that they've got a higher variety than they historically have had.

MDM: For the first 30 years of TTI's existence, the company focused on organic growth, but that appears to have shifted. What has been the role of acquisitions at TTI in the past decade?

Knight: Our very first acquisition was in 2000, and that was a real simple buy-versus-build equation. We were in the process of building out our own catalog distributor when a small catalog distributor in the neighborhood, by the name of Mouser, became available. When we acquired Mouser in 2000 it was a $50 million business. This year they should break $1 billion.

If pressed to answer whether that was by design and strategic I'm, of course, going to say absolutely it was. But the reality is it was pretty easy math for us, and we were extremely fortunate in that we got a group of people that became a leader in their space.

The rest of the 2000s I would characterize as opportunistic, and there were two more. One was a small passive electronic component distributor by the name of Capsco on the West Coast and what that did was give us a little bigger footprint on the West Coast. And then we acquired NTI. A company specialized in the automotive market sector, which was not a place that TTI played, and it really became the kernel of our transportation business unit.

Then in the 2010s, that's where you see things start to change here for us. Our acquisitions became a strategic way of adding some incremental growth, so it's not all green field. This is post-getting acquired by Berkshire Hathaway. We have started to look at acquisitions as a strategic way to grow in either a particular market segment where we have low presence or share, a product set that we have low presence or share or a geography where we have low presence or share. In the past 14 years, you see us buying our way into Israel as an example of geography. Or buying our way into the European power supply business through Campbell Collins. Or buying our way into France, which was extremely nationalistic, through the acquisition of Mateleco, a leading french connector distributor.

More recently, we've done some things to get better positioned in the indigenous mobile handset market in China through the acquisition of HuaTong. And to get better positioned in the transportation market segment in greater Asia through an acquisition of NPC Autotronics.

It's not, and I don't think it ever will be, our primary growth engine, which is the case for other distributors that we compete with. For us, it's an add-on to our principle method of growth, which is organic. And it just is an accelerator for something that we would otherwise do organically.

MDM: Alignment of corporate cultures when an acquisition occurs is critical. How does TTI promote that during and after a deal gets done?

Knight: I love this question. And it really is the heart of any acquisition. One that works exceedingly well has a really good handle on this question and an answer to it; one that doesn't, doesn't. And in my experience as it relates to acquisitions – the majority of which precedes TTI – culture match is the origin of success. Full stop.

When the two teams that are coming together see things, react to things, approach the world in a similar fashion and the acquired team has a desire to actively participate in the integration, in fact they see being acquired as kind of a springboard to bigger and better things for themselves, it's magic. The hoped-for synergies occur. The hoped for value proposition for suppliers and customers occurs. The hoped for upside for the employees occurs.

We have a saying around here: Culture beats strategy. I would never claim that we are the most strategic electronic component distributor on the planet, but I will always claim we have the best culture. We have a really strong, well-defined, well-understood culture here. When we acquire companies, without fail it's a very good cultural match. We have had a lot of luck getting one and one to equal more than two, whether it's Sager or any of the others that I wrote about in my blog.

MDM: What sets TTI apart from your competitors?

Knight: It is our culture. The founder of the company, Paul Andrews, is the root of the culture. And he's still here every day, even after selling the company to Berkshire Hathaway. And even there this place was a really good fit with the Berkshire portfolio. The tenure of our people is unmatched. We've got people at all levels of the company, including the warehouse, who have worked with this place for 30-plus years. With that level of tenure and commitment there comes a consistency in everything we do because, ultimately, it's my belief that the source of all competitive differentiation is the people in a company. Being able to attract and retain people is extremely important.

We're such a small piece of Berkshire Hathaway that we don't get reported out separately, but Warren Buffett takes a long view on everything, which is more of a private approach as opposed to a public approach, which is a quarter-to-quarter approach to business. And so we're very blessed to not have to kneejerk to all of the twists and turns of the market. We know what we are; we know what we aren't. And we put a lot of time and energy into getting better and better at what we are.

MDM: What's in store for TTI to maintain its value proposition and that competitive advantage?

Knight: We're going to continue adding to our team in all regions. We are a net hirer even in downturns. Not being a manufacturer, if we want to sell more we have to have more people to do that.

This is a year too that's pretty interesting for us in that we're starting to truly globalize. Though we have a big footprint in all regions of the world, we have not been global. I would call us multiregional. Each region runs largely independently, so we're not really taking advantage of synergies or best practices. We've created some global positions this year to help us change that – mainly help us keep up with our largest customers who got there ahead of us. They're already globalizing, and that's one of the things you see in our biggest customer engagements in any market segment.

