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Preventing Predictable Disruptions

New technology platforms create conflict across the supply chain

Unpredictable supply chain disruptions such as natural disasters and labor disputes garner the biggest headlines, but the predictable disruption of a channel partner changing its business system can cause some of the biggest headaches. Despite a potential for upheaval, distributors and manufacturers can take strategic precautions to minimize problems.

By Eric Smith

A company changing its ERP will never garner the same dramatic headlines as a natural disaster or labor dispute, yet the seemingly innocuous move to a new business system can sever a supply chain as ferociously and frequently as any tsunami or longshoremen strike.

"That is one of the most common ways that the supply chain gets disrupted," says Kevin Boyle, president of Industrial Distribution Consulting LLC. "Manufacturers cause disruption in the channel all the time because they configure new business systems, they change the way they manage their order entry, and they don't tell their distributors early enough."

Manufacturers know about new system implementations – which companies actually employ, in part, to prevent disruptions – months in advance, differentiating it from supply chain saboteurs such as a volcanic eruption or geopolitical crisis. But when a manufacturer moves to SAP, for example, and doesn't let its distributors know in advance, it sparks a host of issues that range from minor delays to incorrect orders to a complete shipping stoppage.

"I've seen lots of disasters," Boyle says. "I don't know if it's arrogance or if it's over-confidence that there will be no problems, but they let the distributor know a couple of weeks in advance that they're going to a new business system. If a supplier would only engage his channel partner and let him know his plans early enough, they can help them prepare for it."

Assessing the Problem

A manufacturer that transitions to a new business system isn't aware of the problems it can cause, which is why they don't often communicate the change to their channel partners, says Michael Sprague, director of e-business development, ThomasNet.

"A lot of the manufacturers think these problems are distributor problems," he says. "They say, 'I'll give you my data, and you have everything you need.' Well, the distributors aren't staffed to take those PDFs and convert them into the data that they need."

A bearing company that Sprague works with has 17 percent of its electronic orders "popping out because part numbers don't match and they have to be manually processed," he says. "So a system that we put in place to automate our business between our two companies is actually failing, and we don't have the staff now to go back and say, 'Figure this all out.'"

When a distributor's and manufacturer's ERP systems aren't aligned, the process of entering and shipping orders can disintegrate, sometimes causing experienced customer service personnel to "break down in tears because they're so frustrated by the new computer system and don't know what to do," says Matt Onofrio, president and COO of GT Midwest, Wichita, KS.

This problem has snarled his company's supply chain in a variety of ways. One supplier told him an order would ship in a month and it showed up later that day. In another instance a supplier said an order had shipped that day only to find out a week later that it hadn't left the distribu-

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INSIDE

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PERSPECTIVE ■ Commentary by Jenel Stelton-Holtmeier

Refocus on the Foundation

In this age of technology-driven change, so much of how we do things has been altered. Online is often our first destination when looking for a product – whether for personal or business use. And so much information is available at our fingertips that we often get caught up in the glitz and glamour that the bits and bytes offer us.

But many things haven't changed, and as we wrote in our last issue, it may be time for distributors to refocus on the basics of business so that the foundation they're building their technology upon is strong enough to support the latest and greatest tools – online and off.

The core of that foundation is making sure that what you're selling is what your customers really want to buy. Because if it's not, the Internet will ensure they know where to find what they really want.

And in today's market, distributors must sell more than just physical products. The wealth of information on the Internet can be overwhelming or even downright wrong. Distributors today are sellers of knowledge and service in addition to products.

I recently came into possession of Jack and Suzy Welch's latest book, *The Real-Life MBA*. In the chapter "What to Make of Marketing," they ask the question: Are we selling meh or me-want?

You have to be more savvy about what it is you're trying to sell, and it has to be something your customers can actually use.

"You cannot market meh forever," the Welches write.

The problem of getting people to pay for services is a perennial one in distribution. But is that because they really won't pay or is it because you haven't done a good job of selling them on everything you're providing?

Make sure your value proposition is correct for your company, and make sure it's different from what your competitors are saying. Don't just say you do it better and faster; provide documentation on why what you're offering exceeds what you're competitors are offering.

I'll leave you with this thought from the Welches' book: Relationships are still critical to business-to-business marketing, but those relationships have to be "buttressed by strategic thinking about capacity, capability and your competition."

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Supply Chain Disruption
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tion center.

"Anything you can think of that can possibly go wrong, goes wrong," Onofrio says. "Some of them can go a day or two or three without making outbound shipments, and then invoices are late and invoices are wrong, and all of the supporting paperwork that we're used to getting that we need with the product gets lost. It's unbelievable."

