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Intelligence for Wholesale Distribution Professionals

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Wholesale Distribution Disrupted

How to navigate the distribution industry's inflection point

Disruptive forces may have a big impact on the future performance of distributors. This article, the first in a three-part series, will identify some of the critical disrupters and their effect on distribution.

By Guy Blissett

After years of evolutionary change, the wholesale distribution industry faces major disruption and a true inflection point. The disruptive forces impacting distributors across all lines of trade provide ample qualitative evidence for this. And quantitative evidence can be found in the erosion of the industry's financial performance. The current inflection point will likely produce a marked division in future performance between visionary distributors willing and able to chart a new course for their business and those too constrained by orthodoxies to keep their business from declining.

In recognition of these dynamics, 22 executives from nine leading distributors recently gathered at Deloitte's Greenhouse for a full-day workshop to examine the industry's financial performance and disruptive forces, and then explore a framework for navigating the inflection point. In this three-part series, we will share some of the insights and perspectives from this workshop.

Financial Performance

Each quarter, Deloitte analyzes the financial performance of distributors with publicly available financial statements. For an extended period of time across a number of key metrics and indicators, performance has been deteriorating. The umbrella metric Deloitte considers is return on operating capital (ROC), defined as:

$$\frac{\text{Earnings before Interest \& Taxes}}{\text{Net Fixed Assets + Net Working Capital}}$$

This formula reveals how effectively a company is turning capital into profit.

Figure 1 displays average ROC since

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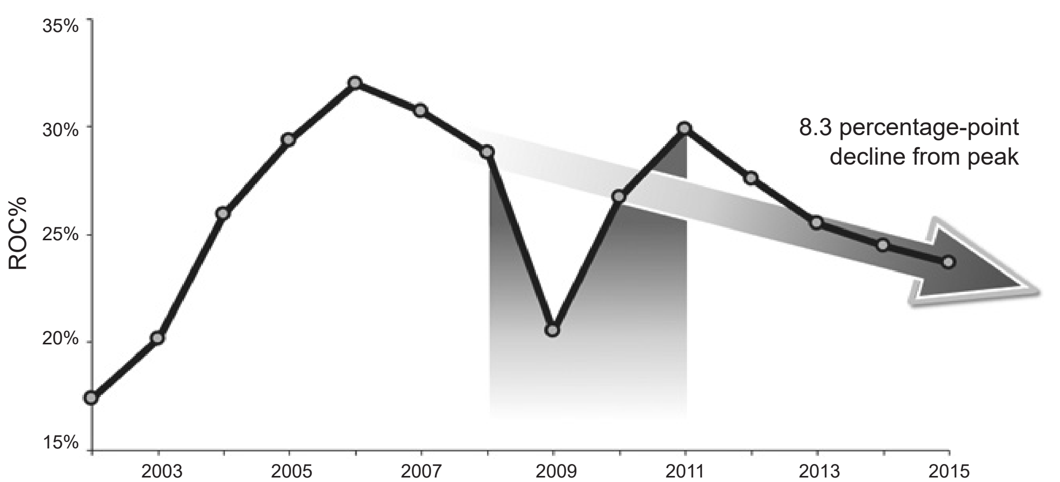
Figure 1: Average Return on Operating Capital (2002-2015)



Source: Deloitte Consulting LLP Analysis; S&P Capital IQ Database.

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Redefine Top Talent Skills for 2017

You can have the best business strategy in your pocket, but if you don't have the right talent to execute, it won't be enough. As we end 2016, the tough and necessary evaluation has to be whether the team you have in place today has the right collection of skills required for success in increasingly disruptive markets.

For 2017, the operative word is team, and the right talent may not be what you think.

The core business model, talent development and technology leverage are critical elements for innovation. And I'd argue that talent is the key success factor. Yet technology has captured the lion's share of attention the past few years, with e-commerce at the head of the line. And frankly, Amazon and other digital disruptors fueled a fear factor that may have overweighted some reactive decisions in favor of technology over talent.

Historically, distributors that have forged premium positions in markets have done so by building a set of differentiated services (at higher profit margins than most product segments) that increase value to customers and make them harder to displace by competitors. Services also help distributors navigate volatile business cycles better; they lessen dependence on product sales and can combat commoditization.

In the past, hard skills – whether product-focused, operational or around specialized services – have largely defined what distribution teams look like. Now there are new types of hard skills emerging. Just look at some of the fastest emerging hard-skills job descriptions that are being put in front of "analyst" – data, IT, business, business intelligence, market research, marketing. It's an indicator how much once-isolated business units are getting blended to get more horsepower.

Another example of blended skills is content marketing, which is just starting to grow in industrial and distribution sectors. It requires hard technical skills in digital media coupled with team-oriented strategic and creative talent. That increasingly is defining how to drive revenue across many channels of business.

Some of these soft skills sound like basic business aptitude to baby boomers – ability to work well with others, communicate well, take ownership of work, problem solve, lead teams. But companies that intentionally combine hard and soft skills in their talent pool will quickly outperform competitors.

