Modern
DISTRIBUTION MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

VOL. 47, NO. 11-12
JUNE 10 & 25, 2017

Special Double Issue

Better Business Outlook for Industry

Diversification key to success in current market

2017 Distribution Trends Report

While U.S. GDP growth in first quarter of 2017 was a tepid 1.2 percent, for many distributors, the new year marked a shift in outlook for the industry. But there's also a shift in customer expectations, as highlighted by the trends examined in this issue.

"I do feel that there's a renewed sentiment that manufacturing is important for the United States and that we're investing in it," says Paul Giler, regional industrial sales manager for Mayer Electric Supply, Birmingham, AL. "It may be money sitting on the sidelines, and now they're getting ready to spend that money."

2016 remained a challenge for wholesale distribution, with overall revenues declining slightly due to deflation, primarily in the oil and gas and agriculture sectors. After price adjustments, the industry grew 2.2 percent.

"Clearly, we are living in some exciting and turbulent times here," says Michael DeCata, president and CEO, Lawson Products, Chicago, IL. "2015 and '16 were really challenging for our industry, for us and for our competitors, and it sure feels as if 2017 is getting off to a better start. We'll see how it finishes, but it's certainly pretty encouraging."

Revenue declined 2.5 percent, on average, for MDM's Top 40 Industrial Distributors in 2016, primarily the result of companies closely tied to oil & gas reporting revenue declines of more than 20 percent for the year.

Crude oil prices appear to be past the violent price swings seen in recent years, generally staying between $45 and $55 per barrel (West Texas Intermediate) over the last six months. While still lower than many distributors would like, stability is something they can work with. But as one industrial distributor told MDM, they'll be doing so with a more cautious eye. "We're not in any hurry to chase any opportunity that arises," he notes.

Diversification is the key to success in the current market. "Every individual customer isn't growing, but there's enough growth in the segment, especially in metalworking, that our overall numbers are definitely increasing," says Terry Snower, managing director of Cicero Manufacturing & Supply Co. Inc., an industrial distributor in Chicago, IL.

Mergers, acquisitions and divestments by some of the largest distributors continues to make waves across the distribution landscape. For example, Air Liquide's acquisition of Airgas significantly expanded the French gases company's presence in the U.S. And the recently announced agreement between Praxair and the Linde Group to merge will shake up that sector even more. The largest continue to get larger, but that may create some new opportunities for smaller regional players to take market share.

Nontraditional competitors, including Amazon and The Home Depot, continue to extend their focus on the B2B market. The effect of these moves is most keenly seen in the increased demand for an investment in e-commerce platforms, but the impact on customer preferences is much broader.

"In almost every vertical market, you can find people who are growing and are successful because they have either adapted to the current market conditions or they have made changes in their business model to take into consideration peoples' use of online ordering or e-commerce," says James Teat, president, Axcess Technology Source LLC, Carrollton, TX.

INSIDE

mdm.com

PERSPECTIVE ■ Commentary by Thomas P. Gale

Is an Amazon-Grainger Deal Next?

"Great! Now we'll have to eat food out of boxes that are six times bigger than they need to be." That reader comment appeared in a local newspaper when Amazon announced that it plans to buy Whole Foods for $13.7 billion. It's a big deal and clear signal to distributors: If Amazon can't dominate an industry digitally, it will buy the bricks and mortar to get there. Welcome to the debut of Amazon's hybrid strategy.

Over the past few years, Amazon has opened a handful of bookstores in the industry where it pioneered a disruptive digital model. Now it's getting physical on a mega-scale in retail grocery. This is omnichannel strategy development in reverse. In a battle of grocery titans, Walmart, Kroger and the other chain stores have built out online capabilities to defend their physical turf. Whole Foods has struggled to maintain its natural foods differentiation as grocery chains and meal-delivery companies grow that up-market, high-margin segment.

The signs are pretty clear for a similar scenario for industrial product marketers.

Look no further than the annual MDM Market Leaders list that profiles the largest distributors across 15 industry sectors. There's a deeper story behind these lists that we have often chronicled in these pages. Amazon and other nontraditional competitors have been chipping away at these vertical markets for the price-sensitive, formerly high-margin commodities.

Most of the largest industrial distributors have turbocharged their digital platforms to strengthen their competitive positioning against Amazon, et al., with W.W. Grainger at the head of the pack, as its latest web pricing strategy directly addresses. The pricing shift joins previous efforts to rationalize into a more digitally competitive enterprise, including branch reductions.

It raises the question: Is Grainger the next acquisition target for Amazon? Every distributor has been challenged to maintain a competitive differentiation in this accelerating digital age, but Grainger arguably shares many characteristics with Whole Foods – a company with growth challenges in its core segments and increasing competitive pressures to drive quarterly shareholder returns. Ironically, it could turn out that Grainger's latest web pricing strategy could produce the competitive and valuation pressures that lead to acquisition.

Whole Foods' fiscal 2016 annual revenues were $15.7 billion; Amazon paid nearly 10 times Whole Foods' EBITDA of $1.4 billion. Grainger's 2016 EBITDA was $1.4 billion. Price is not an issue if Amazon identifies the right strategic opportunity to add a bricks-and-mortar infrastructure in this targeted vertical sector. What was fantasy a few years ago looks more plausible as Amazon shifts its view of how to build market share in more complex market environments.