A customer's shift to a new system can also create a pain point upstream to the distributor, says Jim Derry, president, Field Fastener, Machesney Park, IL.

"That's like a death sentence for me," he says. "If they're going to SAP, for six months they're not going to know anything. I don't know how people can make these decisions to switch these businesses knowing that they're going to put their company at risk for six months, but we see that all the time."

And even distributors can be at fault sometimes when they implement a new system and forget to alert others, says Onofrio, who acknowledged the issue comes up regularly at industry meetings. While he and other distributors may joke about the suppliers and customers who change computer systems, they also know their trading partners say the same thing when it's the distributor making that change.

"It's very rarely smooth. It's very rarely well communicated," he says. "And it almost always is a major disruption."

Solutions Abound

Companies up and down the supply chain implement new business systems for a variety of reasons, and just as they planned and prepared internally for adopting SAP, Oracle or another platform, they need to plan for its integration outside their own world, as well.

An executive with an electrical distributor in the Southeast says preparation and planning are keys and that a company must view the new system not as tangential to the supply chain's continuity, but rather "they have to look at that as part of their supply chain and treat it the same way."

The other crucial component, he says: "Communicate, communicate, communicate." That means alerting and involving channel partners well in advance so everyone can work together on making the process as smooth as possible.

"If it's done right the disruption is minimal," he says. "There's a lot of other things that get blamed on ERP implementations during that one-year window around going live that may or may not have anything to do with the implementation, but it's going to get blamed for it."

In addition to communication, training is crucial. And while it's impossible to build the same level of competence and confidence quickly among personnel working on the new system, a company that invests in training will increase employee preparation and decrease the risk of lost productivity.

"I don't think it's possible to overtrain for something like this," Onofrio says.

But, Boyle cautions, no matter how much training happens, no matter how many hours are spent on preparation, problems will emerge. "The truth is, you can't avoid them," he says. "It's just how do we minimize those problems."

Ask a Distributor

Besides planning, communication and training, manufacturers can also establish and seek advice from distributor advisory councils to help address and minimize risk associated with a business system implementation, according to Boyle and Onofrio.

Onofrio was part of a council for a supplier that had seen and heard the "horror stories" of a business system implementation and sought input from the council's distributor members about what needed to be done, how the change should be communicated and what issues might arise.

They advised the supplier to be upfront about the timing change, to ask distributors to stock up on inventory and even to extend payment terms on stockout orders to lessen transactional volume demand during the first three or four weeks of the new system.

"They did almost everything that the council suggested, and that one was frankly as close to being a smooth transition as any I've ever seen," Onofrio says.

But companies must understand that a new ERP system could require an extensive organizational restructure, because "disruption of data will disrupt everything," says Randy Aardema, executive vice president, supply chain, US LBM Holdings LLC, Green Bay, WI.

"It takes a lot more time and a lot more resources because you have to change your organization to fit the software, as opposed to the other way around," Aardema says. "That's a difficult thing for companies to do. If you change ERP systems, you probably also have to change your organizational structure to match the ERP and most companies don't do that, so that's a huge source of frustration."

Supply Chain Strategy

Other tips for preventing, or at least minimizing, disruption in the supply chain include establishing a contact person for channel partner problems, creating a contingency plan for what happens when – not if – something goes wrong and maintaining the same level of attention to that ERP system throughout the life of the partnership.

"OK, you built it, that's great, now how are you going to maintain it?" Sprague says. "It's not having the baby that's the issue, it's the 20 years of rearing the child, the food, the diapers, everything. So anybody can do anything once, and getting that data set out there is good, but you really have to have the processes and the procedures and the communications to keep it current and in sync."

It speaks to the five-step formula that Paul Dittmann, executive director of the Global Supply Chain Institute at the University of Tennessee-Knoxville and co-author of the book *The New Supply Chain Agenda*, uses for generating excellence in a supply chain: hire the right talent, select the appropriate technology, collaborate internally, collaborate externally and manage change.

The alternative for those who don't follow suit isn't pretty, says Boyle.

"A lot of people forget that it's a channel partnership and there are three partners in this channel – the supplier, the distributor and the customer," he says. "And if you disrupt something with the supply chain, the customer is cut off. He's going to be unhappy, and they may be unhappy enough to look for a competitive product."

Predictable Supply Chain Disruptions Abound

A new ERP isn't the only predictable supply chain disruption confounding distributors. Whenever a manufacturer moves a warehouse and doesn't let its distributors know, it can become a nightmare, according to Kevin Boyle, president, Industrial Distribution Consulting LLC.