How does your organization assess job applicants for soft skills, and how are you building the level of soft skills in your current team? The companies that pay as much attention to soft skills as they have to more technical talent development will move forward faster in 2017.

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2002 for the distributors included in Deloitte's analysis. While some cyclicality is evident during the financial crisis, the chart shows a persistent negative trend over the past 10 years. The 8.3-percentage-point decline since 2006 represents a fundamental shift in industry performance that exposes and constrains weaker players, while also creating a breakaway opportunity for leaders.

Driving the decline from an income statement perspective is:

- **Uninspiring year-over-year revenue growth**, which has slipped from 16 percent in 2006 to 3 percent CAGR in more recent years, with a negative trend.
- **A 40-basis-point erosion in gross margins** due in part to the inability of distributors to get customers to compensate them for incremental services, inventory management, self-service capabilities and value added services.
- **Flat SG&A productivity**, reflecting ongoing investments in e-commerce, mobile, self-service, a better trained and informed sales force and other value added services without offsetting efficiencies in more traditional expense areas such as inside/outside sales.

When taken together the revenue, gross margin and SG&A factors have depressed distributor EBIT margins by a full percentage point since 2006. This is the primary reason industry ROC has declined 8 percentage points since 2006.

The industry's financial performance represents a serious call to action for distribution executives. But navigating the industry inflection point and avoiding the fate of Kodak, Blockbuster, Lucent and Borders – among countless others that failed to navigate their own inflection points – requires a deep understanding of the forces in play and new thinking.

Orthodoxies

In distribution, orthodoxies are powerful forces that can and do have a detrimental effect on decision-making. Concerted effort and decisive action will be needed by executives to overcome their own organization's orthodoxies. Here are some common "truths" about distribution to consider – and challenge:

- We are a low-margin business.
- We need a large sales force.
- We are an asset-intensive business.

At the workshop, Deloitte engaged participants in a structured exercise to both acknowledge and challenge their orthodoxies.

The emergence of new competitors is one powerful sign that an industry has reached an inflection point. For distribution, this can be seen in AmazonSupply's (now Amazon Business) 2012 launch and its rapid growth to $1 billion in revenues by 2016. Amazon is unbounded by orthodoxies; they simply don't exist in the same reality of most distribution businesses.

Reflecting on your orthodoxies and understanding how they impact your decision-making can create new perspectives and open your eyes to new opportunities.

Disruptive Forces

The sheer number, as well as the magnitude, of the factors impacting the industry presents a daunting, shifting landscape for distributors to navigate. Most distributors are not accustomed to the rapid emergence of new competitors leveraging completely new business models, swift advances in new technologies or seismic shifts in how customers want to interact and transact. Some perspective on these disruptions can help navigate the new market realities.

Accelerating digitization

What makes digital a truly disruptive force is not the enabling technology, but the transformational shift in value creation that it is driving. Digitization is not only empowering distributors to make more informed decisions about what inventory to stock, how much and where to store it, but also what value proposition will resonate with each customer segment, what price to charge, which markets are growing, which segments value private label, which customers prefer face-to-face sales vs. self-service and which customers offer the strongest growth potential.

Digital is also driving greater transparency. Some distributors have thrived in market niches with a certain level of pricing and availability opaqueness. However, digital is enabling customers to more efficiently shop for items from various suppliers and for distributors to offer an endless aisle of products. As e-commerce, online marketplaces and other digital tools gain further acceptance and capabilities, they will further drive transparency, increase pressure on gross margins and commoditize some specialty products.

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Expanding competition

Distribution has always been highly competitive, but the number and variety of competitors has reached new heights. This increased competition includes traditional distributors expanding the breadth and depth of their offerings. For example, a growing number of foodservice distributors now also offer foodservice equipment, smallwares, safety products and technology solutions.

Beyond traditional competitors, B2C retailers are showing interest in B2B, particularly in building supplies and tool markets. These competitors can effectively leverage their purchasing power, store network and B2C experience to present a formidable source of competition for distributors.

Digital is exerting a massive influence on the competitive landscape, as well, enabling companies to launch specialty models that focus on a particular customer segment or product category. Examples include Zoro Tools, Enco Tools, AtlantaLightBulbs.com, BuildDirect.com, WebstaurantStore and Supplies on the Fly.

Capturing new customer demand

Inflection points can have positive or negative effects. Potential positive implications are seen in the new industries being spawned by technology and business disruptions. Consider the private space business where newly formed companies such as SpaceX, Blue Origin and Virgin Galactic each represent significant potential for a wide range of distributor products and services such as industrial MRO, electrical switches, wire and gear, electronic components, and a wide range of chemicals. In foodservice, new go-to-market models are creating potential new customers (e.g., Blue Apron, Freshly) and expansion of food service offerings in convenience stores and the growth of food trucks. Additive manufacturing also represents an opportunity; one chemical distributor already announced it carries filament refills.