We haven't had a comparable way to engage or respond, so we're putting that in place to better service our customers and, ultimately, to be more successful in a global environment. The Internet piece of this thing is already global. But the business-to-business, the in-person piece of it is also globalizing pretty quickly. And we tend to keep pace.

Online Resources

Read more from MDM's interview with Michael Knight at mdm.com/marketleaders.

2015 MDM Market Leaders: Annual Lists of the Top Distributors

Top 20 Industrial Distributors

1. Wolseley Industrial Group: $11.9 billion
2. W.W. Grainger: $10 billion
3. HD Supply: $8.9 billion
4. Airgas: $5.1 billion
5. MRC Global Corp.: $5.1 billion
6. Motion Industries: $4.8 billion
7. The Fastenal Company: $3.7 billion
8. DistributionNOW: $3.5 billion
9. Sonepar Industrial: N/A
10. MSC Industrial Direct: $2.8 billion
11. Applied Industrial Technologies: $2.7 billion*
12. WinWholesale: $2.5 billion
13. McMaster-Carr: N/A
14. Edgen Group: N/A
15. Wurth - Americas: $1.8 billion
16. Interline Brands: $1.7 billion
17. DXP Enterprises: $1.5 billion
18. Kaman Industrial Technologies: $1.2 billion
19. ERIKS (North America): $925 million
20. F.W. Webb: $908 million

Top 10 Electrical Distributors

1. Sonepar: $8.5 billion
2. WESCO Distribution: $7.9 billion
3. Anixter: $6.4 billion
4. Graybar: $6 billion
5. Rexel (US & Canada): $5.4 billion
6. CED: N/A
7. HD Supply Power Solutions: $1.9 billion
8. Border States Electric: N/A
9. W.W. Grainger (Electrical): $1.1 billion
10. Crescent Electric Supply: N/A

Top 5 HVACR/Plumbing Distributors

1. Ferguson Enterprises Inc.: $11.6 billion
2. Watsco: $3.9 billion
3. Hajoca (incl. EMCO): N/A
4. WinWholesale: $2.5 billion
5. Johnstone Supply: N/A

Top 5 Power Transmission/Bearing Distributors

1. Motion Industries: $4.8 billion
2. Applied Industrial Technologies: $2.7 billion*
3. Kaman Industrial Technologies: $1.2 billion
4. BDI: $671 million
5. Wajax Industrial Components: $412 million

Top 5 Building Materials Distributors

1. ABC Supply: $5.3 billion
2. ProBuild Holdings: $4.3 billion
3. Allied Building Products: $2.4 billion
4. Beacon Roofing Supply: $2.3 billion
5. BlueLinx Holdings: $2 billion

**Calendar year 2014*

mdm Market Leaders
TOP
DISTRIBUTORS
2015

View the complete lists, including the Top 40 Industrial & Top 25 Electrical Distributors; trends by sector; and the 2015 Distribution Trends Report at **www.mdm.com/marketleaders**

Other Sectors Included Online:

- Electronics
- Fasteners
- Fluid Power
- Gases & Welding Equipment
- Janitorial & Sanitation
- Hose & Hose Accessories
- Industrial PVF
- Pharmaceuticals
- Plastics
- Safety

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Industrial & Construction Markets Update

VOL. 45, NO. 11-12 | JUNE 10 & 25, 2015

Wolseley Sales Up 16.6% in 3Q

UK-based Wolseley plc, parent company of Ferguson Enterprises, reported third quarter sales of £3.3 billion (US$5.1 billion), up 16.6 percent. On a like-for-like basis, sales were up 7.5 percent.

Trading profit for the quarter was £195 million (US$289.9 million).

Three bolt-on acquisitions were completed in the quarter with annualized sales of £69 million (US$105.8 million).

Fiscal year-to-date sales were £9.7 billion (US$14.9 billion), up 11.5 percent year-over-year and up 7.8 percent on a like-for-like basis. Trading profit increased 17 percent to £584 million (US$895.2 million).

U.S. business sales, including Ferguson, were up 8.3 percent from last year to £2.1 billion (US$3.2 billion) on a like-for-like basis. On an actual basis, sales were up 25 percent and acquisitions contributed an additional 3.3 percent.

Trading profit in the U.S. was up 35.5 percent to £164 million (US$251.4 million).

Two further acquisitions, Redlon & Johnson and Arkansas Supply, were completed in the quarter with total annualized sales of £31 million (US$47.5 million).

Sales in Canada were down 1.9 percent compared to last year on a like-for-like basis. Acquisitions contributed an additional 2.1 percent.