He worked with a manufacturer who not only moved a warehouse but also hired a third-party operator to run it. Once the facility went live, the entire supply chain was severed due to lack of communication and adequate system testing.

"They were unable to ship orders to distributors for two months, so basically January and February didn't happen, which was outrageous," he says. "They were so confident everything would run smooth they didn't tell anybody."

The current M&A market also is causing supply chain slowdowns as companies integrate their systems, something that can be addressed during the due diligence phase.

Regulatory issues, though not as predictable, can be planned for by keeping an eye on current policy changes and using association resources to stay current on industry news.

Inclement weather now has a degree of predictability, as companies routinely cite it as a disruption in their first-quarter earnings reports, with many planning ahead for another cold and snowy winter by adjusting inventories accordingly.

And even West Coast port congestion, once considered an unknown because it involves volatile labor issues, has become a predictable disruption with frequent work stoppages or slowdowns. To avert future disruptions, companies are shifting cargo elsewhere. The Port of Savannah has seen import and export volume rise for three consecutive months, driven in large part by response to labor strife on the West Coast, according to a recent article in *The Wall Street Journal*.

East Coast ports are projected to gain 10 percent share of container traffic from West Coast ports by 2020 due to next year's opening of the expanded Panama Canal – and a lack of labor strife – according to a recent study by The Boston Consulting Group and C.H. Robinson.

"People will find ways to use the West Coast ports less," says Paul Dittmann, executive director of the Global Supply Chain Institute at the University of Tennessee-Knoxville. "If you get burned, essentially, creative people are going to find alternatives. Our East Coast ports, no doubt, will get busier over time, especially when the Panama Canal widening is completed next year. Much larger ships can pass through the canal and go to the East Coast. So I think more and more companies will start opting for that alternative."

-Eric Smith

'Breakout Year' May Never Come

Slower growth environment for U.S. economy likely here to stay

The U.S. economy has entered a slow growth environment, where 3 to 4 percent GDP growth is likely a thing of the past. And although employment is increasing year-over-year, it still has not rebounded to prerecession levels in some areas.

This article is a summary of the MDM Webcast: The 2015 Mid-Year Economic Update.

By Brooke Baum

Although the wholesale distribution industry is still growing faster than the overall economy, growth in the U.S. has slowed and a "breakout year" is unlikely, according to Brian Lewandowski, associate director at the Business Research Division of the Leeds School of Business at the University of Colorado Boulder.

"I think what's interesting when looking at GDP growth and forecasts is there is this broad expectation that next year is going to be our breakout year, and we've had that broad expectation for about five or six years now," he says in the *MDM Webcast: The 2015 Mid-Year Economic Update*.

In late 2014, and even into early 2015, economists were forecasting 3 percent or more growth for the year, Lewandowski says. However, similar to past years, that expectation was revised downward by the middle of this year, and the breakout year everyone was anticipating was again pushed out to next year.

According to Lewandowski, it is finally becoming apparent that an economic breakout year may never come. The U.S. may have entered a slower growth environment where 3 to 4 percent growth just doesn't happen; 2 to 3 percent may be all that is possible.

Part of that may be due to the first quarter GDP report, which showed -0.7 percent growth, he says. Expectations are that the first quarter report will be revised upward and the second quarter will show a strong number – but not to the levels seen previously.

Data from the Congressional Budget Office shows that a GDP gap started during the recession has closed about 90 to 91 percent of the way, meaning "we have excess capacity in the market," according to Lewandowski. The U.S. is not at full potential output, and it remains below full employment and production. However, with only about 10 percent left, the gap should completely close by the end of 2016 or early 2017, Lewandowski says.

Even though employment is increasing, not every state has returned to prerecession levels. And the unemployment rate is highest among the youth and lower-educated workforce.

The distribution industry specifically has shown substantial employment gains. However, only four sectors have reached total prerecession peak levels of employment: alcohol distributors, apparel wholesalers, industrial distributors and motor vehicle after-market parts/supplies wholesalers.

Construction jobs are growing year-over-year, but they are still below the prerecession peak by about 16 percent. According to Lewandowski, the shortage of workers is due to many workers leaving the industry or occupation after the recession, while others may have retired or are now self-employed. This shortage now seems to be holding back capacity for homebuilding, as well as driving up wages.

Globally, the U.S. economy, despite its slow growth, is outperforming many other economies, especially Eastern and Western Europe. "Maybe we're not growing quite as fast as some of the Asian markets, but we're still doing relatively well from the global standpoint," Lewandowski says.