These examples are truly disruptive in that these industries simply didn't exist a few years ago. They bring different business models and economics to traditional segments and exhibit rapid growth. Distributors of the future will likely need an ecosystem of connections to stay aware of developments and stay ahead of their competition.

Product innovation

An array of product innovations are reshaping distributor value chains, while at the same time creating unanticipated opportunities and challenges. For many electrical supplies distributors, the rapid adoption of LED lighting has created a paradigm shift in the sales discussion, from sockets and bulbs to total cost of ownership, compatibility and integration. In the process, LED technology has created an entirely new set of suppliers, a different go-to-market channel and is rapidly eroding the recurring revenue stream associated with replacement bulbs. In the foodservice line of trade, growing consumer interest in locally sourced and organic produce and concerns about GMO have created challenges and opportunities.

Another innovation with the power to completely disrupt many lines of trade is additive manufacturing, or 3-D printing. The full suite of technologies involved in 3-D printing is complex and compelling. Materials such as metals, ceramics and even food ingredients can be used to create parts and products as diverse as electrical circuits, shoes, jet engine parts, personalized housewares and even steaks!

A market is growing for the supply of additive manufacturing machinery and equipment, the raw material inputs into production and the ongoing MRO needs associated with their use. AmazonSupply was an early entrant into this market, featuring 3-D printers and supplies on its site before evolving into Amazon Business.

Continuing disintermediation

According to a UPS study from 2015, 64 percent of industrial buyers say that they already buy direct from manufacturers (DFM) and 88 percent indicate they are likely to increase their DFM purchases. However, unlike the past when disintermediation was a gradually evolving and less important threat, today it is rapidly evolving and exerting significant pressure on many distributors, forcing them to higher levels of due diligence and introspection about their value proposition and go-to-market channels.

Today's disintermediation threat is playing out in different ways across lines of trade. Some examples:

- In medical supplies, customers such as integrated health networks and integrated delivery networks are building scale and capacity to self-distribute, completely removing the distributor from the value chain.
- In LED lighting, manufacturers such as Cree Lighting are not only selling direct to end customers but also providing design services, financing and installation.
- In foodservice, the continuing growth

of group purchasing organizations is reducing the distributor's role, sometimes to drayage only. Overall GPO penetration in foodservice grew from 16 percent in 2009 to 21 percent in 2014, according to research from The Hale Group. Even more troubling is the growth in the street segment where many make their money.

Whether the distributor is completely removed from the transaction or just the price negotiation, the implications on performance are dramatic. Digital tools are in many cases accelerating this disruption, and demographic shifts indicate it will likely increase further. Distributors should develop long-term responses that leverage their capabilities and reflect their line of trade dynamics, according to the UPS study.

Consumerization of expectations

Distributors often emphasize that B2B commerce is very different from B2C. **Figure 2** highlights some examples of these common differences.

Figure 2: B2B vs. B2C Priorities

B2B	B2C
I need...	I want...
Complex, negotiated pricing	Simple, standard pricing
Ongoing	Transactional
Purchase approval workflow	No purchase approval
Rebates	Coupons
Relation centric	Product centric
Products configured	Products standard

However, expectations in B2B commerce are increasingly informed by developments and experiences in B2C. Expectations common in B2C, such as transparent pricing, a rich, tailored user experience and communities/social connections are rapidly permeating to B2B. B2B e-commerce customers now expect:

- Intuitive, easy-to-navigate ordering platforms, including mobile, that have high quality product images, in-stock information, measurements and specifications, faceted search and the ability to buy online with a variety of fulfillment options
- Transparent pricing with the ability to quickly compare price and availability using digital tools. Amazon enables B2B buyers to compare their negotiated price for specific items with that of other Amazon sellers, giving them the option buy at a price below their negotiated price.
- A consistent and persistent experience across channels and platforms. (For example, "Inside sales knows I've been on the website.")
- Ratings, reviews and social network access via Twitter and YouTube. Already a handful of leading distributors survey customers about their willingness to recommend them to peers. The resulting Net Promoter Score and trends inform distributor marketing, promotion, sales and customer service decisions.

Distributors that cling to outdated perspectives on B2B engagement and experience will likely forego opportunities for fostering customer loyalty and miss incremental revenue growth. At a time when top-line revenue growth comes at a premium, this dynamic is not sustainable.

Part 2 of this series will introduce a framework for navigating the inflection points.

■ *MDM Interview*

AgoNow Skates into Crowded Market

Industry veterans launch new wholesale model to address market changes

Even though the market is already crowded with distributors and suppliers, two industry veterans – Larry Davis and John Allenbach – joined forces to launch a new master distributor, AgoNow. Davis and Allenbach recently spoke with MDM Publisher Tom Gale about why their company is different and why the market needs a player like AgoNow.

Tom Gale: Why start AgoNow?

Larry Davis: We talked about creating a company that was sustainable, that made a difference. But there's a much more practical reason. Through a lot of conversations with distributors and suppliers, it was very clear that there were a lot of unmet needs in the marketplace, including somebody that could step in and meet those needs as a partner.