Sales in the UK were 7.6 percent ahead of the prior year on a like-for-like basis with acquisitions contributing an additional 4.2 percent.

The acquisition of MPS, a utilities business with annualized sales of £38 million (US$58.2 billion), was completed after the end of the quarter.

Sales in the Nordics region were up 8.8 percent on a like-for-like basis with acquisitions contributing an additional 4 percent.

Like-for-like sales in Central Europe increased 1 percent.

Distributor News

Grainger, Chicago, IL, reported daily sales for May were flat compared to the same period a year ago. U.S. segment sales were up 1 percent year-over-year and Canadian segment sales were down 11 percent. Other businesses segment sales increased 11 percent compared to May 2014.

HD Supply Holdings Inc., Atlanta, GA, reported sales for the fiscal first quarter of $2.2 billion, an increase of 6 percent year-over-year. Profit was $242 million for the quarter, compared to a loss of $12 million in the first quarter the previous year.

Graybar, St. Louis, MO, has moved its Raleigh, NC, branch to a larger facility to better serve its customers. Graybar also opened a new location in Watford City, ND.

United Stationers Inc., Deerfield, IL, officially brought together several of its primary operating companies under the name **Essendant** on June 1.

Houston-based **GHX Industrial LLC**, a subsidiary of **The United Distribution Group**, has acquired Pelham, AL-based **Valley of Birmingham**.

The Fastenal Company, Winona, MN, reported sales for May of $314.4 million, a 0.3 percent increase over the same period a year ago. Daily sales increased 5.3 percent to an average of $15.7 million.

FCX Performance Inc., Columbus, OH, has acquired **Process Control Services Inc.**, Plymouth, MI.

Beacon Roofing Supply Inc., Herndon, VA, has acquired **ProCoat Systems Inc**., with branches in Denver and Ft. Collins, CO.

Building materials distributor **Huttig Building Products Inc.**, St. Louis, MO, has sold its **Southwest Roofing Supply** branch in Farmers Branch, TX, to **Pacific Coast Supply LLC**, North Highlands, CA.

Stock Building Supply Holdings Inc., Raleigh, NC, and **Building Materials Holding Corp**., Boise, ID, have agreed to merge.

RelaDyne, Cincinnati, OH, has acquired Illinois-based **Palatine Oil Company**.

Tech Air, Danbury, CT, has acquired Los Angeles-based **Geneva Gas & Supply Inc**.

Singer Equities, a wholly owned subsidiary of **SBP Holdings**, Pearland, TX, has acquired **Unisource Manufacturing Inc.**, Portland, OR, and its subsidiaries.

SRS Distribution, McKinney, TX, has agreed to acquire **Advanced Building Products**, Harahan, LA.

continued on p.2 of this section

MARKETS UPDATE SUPPLEMENT P. 2

KODA Distribution Group, Stamford, CT, has acquired **Colonial Specialty Chemicals** and plans to merge it with **Monson Companies**.

Economic News

April **U.S. cutting tool consumption** totaled $183.5 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 down 4.6 percent from April 2014 and down 7.9 percent from March.

April **U.S. manufacturing technology orders** totaled $384.8 million according to AMT – The Association for Manufacturing Technology. This total, as reported by companies participating in the USMTO program, was down 8.1 percent from March's $418.7 million and down 1 percent when compared to April 2014.

The Producer Price Index for final demand rose 0.5 percent in May, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. On an unadjusted basis, the final demand index declined 1.1 percent for the 12 months ended in May, the fourth straight 12-month decrease.

Real gross domestic product for the U.S. decreased at an annual rate of 0.7 percent in the first quarter, according to the "second" estimate released by the Bureau of Economic Analysis.

New orders for manufactured durable goods in April decreased 0.5 percent to $235.5 billion, according to an advance report from the U.S. Census Bureau.

New orders for manufactured goods in April, down eight of the last nine months, decreased $1.8 billion or 0.4 percent to $476.7 billion, according to the U.S. Census Bureau.

Privately owned housing starts in May were at a seasonally adjusted annual rate of 1,036,000, according to the U.S. Census Bureau and the Department of Housing and Development. This is 11.1 percent below the revised April estimate, but 5.1 percent above the May 2014 rate.

The combined value of **distributive trade sales and manufacturers' shipments** for April, adjusted for seasonal and trading-day differences but not for price changes, was estimated at $1,318.8 billion, up 0.6 percent from March and down 2.3 percent from April 2014, according to the U.S. Census Bureau.