Overall "the U.S. economy is on a much firmer footing," he says. However, global economic growth and fed policy will still provide headwinds to growth.

Lewandowski also points out that an area of concern for the distribution industry is growing inventory values. He notes that the inventory-to-sales ratio is "getting a little bit uncomfortably high for the wholesale distribution industry."

Increasing inventory levels can lead to buying less from suppliers, which "could be some sort of indication that this buildup of inventory is a reflection of a softer, broader economy that's not showing up elsewhere yet," he says.

Access the MDM Webcast: The 2015 Mid-Year Economic Update at *mdm.com/2015MidYearUpdate.*

To order reprints, reference article #4513-2. Learn more about reprint options at www.mdm.com/reprints.

The Cost of Not Providing E-Commerce

While e-commerce is front of mind for many distributors, there's still disagreement on the role it plays within the industry. A recent survey conducted by Real Results Marketing revealed a "polarized phenomenon of distributors who are jumping into e-commerce with glee in droves and those who are still contemplating whether to do it or not," according to Jonathan Bein, managing partner.

Bein finds the fact that distributors in 2015 might still be debating the merits of an e-commerce solution for their business, by far, one of the most interesting phenomena in the industry.

"I'm sure there are some companies that don't need to do e-commerce, but they're few and far between," he says.

Bein cited a number of excuses distributors give for not aggressively pursuing an e-commerce strategy:

1. Our field sales reps will become upset.
2. It's too hard to get the data.
3. Our customers don't need it.
4. It's a relationship business, and e-commerce goes against that mindset.
5. We've already got e-commerce (an antiquated version).
6. It's too expensive and now is not the time to invest in it.
7. We lack the expertise to implement it.
8. We're too busy.

The cost of investment is top of mind for Burt Schraga, president, Bell Electrical Supply, Santa Clara, CA, who says his company's two biggest concerns are "getting really clean data and then getting a functional Web store that can compete with the big guys."

A decent e-commerce site starts at about $125,000, which is pretty pricy for a $30 million distributor, Schraga says. And while the price may start there, a company really needs to spend $250,000 to meet customer demands.

"I've seen some distributors spend $50,000, and it doesn't do what the customers are looking to do," Schraga says. "They not only want to place an order, they want to check on their back orders, they want to know pricing, they like to look at their accounts payable, perhaps just go in and cost a job out and save it as a quote, and then turn a quote into an order. You better have a solution and you better do it pretty soon."

Solutions are becoming more attainable for distributors, according to the 2015 State of E-Commerce in Distribution, which revealed two key trends. It is easier and less expensive to launch an online initiative, although many distributors experience more time in the nascent stage of e-commerce maturity, typically for three to five years.

That isn't surprising to Timo Platt, who directs business development for Harrison Publishing House, a rich content service and software solution for the HVAC, plumbing and mechanical trades.

"What (distributors are) saying is, 'We need to become more proactive in offering interactive tools that are as automated as possible, that will sync with our customers' systems, that will handle that back-end communication and, lastly, that will give us more time to engage in higher-value activities," Platt says. "What we're hearing is, 'We need to expand our e-commerce capabilities rather than they're lacking.' It's two sides of the same coin, but those are the words they use."

Platt notes that the definition of e-commerce is changing – and that it's not just a way to sell products online.

Instead, it is all the "different ways that will help the customer more easily find you, interact with you, buy from you, restock with you, get the dashboard view of all of their historic business, all of their trending business, key metrics that come out of all that," he says. "That's the future of e-commerce," and the gap between the companies that do it well and those that don't is widening.

Bein acknowledges that plenty of distributors will go to their grave fighting against the need to provide e-commerce, despite the most compelling argument against holding out.