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Gale: What's the significance of the name?

Davis: What the name really means is industrial strength partnership. And there's intention in that phraseology; we want to be a great partner. For us it comes down to two things. One is commitment. If you want to be somebody's partner, you have to make a commitment to do that.

The other is capability. You have to invest in and know the business well enough to have the capabilities that distributors and suppliers need to be more competitive in the market. That's where we found some pretty significant gaps and designed a business model specifically to pursue closing those gaps for our customers and our supplier partners.

Gale: What are the products and distribution segments that you're focused on?

Davis: From a product standpoint, we want to take a merchandising approach to building our portfolio and making sure that we're meeting the needs of the ultimate end user that's consuming products. The other piece is the "voice of customer" (VOC). One of the things we've heard loud and clear is you have to increase your relevance in our business to be a better partner over time.

As we go forward, you'll see us expand our product categories to be more relevant to the distributor, and making sure that we're delivering best-in-class suppliers and product category coverage, so that the distributors can be more relevant and more sustainable to their end users. We're going to start out with MRO lines, so safety will be a big category for us.

Gale: Is there a size of distribution companies within these segments that you're targeting?

John Allenbach: We started out thinking that our focus was going to be on the independents. What's been interesting about the VOC work is that we get much different reaction from the nationals and larger distributors than we expected. It really comes down to a consistency of need. Everyone's working hard to manage their working capital. That's a huge objective for companies, whether you're a $2 million independent distributor or a billion-dollar industrial distributor.

Gale: The market's crowded with distributors, it's crowded with suppliers. Why is there a need for a new master distributor?

About AgoNow

Headquarters: Tulsa, OK

Locations: 1 distribution center

Leadership: Larry Davis, chairman & CEO; John Allenbach, president, sales

Distribution segments: Industrial, commercial construction, energy, welding and safety

Product profile: Welding consumables, hand tools, power tools, abrasives, adhesives, MRO, safety and general industrial

Ownership: Employee owned

Davis: Distributors have more options and more supply sources than they ever have, so they need a partner that can help solve some of these problems. Yes, there are a lot of people that do master distribution. The question is do they do it right and in a way that serves the needs of the distributors and the suppliers?

What we've heard is that that's not the case and that somebody has to step into that space and deliver great service levels, strong category representation and knowledge, and a customer experience that helps the distributor enhance the relationships they have with their customers.

They need a partner that is solution-oriented, so we're going to bring an analytics platform. And by signing a legal agreement not to compete, we're hoping that some of them will share their data with us, and we can use those analytics to challenge the way they're running their business and help them innovate and find ways to continually be more competitive. The feedback from distributors and suppliers is very clear that they need much more than a traditional master distributor today, and we're building that. That's been our blueprint.

Gale: Can you talk about sharing data?

Davis: What we'd ultimately love to be able to do is two things. One is bring data and knowledge sources back to our partners and help them better understand their markets? What are the categories consumed? What is their share? What is the segmentation of their customers and what are those patterns of what they buy?

And what do we know about them that

we're not getting? How do we make them more intentional and more crisp in their execution and targeting of revenue growth?

If we can combine a lot of that data to a much more macro level – and with the support and consent of the distributors – we can provide guidance to suppliers on how they can be a better partner and how their products do or don't work. Or how they're easy or not easy to do business with. To be able to do all that factually with analytics is a game changer.

This market is so big and so complex and so competitive that we feel compelled to step into this space to help our distributors, because you know Amazon's doing it, and you know other people are doing it. How do we help our customers and our partners have those capabilities that are certainly going to be a source of competitive advantage.

Gale: John, from your voice of customer research, in markets where end users have so many sources, isn't it about low cost?

Allenbach: Certainly cost is a factor, but I think there's so much more to it. End users are looking at ways to get products exactly when they need them to drive productivity and getting the right product to drive that productivity. Distributors are challenged by that. Also, distributors are challenged by the fact that they've got to carry so much inventory, and that carrying cost is so significant that it becomes a balancing act of cost versus working capital.

One distributor that has been doing this for over 15 years latched onto this model of working more through wholesale than direct with manufacturers because they felt like the working capital model overrode the price. Certainly there's a differential there between the cost direct and the cost through wholesale, but it still plays into the overall financials.

I think there's a shift in the overall thinking of the marketplace towards the role wholesale can play and the fact that cost is not the overriding factor on everything.

Davis: Our intention is to be very agile when it comes to customers and how they want to interface with us. If you want to be a transactional customer and operate with us extraordinarily leanly and all you want is the best price, we can accommodate that. But if you're somebody that wants to partner with us and collaborate at a very high level, we can function with you that way too.

We're going to be able to enable distributors to take market share and hold it, because we'll be measuring the customer experience in our processes to live up to the commitments we made to those end-user customers.

Gale: What are the key gaps or pain points that you identified as key pieces that you can solve?