Prices for U.S. imports increased 1.3 percent in May following declines in each of the previous 10 months, according to the U.S. Bureau of

Calculation of MDM Inflation Index for May 2015

		BLS Price Indices May '15	BLS Price Indices Apr. '15	BLS Price Indices May '14	% Sales Weight	Weighted Indices May '15 (1)X(4)	% Change May '15 Apr. '15	% Change May '15 May '14
1136	Abr. Prod.	576.8	575.9	575.3	19.1	110.17	0.15	0.26
1135	Cutting Tools	507.3	506.0	497.8	18.9	95.88	0.27	1.91
1145	Power Trans.	810.1	811.6	802.3	15.4	124.75	-0.19	0.97
1081	Fasteners	510.4	511.0	508.5	9.0	45.94	-0.11	0.37
1149.01	Valves, etc.	961.3	962.7	961.4	7.6	73.06	-0.15	-0.02
1132	Power Tools	371.8	368.7	362.2	6.5	24.16	0.84	2.63
1144	Mat. Handling	594.0	593.2	580.8	6.2	36.83	0.14	2.27
0713.03	Belting	835.0	834.0	838.8	6.1	50.93	0.12	-0.46
1042	Hand Tools	779.8	784.6	784.6	8.1	63.17	-0.61	-0.61
108	Misc. Metal	478.3	478.0	477.4	3.1	14.83	0.06	0.18

"New" May Index	334.2	May Inflation Index	639.72	-0.01	0.67
"New" April Index	334.3	April Inflation Index	639.76		
		May 2014 Inflation Index	635.44		

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

News Digest
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Labor Statistics. The **price index for U.S. exports** rose 0.6 percent in May, after a 0.7 percent decrease in April.

April **construction spending** was estimated at a seasonally adjusted annual rate of $1,006.1 billion, 2.2 percent above the revised March estimate of $984 billion, according to the U.S. Census Bureau of the Department of Commerce. The April figure is 4.8 percent above the April 2014 estimate of $960.3 billion.

Construction employers added 17,000 jobs in May and 273,000 over the past year, as the sector's unemployment rate fell to 6.7 percent, the lowest May rate since 2006, according to the Associated General Contractors of America.

Construction firms added jobs in 40 states and the District of Columbia between May 2014 and May 2015 and in 28 states and D.C. between April and May, according to an analysis of Labor Department data by the Associated General Contractors of America.

The May **PMI** was 52.8 percent in the latest Manufacturing ISM Report on Business, an increase of 1.3 percentage points over the April reading of 51.5 percent. The New Orders Index registered 55.8 percent, an increase of 2.3 percentage points from the reading of 53.5 percent in April.

The **Conference Board Leading Economic Index** for the U.S. increased 0.7 percent in May to 123.1, following a 0.7 percent increase in April, and a 0.4 percent increase in March. The **Coincident Economic Index** and the **Lagging Economic Index** increased 0.1 percent and 0.2 percent, respectively.

The MAPI Foundation, the research affiliate of the Manufacturers Alliance for Productivity and Innovation, released its **quarterly economic forecast**, predicting that inflation-adjusted gross domestic product will expand 2.4 percent in 2015, down from 3 percent in the February 2015 report, before rebounding to 3 percent in 2016, an increase from 2.7 percent in the previous forecast.

Builder confidence in the market for newly built, single-family homes in June rose five points to a level of 59 on the National Association of Home Builders/Wells Fargo Housing Market Index.

Canadian residential construction investment totaled C$25 billion (US$20.1 billion) in the first quarter, up 8.8 percent from the same quarter in 2014.

Canadian manufacturing sales fell 2.1 percent to $49.8 billion in April, the third decline in four months, according to Statistics Canada.

Canadian municipalities issued building permits worth C$7.8 billion (US$6.3 billion) in April, up 11.6 percent from March, the second consecutive monthly advance.

Canadian industries operated at 82.7 percent of their **production capacity** in the first quarter, down from 83.5 percent in the previous quarter.

The **Canadian Industrial Product Price Index** declined 0.9 percent in April, mainly because of lower prices for energy and petroleum products. The **Raw Materials Price Index** increased 3.8 percent in April, largely as a result of higher prices for crude energy products.

Canadian wholesale sales rose 1.9 percent to $55.2 billion in April, a second consecutive increase.

Compared with March 2015, April **industrial producer prices in Europe** fell by 0.1 percent in the euro area (EA19) and remained stable in the EU28, according to Eurostat, the statistical office of the European Union.

Compared with March, **seasonally adjusted industrial production** in April rose by 0.1 percent in both the euro area (EA19) and the EU28, according to estimates from Eurostat, the statistical office of the European Union.