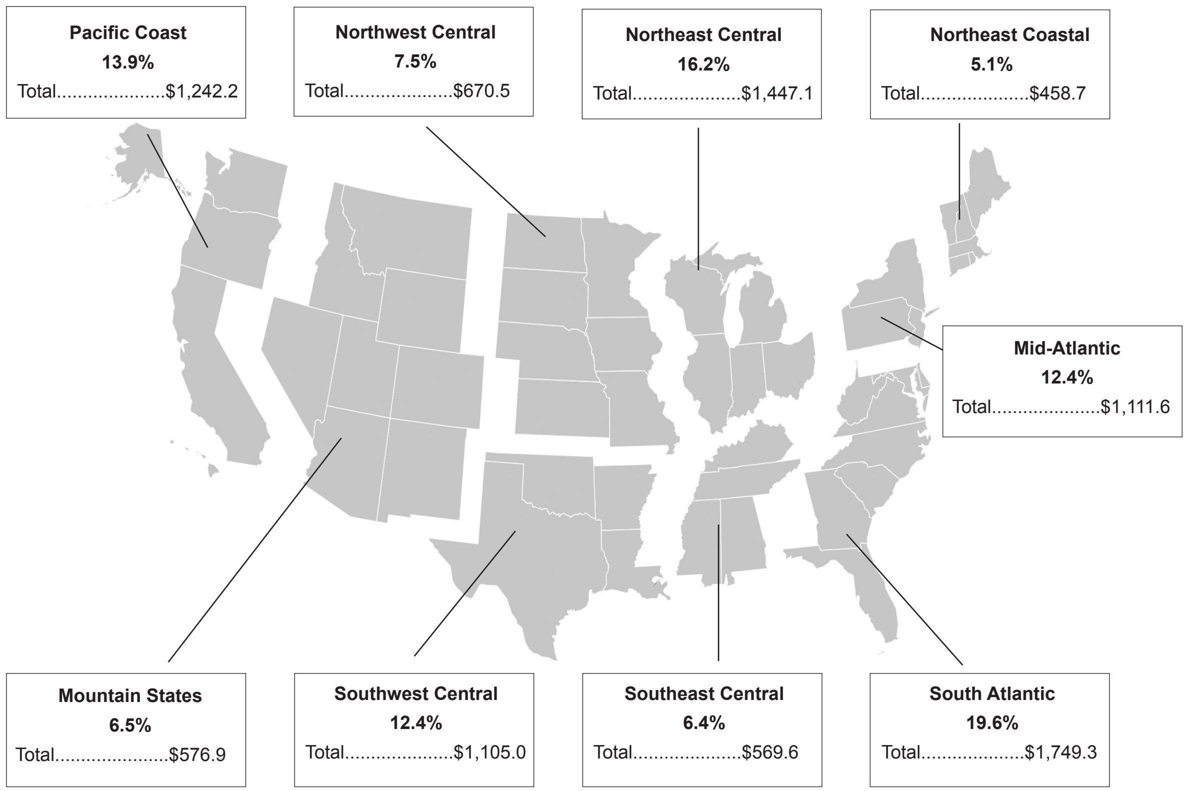
"If you're looking at losing a couple of percent of revenue a year or more because you don't have e-commerce, it doesn't seem so bad at first, but after four or five years you've lost 10-15 percent of your revenue," Bein says. "And that's a strong current to swim against."

-Eric Smith

MARKET ANALYSIS: Plastics Consumption in North America

Consumption of Plastics in the U.S. was $8.9 billion in 2013, according to data from MDM Analytics (formerly Industrial Market Information). In Canada, consumption of Plastics was $916.8 million and in Mexico consumption was $794.5 million. All estimates are 2013 end user demand, in U.S. dollars, including distributor margin.

■ U.S. End-User consumption of Plastics by region, in millions of $ (2013 estimates)



U.S. Total 100%: $8,930.9

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

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

End User		Estimated Consumption
622110	General Medical and Surgical Hospitals	$1,271.7 million
238220	Plumbing, Heating, and Air-Conditioning Contractors	$907.7 million
236220	Commercial and Institutional Building Construction	$600.0 million
236115	New Single-Family Housing Construction (except For-Sale Builders)	$486.9 million
238210	Electrical Contractors and Other Wiring Installation Contractors	$212.5 million
238320	Painting and Wall Covering Contractors	$158.5 million
325412	Pharmaceutical Preparation Manufacturing	$154.1 million
238160	Roofing Contractors	$150.6 million
236116	New Multifamily Housing Construction (except For-Sale Builders)	$143.8 million
236118	Residential Remodelers	$130.3 million

End-User Consumption of Plastics in Canada

■ End-Market Size by Province (U.S.$)

Provinces	Estimated Consumption
Ontario	$345.2 million
Quebec	$214.0 million
Alberta	$127.1 million
British Columbia	$116.0 million
Manitoba	$30.2 million
Saskatchewan	$27.6 million
Nova Scotia	$19.7 million
New Brunswick	$19.1 million
Newfoundland and Labrador	$12.2 million
Prince Edward Island	$3.9 million
Northwest Territory	$0.9 million
Yukon	$0.7 million
Nunavut Territory	$0.3 million

■ Top 5 End-Markets for Plastics

End-markets in $ volume, by NAICS code (2013 estimates)