Davis: One, this whole concept of being pure and not competing with your customer has really come through very strong. Through some of John's VOC work, we challenged the buyability of wholesale out of the gate. I was concerned about what the future of wholesale looked like, because recently suppliers, and customers to a certain degree as well, have withdrawn from using wholesale in many circumstances.

Commercially, we're going to be very focused on being more relevant to our partners, making stronger commitments to fewer suppliers, covering categories completely but with one or maybe two powerful brands that can do that, and making sure that the customer has what they need. Pricing guidance, market planning and partnering with world class companies like MDM Analytics and others to help us help distributors identify market potential and grow.

With supply chain, we've heard loud and clear that what's most important to them are high service levels, low invoice-to-order ratios and some kind of lean platform.

Gale: What about the physical infrastructure that's just required from a logistics standpoint? How does the model that you're building here differ from traditional models?

Davis: It's great if you have tons of distribution centers all over the place, but if the service levels don't match, that becomes irrelevant. What we decided ultimately is to come out of the gate with one distribution center covering the U.S. in two days with LTL and three or four days in small package. By doing that we can deliver much higher service levels. We can get them unique items much more consistently and in a leaner fashion because it'll be on their next order.

Because of our digital platform, our customers will have line of sight, access to every SKU that's in a supplier's portfolio, lead time and tracking ability all the way to their customer. That physical infrastructure has to match the digital infrastructure to deliver the experience the customer's looking for.

Gale: How is the role of a master distributor changing?

Davis: The challenge now is that everybody needs an enabler, somebody that can help them move faster, move stronger, execute better, deliver a stronger value proposition than they could on their own. There are more competitive forces than there have ever been. The market is certainly as competitive as it's ever been in terms of just pricing and other pressures.

The message that we've heard over and over again is, "We need somebody that can bring capabilities to us that can help us advance our strategy, that we just can't do on our own." That brings you back to the whole trust factor. "Can we depend on you to do it?"

Gale: What does the model look like in terms of the value proposition for suppliers that's different, either the services or the types of support and visibility through the channel?

Allenbach: What we're talking about is moving to where the puck's going to be, to use the Wayne Gretzky analogy. The market is so complex and only getting more complex. Working capital has become such a huge focus and is only going to get a higher focus as interest rates go up. Manufacturers are looking for different ways to go deeper into their portfolio, and their distributors are carrying fewer products. Wholesale has played a big role, and it's going to play a bigger role for manufacturers and suppliers.

Gale: What role does this increasingly complex market play for the mix of brand and private label?

Davis: It's incumbent upon us to provide great counsel to distribution to supplement their work. To say, "Here's a brand in this product category that outperforms its peers," and that's why we're choosing to represent them.

If you look at any kind of portfolio strategy at the product category level, it involves some kind of opening price point component that has to be there to defend the brand from getting pulled down into a different competition. Call it private label, call it opening price point, call it a commodity. Whatever you want to call it, there has to be something in your portfolio strategy to address that or you risk not being able to represent the premium brand appropriately.

Gale: From a marketing standpoint, is what you're describing a different approach, or is it really just building on the additional capabilities that you're able to leverage either through your technology or the specific relationships that you have throughout the channel?

Davis: It's kind of a different approach because historically everybody's just said it's been a very reactive model. "Here are your choices. Whatever you pick, we'll have that." We're saying, "We're going to do the work up front to make sure that we're presenting to you the best products in that category for you to represent for your customers." We're going to be much more proactive in a sense to make sure that the distributor has flexibility to build their portfolio.

Allenbach: In my past, I would have thought of wholesale as a follow-on business. I would have looked to wholesale to expand on products that were already out there and had been out there for years, not necessarily as a lead for new products. With the digital capability and our ability to run campaigns and have those be put in the marketplace and measured immediately, we can play a significant role for suppliers and distributors around new products.

Gale: From a macro standpoint, what are the key challenges in industrial product markets and channels over the next three to five years, and how do you fit in to help meet the needs of and support the industry?

Davis: There's no question that the complexity continues to grow. That's driven by the need for productivity at the end user – and there's nothing slowing that down. It's our belief that the complexity of product consumption and supply chain demands continue to get progressively more challenging. We expect it to get more competitive. There are new players, there are new influences, people coming at it from different perspectives, whether that's Amazon Supply or Google or eBay. The complexity continues.

One of the biggest and most significant challenges for the future is quantifying and proving your value contribution to your customer. We can help manage complexity. We can help people be more competitive. And we can help them document and communicate the value that they're ultimately creating.

Somehow you have to tie that to the financial statements because, if you're saying your influence is in the productivity of a manufacturing company, that should be obvious in the financial statement.

Those are the three big things I think we can play a role in.

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Industrial & Construction Markets Update

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Acquisitions Fuel Sales Growth for Beacon Roofing Supply

Beacon Roofing Supply Inc., Peabody, MA, reported sales for fiscal 2016 ended Sept. 30 of $4.1 billion, an increase of 64.1 percent year-over-year. Profit increased 30.7 percent to $89.9 million.