Manufacturer News

AMETEK Inc. Berwyn, PA, has agreed to acquire the surface inspection systems division of **Cognex Corp**., Hayward, CA, for $160 million.

Gibraltar Industries Inc., Buffalo, NY, has acquired **RBI Solar Inc**., **Rough Brothers Manufacturing Inc**. and affiliates for $130 million.

Lincoln Electric Holdings Inc., Cleveland, OH, has acquired all intellectual property related to laser welding and marking systems produced by **Process Equipment Co.**, Tipp City, OH.

MARKETS UPDATE SUPPLEMENT P. 4

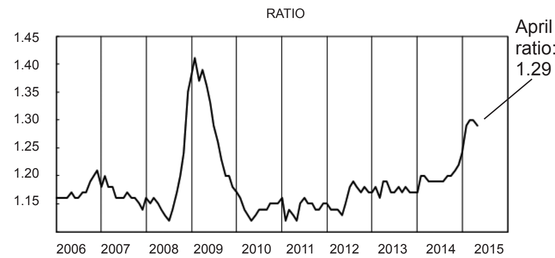
Monthly Wholesale Trade Data

Wholesale revenues in April were $448.3 billion, up 1.6 percent from the revised March level and down 3.3 percent from April 2014. April sales of durable goods were up 1.2 percent from last month and up 2.4 percent from a year ago. Sales of nondurable goods were up 2 percent from March, but were down 8.2 percent from last April.

Inventories. Inventories were $576.9 billion at the end of April, up 0.4 percent from the revised March level and up 4.5 percent from April 2014. April inventories of durable goods were up 0.1 percent from last month and up 6.6 percent from a year ago. Inventories of nondurable goods were up 0.8 percent from March and up 1.1 percent from last April.

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/Sales Ratio. The April inventories/ sales ratio for merchant wholesalers was 1.29. The April 2014 ratio was 1.19.

Sales and Inventories Trends: April 2015

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 3/15-4/15	Percent Change Sales 4/14-4/15	Percent Change Inventory 3/15-4/15	Percent Change Inventory 4/14-4/15
42	**U.S. Total**	**448,251**	**576,886**	**1.29**	**1.6**	**-3.3**	**0.4**	**4.5**
423	**Durable Goods**	**217,806**	**358,087**	**1.64**	**1.2**	**2.4**	**0.1**	**6.6**
4231	Automotive	36,801	60,902	1.65	3.2	8.1	1.8	13.2
4232	Furniture & Home Furnishings	6,732	10,668	1.58	2.2	9.4	-0.2	6.2
4233	Lumber & Other Construction Materials	9,276	14,241	1.54	0.3	3.8	3.4	2.0
4234	Prof. & Commercial Equip. & Supplies	37,051	39,894	1.08	-0.2	-0.4	-2.1	4.3
42343	Computer Equipment & Software	19,284	15,643	0.81	1.1	-3.1	-3.1	1.6
4235	Metals & Minerals	13,828	31,638	2.29	-2.7	-7.1	-1.2	7.0
4236	Electrical Goods	49,073	47,830	0.97	3.2	8.7	-1.2	7.2
4237	Hardware, Plumbing, & Heating Equipment	10,641	22,624	2.13	1.4	7.4	1.5	11.3
4238	Machinery, Equipment & Supplies	35,683	104,048	2.92	0.3	-0.3	0.7	6.8
4239	Miscellaneous Durable	18,721	26,242	1.40	0.0	-9.2	-1.3	-5.4
424	**Nondurable Goods**	**230,445**	**218,799**	**0.95**	**2.0**	**-8.2**	**0.8**	**1.1**
4241	Paper & Paper Products	7,884	7,894	1.00	1.1	1.9	3.9	3.5
4242	Drugs	50,496	55,221	1.09	1.3	13.6	1.1	13.5
4243	Apparel, Piece Goods & Notions	14,440	28,356	1.96	-1.5	5.6	2.7	8.6
4244	Groceries & Related Products	50,560	33,097	0.65	1.1	0.3	1.4	5.6
4245	Farm-product Raw Materials	19,556	19,748	1.01	7.4	-11.0	-4.4	-19.0
4246	Chemicals & Allied Products	10,623	12,323	1.16	-1.4	-5.0	2.2	0.2
4247	Petroleum & Petroleum Products	44,164	18,834	0.43	4.9	-37.3	2.3	-20.7
4248	Beer, Wine & Distilled Beverages	11,062	15,219	1.38	0.3	3.5	-0.7	3.0
4249	Miscellaneous Nondurable Goods	21,660	28,107	1.30	0.9	6.1	0.2	2.7

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.