6-digit NAICS	Description	Estimated Consumption
622110	General Medical and Surgical Hospitals	$105.1 million
238220	Plumbing, Heating, and Air-Conditioning Contractors	$83.2 million
236220	Commercial and Institutional Building Construction	$50.1 million
236115	New Single-Family Housing Construction (except For-Sale Builders)	$39.1 million
325412	Pharmaceutical Preparation Manufacturing	$25.0 million

Total Consumption in Canada: $916.8 million

End-User Consumption of Plastics in Mexico

■ End-Market Size: Top 10 States (U.S.$)

States	Estimated Consumption
Distrito Federal	$186.4 million
Mexico	$103.9 million
Jalisco	$74.1 million
Nuevo Leon	$68.7 million
Guanajuato	$40.9 million
Veracruz Llave	$33.0 million
Chihuahua	$27.2 million
Baja California	$26.0 million
Coahuila De Zaragoza	$24.4 million
Puebla	$23.3 million

■ Top 5 End-Markets for Plastics

End-markets in $ volume, by NAICS code (2013 estimates)

6-digit NAICS	Description	Estimated Consumption
236220	Commercial and Institutional Building Construction	$119.0 million
236116	New Multifamily Housing Construction (except For-Sale Builders)	$39.9 million
236115	New Single-Family Housing Construction (except For-Sale Builders)	$38.6 million
312111	Soft Drink Manufacturing	$34.8 million
325180	Other Basic Inorganic Chemical Manufacturing	$33.0 million

Total Consumption in Mexico: $794.5 million

This market size estimate was compiled by MDM Analytics, Lafayette, CO. Learn more about MDM Analytics at www.mdm.com/analytics.

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Industrial & Construction Markets Update

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Bunzl's Acquisition Appetite Grows

Bunzl plc, the London, England-based international distribution and outsourcing group, continues its acquisitive ways and shows no sign of stopping, especially in the safety sector.

The company acquired four companies in June – International Sourcing Company Inc., Memphis, TN; Importadores Exportadores Solmaq SAS, Bogota, Colombia; GF Inc., Calgary, Canada; and Ligne T SAS, Montauban, France – bringing its 2015 total to 11.

These latest assets that Bunzl has added "each represent an extension of our existing safety businesses in the U.S., Colombia and France as we continue to look to expand and develop our operations in this important sector," CEO Michael Roney said.

Earlier this year, Bunzl made announcements adding four businesses (one in Turkey, two in Canada and one in the Netherlands) in April, adding two businesses (Spain and Canada) in February and adding one (U.S.) in January to its portfolio.

The company has been especially keen on Canada for the past couple of years, with Roney noting that its purchase of GF Inc. was its sixth acquisition in Canada since 2013, the "result of which we have developed a national business in Canada with annual revenue in excess of C$700 million (US$568 million)."

The recent moves by Bunzl speak to an M&A market in distribution that is "incredibly strong right now" because of the industry's financial strength and stability, according to Jason Kliewer, co-head of Baird's distribution group.

-Eric Smith

Distributor News

Grainger, Chicago, IL, has named DG Macpherson as COO, a newly created role. Court Carruthers, senior vice president and group president, Americas, will be leaving the company.

Sonepar USA, a subsidiary of privately held France-based **Sonepar Group**, has acquired **Eck Supply Co**., an electrical distributor that serves Virginia, North Carolina and South Carolina.

Paris, France-based electrical distributor **Rexel** has appointed Thierry Delarue as group senior vice president, strategy and business transformation.

WinWholesale Inc., Dayton, OH, has acquired plumbing distributor **M. Cooper Supply**, Mokena, IL.

NOW Inc., Houston, TX, has agreed to acquire **Odessa Pumps and Equipment Inc.**, a distributor of pumps and equipment for the oil & gas and municipal and wastewater markets.

Quality Tools & Services Inc., Hammond, LA, has acquired **AMC Supply Inc.**, Pensacola, FL.

MSC Industrial Direct Co. Inc., Melville, NY, has named Rustom Jilla executive vice president and CFO. Jilla succeeds Jeff Kaczka, who is retiring.

Economic News

The **Chicago Fed National Activity Index** moved up to -0.17 in May from -0.19 in April. The index's three-month moving average, **CFNAI-MA3**, increased slightly to -0.16 in May from -0.20 in April.

Real gross domestic product for the U.S. decreased at an annual rate of 0.2 percent in the first quarter of 2015, according to the third estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.2 percent.

New orders for manufactured durable goods in May decreased $4.1 billion, or 1.8 percent, to $228.9 billion, according to an advance report from the U.S. Census Bureau.