The company's revenue growth was fueled by eight acquisitions in the fiscal year, including the $1.1 billion acquisition of Roofing Supply Group, which had 83 locations in 24 states and represented Beacon's expansion into the Pacific Northwest.

Beacon projects additional acquisition growth in the next fiscal year, said President and CEO Paul Isabella on a call to discuss the fiscal 2016 financial results.

Isabella called fiscal 2016 a "landmark year" for the company, which also included adding Woodfeathers Inc., Portland, OR. The company complemented acquisitions in new geographies – Colorado and Michigan, in addition to the Northwest – by expanding its "product diversity" and opening new locales, Isabella said.

"This expansion will continue as we look to strengthen various markets across the country," he said. "And as we've said in the past, we will continue to open greenfields. We have already opened one this year."

But the RSG acquisition is what really fueled Beacon's growth in 2016 and put the company in prime position to move up at least one spot on the list of the Top 10 Building Materials & Construction Distributors next year.

"We were able to take two very large organizations and effectively combined them to form a much stronger company, as you can see from the results," Isabella said.

Sales for the fourth quarter were $1.2 billion, up 49.1 percent compared to the same period a year ago. Profit increased 53.8 percent to $47.4 million.

Distributor News

Industrial gases company **Praxair Inc.**, Danbury, CT, said it has approached **Linde AG** about resuming discussions of a potential merger. The deal would create the largest gases supplier in the world with more than $30 billion in annual revenue.

RelaDyne, Cincinnati, OH, a distributor of lubricants, fuel, diesel exhaust fluid and industrial reliability services, has acquired the lubricants and commercial fuel divisions of Alabama-based **Slidell Oil Co.**

FCX Performance, Columbus, OH, a specialty flow control distributor, has acquired **PCI-llc**, Raleigh, NC.

Bunzl plc, the international distribution and outsourcing group, has agreed to acquire France-based **Prorisk and GM Equipement**, and Denmark-based **Sæbe Compagniet.**

World and Main LLC, Cranbury, NJ, sold its Handy Hardware unit to **Hardware Distribution Warehouses Inc.**

General line master distributor **Richards Supply Co.,** Fort Worth, TX, has acquired **Manske Material Handling,** Fort Worth, TX.

HVAC distributor **Watsco Inc.**, Miami, FL, announced that it has paid $43 million for an additional 10 percent ownership interest in **Carrier Enterprise Northeast LLC**, a joint venture with **Carrier Corp.**

Manchester, England-based MRO distributor **Brammer** has agreed to be sold to a private equity firm for more than £220 million (US$273.8 million), according to a report from Insider Media Ltd.

Fluid power distributor **Hydraulic Supply Co.**, Sunrise, FL, will open its first international Eaton Aeroquip retail store, **HSC Hydraulics de Mexico**, in Monterrey, Mexico, next month.

Veritiv Corp., Atlanta, GA, has opened its new Greater Cincinnati Operations Center at Gilmore Pointe in Fairfield, OH.

Building products distributor **ABC Supply Co. Inc.**, Beloit, WI, has named Dan Piché as president of **L&W Supply Corp.** ABC Supply recently acquired L&W Supply, which operates as a separate division of the company.

U.S. LBM Holdings LLC, Buffalo Grove, IL, has named Patrick McGuiness executive vice president and chief financial officer.

Economic News

The **Chicago Fed National Activity Index** increased to -0.08 in October from -0.23 in September. All four broad categories of indicators that make up the index increased from September, but again made nonpositive contributions to the index in October. The index's three-month moving average, CFNAI-MA3, edged down to -0.27 in October from -0.20 in September.

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest

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The **November PMI** was 53.2 percent, an increase of 1.3 percentage points from the October reading, according to supply executives in the latest Manufacturing ISM Report on Business.

Employment in manufacturing, mining and wholesale trade changed little in November, according to the U.S. Bureau of Labor Statistics. Overall, total nonfarm payroll employment rose by 178,000 in November, and the unemployment rate declined by 0.3 percent to 4.6 percent.

Real gross domestic product for the U.S. increased at an annual rate of 3.2 percent in the third quarter of 2016, according to the "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 1.4 percent.

The **Conference Board Consumer Confidence Index** increased in November to 107.1, from 100.8 in October. The Present Situation Index decreased from 123.1 to 130.3, while the Expectations Index declined from 86 last month to 91.7.

The **Conference Board Leading Economic Index for the U.S.** increased 0.1 percent in October to 124.5, following a 0.2 percent increase in September, and a 0.2 percent decline in August. The **Coincident Economic Index** increased 0.1 percent in October, and the **Lagging Economic Index** increased 0.2 percent.

New orders for manufactured durable goods in October increased 4.8 percent to $239.4 billion, according to the U.S. Census Bureau. This increase followed a 0.4 percent September increase. Excluding transportation, new orders increased 1 percent. Excluding defense, new orders increased 5.2 percent.

October construction spending was estimated at a seasonally adjusted annual rate of $1,172.6 billion, up 0.5 percent compared to the revised September estimate of $1,166.5 billion, according to the U.S. Census Bureau of the Department of Commerce. The October figure is 3.4 percent above the October 2015 estimate of $1,134.4 billion. During the first 10 months of this year, construction spending amounted to $972.2 billion, 4.5 percent above the $930.7 billion for the same period in 2015.

Reports from the 12 Federal Reserve districts indicate that the economy continued to expand across most regions from early October through mid-November.

Canada's industrial product price index increased 0.7 percent in October, according to Statistics Canada. Of the 21 major commodity groups, 13 were up, 4 were down, and 4 were unchanged. The **raw materials price index** rose 3.3 percent.

Canadian residential construction investment totaled C$32.7 billion (US$24.6 billion) in the third quarter, up 2.8 percent from the same quarter in 2015, according to Statistics Canada.

Canadian investment in new housing construction increased 5.9 percent to C$5.1 billion (US$3.8 billion) in September compared with the same month in 2015, according to Statistics Canada.

Wholesale sales in Canada decreased 1.2 percent to C$56 billion (US$41.6 billion) in September, according to Statistics Canada. Declines were recorded in five subsectors, led by lower sales in the machinery, equipment and supplies and the miscellaneous subsectors.

The **ISA Manufacturer Index and Distributor Index** both rose in October, according to the Economic Indicator Report from the Industrial Supply Association. The ISA Distributor Index increased to 64.9 in October from 57.1 in September, while the Manufacturer Index increased to 68 from 64.9.

The **Power Transmission Distributors Association Business Index** reading for the third quarter was 46.9, down from the 2Q2016 reading of 50.4, indicating slower growth. The PTDA Business Index reading is lower than the October 2016 PMI Index of 51.9.

Manufacturer News

Motion and control technology manufacturer **Parker Hannifin Corp.**, Cleveland, OH, has agreed to acquire filtration products manufacturer **CLARCOR Inc.**, Franklin, TN, for $4.3 billion.

Power equipment manufacturer **Generac Holdings Inc.**, Waukesha, WI, has agreed to acquire **Motortech Holding GmbH & Co. KG**, Celle, Germany.

MARKETS UPDATE SUPPLEMENT P. 3

Versum Materials Inc., Tempe, AZ, reported sales for fiscal 2016 of $970.1 million, a decrease of 4 percent compared to the same period a year ago. Profit increased 15 percent to $212 million. Sales for the fourth quarter were $248.4 million, a 7 percent increase year-over-year. Profit increased 5 percent to $45.2 million.

Titan Machinery Inc., Fargo, ND, reported sales for the fiscal third quarter ended October 31 of $332.3 million, a 3.7 percent decrease from the same quarter a year ago. Profit decreased 92.4 percent to 264,000. Year-to-date sales were $895.5 million, down 13.3 percent from the prior year. The company reported a loss for the first nine months of $5.9 million, compared to a loss of $2.8 million the prior year.

Danaher Corp., Washington, DC, has promoted Rainer Blair to executive vice president.

Atlas Copco, Stockholm, Sweden, has appointed Helena Hedblom as president of the mining and rock excavation technique business area.

Injunction on Overtime Rule Raises Questions for Employers

A federal court has blocked the start of a rule that would have made an estimated 4 million more American workers eligible for overtime pay heading into the holiday season.

The rule would have raised the threshold from receiving mandatory overtime pay from $23,660 to $47,476 per year, or $455 to $913 per week.

The U.S. District Court in the Eastern District of Texas granted the nationwide preliminary injunction, saying the Department of Labor's rule exceeds the authority the agency was delegated by Congress.

As a result of the ruling, the overtime changes set to take effect Dec. 1 are now unlikely to go into effect before President-elect Donald Trump takes office. Trump has spoken out against Obama-backed government regulation and generally aligns with the business groups that stridently opposed the overtime rule.

The court's decision to grant an injunction is "a victory for small-business owners," said Juanita Duggan, president and CEO of the National Federation of Independent Business.

While the NFIB and other groups (the rule was challenged by 21 state governments and more than 50 associations) may be applauding the move, it has created a mess for employers who had already implemented changes to meet the deadline.

For companies that have already done the work, do you revert to the old standard and act as though none of the preparation was done? If so, how do you communicate that to your employees, who were likely already informed of the changes?

Do you continue to move forward with the compliance plans as if the injunction didn't happen? After all, the current injunction is only temporary at this point. If the rule falls through, though, are you prepared to pay more than legally required?

"A preliminary injunction preserves the status quo while the court determines the department's authority to make the final rule as well as the final rule's validity," Judge Amos Mazzant of the U.S. District Court for the Eastern District of Texas said in the Nov. 22 ruling.

With Trump poised to take office in less than two months and Congress debating a series of measures meant to delay or prevent the rules change, a lot of movement around the issue is possible in the next few weeks. The District Court for the Eastern District of Texas could make a final ruling, making the injunction permanent or releasing it. Or an appeals court could reverse the decision.