May **construction spending** was estimated at a seasonally adjusted annual rate of $1,035.8 billion, 0.8 percent above the revised April estimate of $1,027 billion, according to the U.S. Census Bureau of the Department of Commerce. The May figure is 8.2 percent above the May 2014 estimate of $957.6 billion.

The June **PMI** was 53.5 percent in the latest Manufacturing ISM Report on Business, an increase of 0.7 percentage points over the May reading. The **New Orders Index** registered 56 percent, an increase of 0.2 percentage points from the reading of 55.8 percent in May.

Employment growth for manufacturing and wholesale trade was flat in

continued on p.4 of this section

Offshoring Debate Continues in Wake of Productivity Study

The debate over offshoring of manufacturing is far from over. While "Made in America" continues to gain support in the public sphere and among major retailers – for example, participation in Walmart's Made in America program is growing – new data from Statistics Canada highlights how offshoring can be good for the industry's productivity levels.

The report, "Industry Productivity in the Manufacturing Sector: The Role of Offshoring," found that offshoring allows firms to focus on core activities by adopting more advanced technologies, exposing the firms to more international best practices and facilitating a better match between a firm's inputs and outputs.

Firms engaging in offshoring were more productive, with overall labor productivity up 6.8 percent over firms that did not offshore intermediate inputs, according to the report. This result held for manufacturers that offshored production to U.S. or non-U.S. markets, and it was especially true for those offshoring to both locations simultaneously.

While the data in the report specifically focused on Canadian firms, it lends credence to the near-shoring efforts that U.S. firms are also employing, with a particular focus on moving manufacturing operations to Mexico. Because of close proximity, transportation times are reduced, while labor costs are lower than in the U.S.

While labor costs are a significant factor, easier access to a skilled labor force may also be driving this trend. In a 2015 study from Deloitte and The Manufacturing Institute, 16 percent of executives said they were considering a new geographic location (cross-border to Mexico and/or Canada) due to easier access to talent; 13 percent said they were considering new geographic locations in other parts of the world.

These factors, however, haven't slowed reshoring efforts around the globe. According to a report from the Reshoring Initiative, new reshoring efforts and foreign direct investment resulted in the creation of 60,000 jobs in 2014 – more than offsetting the 30,000 to 50,000 jobs lost to new offshoring efforts. In 2003, the group estimates that reshoring and FDI created 12,000 jobs, compared to 150,000 jobs lost to offshoring activity.

The two most common reasons cited for reshoring in the Reshoring Initiative report were concerns over quality, rework and warranties, and government incentives to reshore. Other factors included access to a skilled workforce, long lead times, brand image and freight costs.

Much of the investment in reshored jobs is on high- or medium-high-tech manufacturing. Three-quarters of the manufacturing jobs reshored in the U.S. in 2014 fell into these two categories. Low-tech manufacturing is less desirable for reshoring efforts.

And while Mexico remains an attractive market for nearshoring efforts, it's also the second largest source of reshored jobs, according to the Reshoring Initiative. More than 5,000 jobs were brought back to the U.S. from Mexico through Dec. 31, 2014 – significant but far less than the more than 14,000 jobs reshored from China. Automotive and appliance manufacturing jobs led the charge.

-Jenel Stelton-Holtmeier

European Industrial Outlook: A Two-Speed Recovery

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Europe's medium-term outlook calls for further strengthening in the pace of growth, absent a slump in confidence related to the Greek sovereign debt crisis, according to the European Industrial Outlook from the MAPI Foundation, the research affiliate of the Manufacturers Alliance for Productivity and Innovation.

GDP jumped almost a full percentage point since the last report six months ago, though employment remains flat amid lackluster investment. Offsetting feeble capital formation has been a more accommodating fiscal stance by governments, which boosted public spending. The European Central Bank's bond-buying program is instilling confidence that the deflationary tendencies of the previous year have been arrested. GDP is now slated to advance as much as 1.5 percent in 2015 and at a slightly faster pace the following year.

The manufacturing recovery seems to have stalled, however. Industrial output growth was running at less than a percentage point on an annual basis in April – considerably slower than in the previous two months. Demand for capital goods and consumer durables has strengthened, but other categories remain flat. Capital goods are receiving a boost from a less expensive euro and stronger exports while consumer durables benefited from a windfall in household budgets from lower oil prices. Sanctions imposed against Russia played some role in the slowdown, although the direct impact appears to have been small.

Europe's industrial sector is weighed down by a lack of confidence in the success of labor and product market reforms. Companies report staying on the sidelines and not committing resources to equipment upgrades. Industrial output will advance less than 2 percent this year and about 2.5 percent in 2016.

Regional growth differences persist, although they are now more pronounced in industrial sectors than in the economy as a whole.