With all the unknowns the injunction adds to the mix, employment law firm Fisher Phillips suggests: "If you have already made alterations to your compensation plans or to your employees' exemption status, it might be unpopular to reverse course now. Although you may have the legal right to revert to the status quo depending on your circumstances, you might consider waiting until a final decision is reached in court, Congress and the White House before doing anything further."

If your company was waiting until Dec. 1 to implement the changes, you can choose to delay that pending further rulings, Fisher Phillips notes, but "you might consider communicating to your workforce the expected changes are going to be delayed" because of the ruling.

-Jenel Stelton-Holtmeier

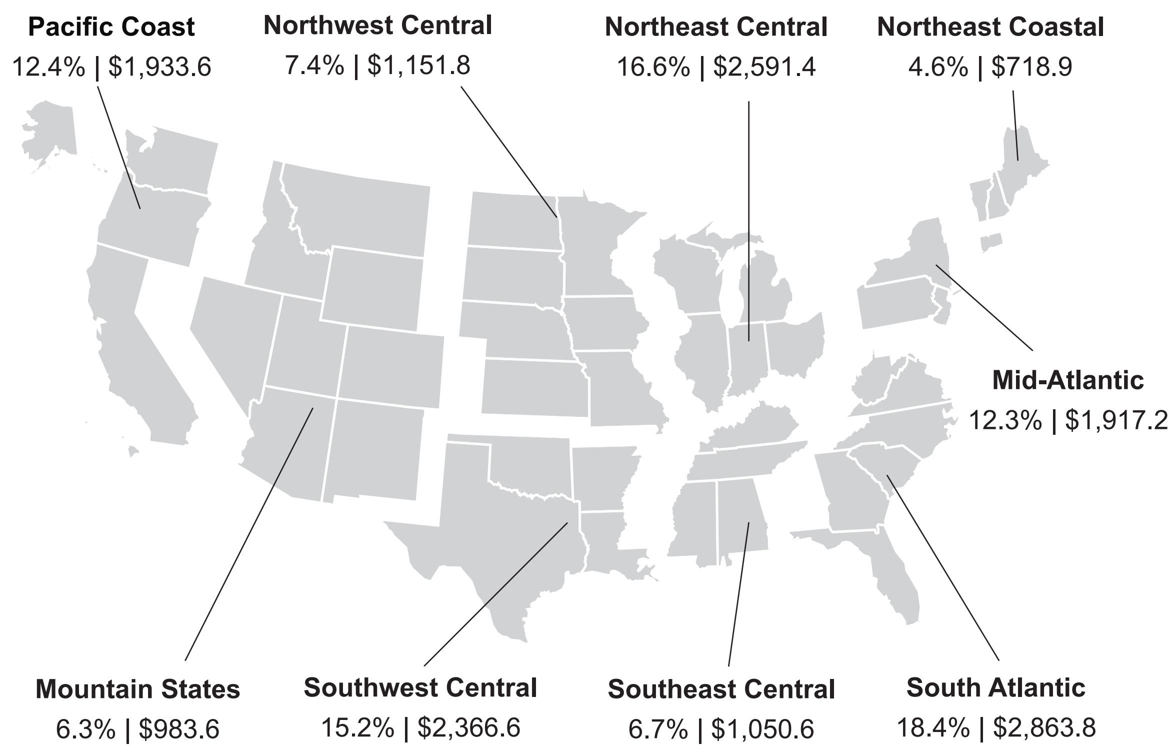
MARKETS UPDATE SUPPLEMENT P. 4

PVF Metal MRO Market Demand in the United States | Market Snapshot

Market demand for PVF Metal MRO in the U.S. was $15.6 billion in 2015, according to data from MDM Analytics. All estimates are 2015 end-user demand, in U.S. dollars, including distributor margin.

■ U.S. End-User Market Demand for PVF Metal MRO by Region, $ Millions (2015 est.)

U.S. Total: $15,577.3 million



■ U.S. End-User Market Demand for PVF Metal MRO: Top 10 End Markets

Top 10 end markets in $ volume, by NAICS code, consuming PVF Metal MRO (2015 est.)

End User		Estimated Consumption
238220	Plumbing, Heating, and Air-Conditioning Contractors	$4,455.1 million
236220	Commercial and Institutional Building Construction	$708.1 million
325412	Pharmaceutical Preparation Manufacturing	$610.0 million
322121	Paper (except Newsprint) Mills	$477.0 million
324110	Petroleum Refineries	$462.0 million
325211	Plastics Material and Resin Manufacturing	$445.6 million
325180	Other Basic Inorganic Chemical Manufacturing	$362.9 million
211111	Crude Petroleum and Natural Gas Extraction	$359.4 million
326199	All Other Plastics Product Manufacturing	$329.5 million
325199	All Other Basic Organic Chemical Manufacturing	$321.0 million

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