MAPI's forecast has brightened for the large industrial economies of the West (except for the UK). Manufacturing growth will accelerate on the strength of rising consumer income and higher capital equipment outlays. Output in the two smaller economies of Central Europe will stabilize following a torrid pace of expansion in 2014; the sanctions against Russia as well as rising anxiety about the fallout from the Greek crisis will dampen growth there in the next two years. Overall, the industrial sector looks better than last year because some of the pent-up demand for durables is stimulating production despite lingering concern about Greece.

Industry Worldwide Waking Up to Internet Integration

The fast pace of innovation, technological change and new digital applications have convinced governments and the private sector alike that this disruption needs to be enabled or catalyzed, according to "The Internet of Things: Industrie 4.0 vs. the Industrial Internet," a report from the MAPI Foundation, the research affiliate of the Manufacturers Alliance for Productivity and Innovation.

Germany's Industrie 4.0 and the Industrial Internet Consortium (IIC) both advance the Internet of Things, and rather than competing against one another are, in fact, complementary, notes Kris Bledowski, director of economic studies for the MAPI Foundation.

There are, though, a number of differences. The German approach supports the country's industrial small and medium enterprises in their future adoption of cyber-physical systems while the scope of IIC research stretches beyond manufacturing to include other sectors. The German project is part of government-funded policy concerning industrial platforms of production, design and distribution. The IIC is driven by private companies and research institutions from many countries and reaches into healthcare, transportation, distribution and smart cities.

"Industrie 4.0 is a forward-looking vision of how the shop floor might look in 15-20 years' time," Bledowski said. "The strength of the IIC, composed of mostly big companies, and many from the U.S. but also some from Germany, China and India, lies in big data and cloud computing. It works on testbeds, which are experiments, and it tries different approaches to look for greater efficiency."

Bledowski notes that Industrie 4.0 strikes to optimize production while the IIC's research targets returns to any asset; Industrie 4.0 works on standardization whereas the IIC works on enabling platforms that might set future standards.

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News Digest
Continued from p. 1 of this section

June, according to the U.S. Bureau of Labor Statistics. Total nonfarm employment increased by 223,000.

Canadian investment in new housing construction increased 2.3 percent to C$3.9 billion (US$3.2 billion) in April compared with the same month in 2014, according to Statistics Canada.

The **Canadian Industrial Product Price Index** increased 0.5 percent in May, mainly because of higher prices for energy and petroleum products. The **Raw Materials Price Index** increased 4.4 percent, largely as a result of higher prices for crude energy products.

The **ISA Distributor Index** decreased from 64.2 in April to 56.6 in May, while the **Manufacturer Index** declined from 56.6 in April to 50.7 in May, according to the June Economic Indicator Report from the Industrial Supply Association.

Heating, Air-conditioning and Refrigeration Distributors International reported a 3.3 percent sales decline for May. The annualized growth through May is 5.1 percent, the slowest annual growth rate in more than a year, which is largely attributed to poor weather in much of the country.

Manufacturer News

Emerson, St. Louis, MO, plans to spin off its **Network Power** business. The company will also explore strategic alternatives for its motors and drives, power generation and remaining storage businesses.

H.B. Fuller Co., St. Paul, MN, reported sales for the second quarter ended May 30 of $540.8 million, down 0.6 percent compared to the same period a year ago. Profit increased 19.9 percent to $24.6 million.

Graco Inc., Minneapolis, MN, has appointed Christian Rothe as CFO and treasurer. Rothe, who is currently serving as vice president and treasurer, succeeds James Graner, who announced his planned retirement from the company last year.

Aviation Industry Corp. of China has agreed to acquire U.S. auto-parts supplier **Henniges Automotive Holdings Inc.** for $800 million, according to a report in *The Wall Street Journal*.

Switzerland-based power and automation company **ABB** has agreed to divest its Huntersville, NC, cable factory to **Southwire Company LLC**, a Carrollton, GA-based wire and cable manufacturer.

3M to Acquire Capital Safety

Diversified manufacturer 3M, St. Paul, MN, has agreed to acquire Capital Safety from KKR for $2.5 billion.

Capital Safety, with sales for the fiscal year ended March 31 of $430 million, is a manufacturer of fall protection equipment.

"Personal safety is a large and strategically important growth business in the 3M portfolio," said Inge G. Thulin, 3M president and CEO. "The acquisition of Capital Safety bolsters our personal safety platform and will build on our fundamental strengths in technology, manufacturing, global capabilities and brand."

The business employs 1,500 people worldwide and is headquartered in Bloomington, MN.

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