Success in omnichannel markets, including industrial products, is defined by two things – scale or specialization into niche customer segments that value specific technical or logistics-based services.

Fasten your seat belts, as Amazon looks to get the physical store scale to reach all corners of fragmented industrial markets.

MODERN DISTRIBUTION MANAGEMENT

Founded in 1967 by J. Van Ness Philip

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Subscription Rates
To subscribe to Modern Distribution Management, please call 303-443-5060, email tish@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 Tish Marti at 303-443-5060 or visit www.mdm.com/corporate.

ISSN 0544-6538

Culture as a Competitive Advantage

Success starts with the attitudes in the C-suite

The distribution industry has seen a surge in discussions about leadership and culture. With an uneven economy, new threats of disruption and the continuation of a massive generational shift in distribution, exhibiting strong leadership is critical for any company that wants to prosper.

But how does a company measure strong leadership beyond stability and profitability? It begins with the top executive acting more as a CMO – chief morale officer – according to Dan Tinker, who was recently promoted to president and CEO at SRS Distribution, McKinney, TX, where he believes his new duties extend beyond improving the top and bottom lines.

"My job is to make 3,000 people want to come to work every day," he says. "If that's true, that will be much more meaningful than any strategy I could ever deploy to make more money or grow the company."

Leaders must also carry themselves consistently, even in challenging times – such as during the Great Recession or, more recently, the sluggish period many distributors endured in the past 18 months – according to Henry Looney, president, United Central Industrial Supply, Bristol, TN.

"If (employees) see leadership scared, if they see in your eyes you're scared, then it's not going to be very good for them, so you have to have faith and confidence in what you're doing," he says. "You have to know that there's an end result and that there's light at the end of the tunnel, and that we're going to get there and we're going to be better as we come out of it."

Companies are mirror images of their leaders, no matter if it's a successful or struggling business, according to James Teat, president, Axcess Technology Source LLC, Carrollton, TX. This is especially apparent at family-owned companies that handed down leadership over the generations without much thought for who is taking over and why.

"If they're on board the ship, they need to know where it's headed, and that's the job of the leaders and everything to set the course and maintain it," Teat says. "So many third-generation businesses fail because they lose sight of what made the company great to begin with, and a lot of times they take things for granted. They've become privileged; they don't get out and have a strong working relationship with the people that are in the warehouse or driving the trucks or in the sales field."

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Leadership has grown more critical for a company's success because of the generational change. The U.S. workforce now is composed of boomers, Gen Xers and millennials – but distribution can still count members of the silent generation among its ranks. Being able to lead such a wide range of ages requires a balancing act of holding onto company traditions while also embracing new ones.

"One of the greatest challenges of leadership is how to encourage every generation to come together and work better together, to think differently and move ahead," says John Allenbach, president, sales, AgoNow, Tulsa, OK.

Leadership is responsible for driving those changes, according to Ted Stark, president, Dalco Enterprises, New Brighton, MN. "Whether you like it or not, that's where (change is) going to come from," he says. "It is important for us as leaders, or whoever the leaders are and whatever age-bracket we're in – and there are still a lot of distributors out there that are run by the founders that are in their 70s and 80s – to be aware of the generational differences and try to adapt as best you can."

Strong leadership leads to a strong company culture, which, in turn, leads to stronger profitability, according to Stewart Strauss, president & CEO, Strauss Paper Co. Inc., Port Chester, NY. "We're all moving the same boxes around," he says, "so culture is one of the most important things because that's why people stay."

And strong leaders should always look to maintain a strong culture or get it back on track by doing what's best for the company, such as addressing any underlying business problems and instilling leadership duties throughout a company's ranks, according to Katie Powell, vice president, Munro Cos., Grand Junction, CO.

"There is nothing that's going to drive a culture back on track if leadership isn't driving it," she says. "You've got your senior leadership and then middle management; you can find emerging leaders in your workforce who can lead from within. Recognizing those folks and how they're behaving and why makes things better for everyone else. If your leadership isn't focused on it, it's amazing how quickly it can flip."

-Eric Smith

Online Resources

Read about trends affecting specific sectors at mdm.com/marketleaders.

Sales Models: From Lone Wolf to Pack Hunting

Customer preferences shift companies away from traditional outside sales model

Distribution sales have traditionally been driven by outside salespeople who set their own course for how and where to sell in a given territory. But purchasing behaviors have changed, driven by technology and a generational shift, which means that sales models will need to change, as well, to capture and maintain business going forward.

"Just wandering to the guard shop doesn't give you the opportunity to get into a business," says Don Fritzinger, president and CEO, SBP Holdings, Houston, TX. "People don't have time to see salespeople. You better have a true value offering if you're knocking on that door and trying to create an opportunity for you and your company."

Selling is no longer the primary focus of outside sales, says Steve Slater, COO, Stellar Industrial Supply, Tacoma, WA. "Their job is to nurture the relationships with the customer and to coax a relationship, find out the pain points of the customer and proactively tackle them.

"The outside person of today needs to be a relationship builder. They need to be a logistics person. They need to be a process expert and, frankly, a problem solver," he says.

For some smaller distributors, the discrete role of "outside sales" has become a thing of the past. Chicago, IL-based Cicero Manufacturing & Supply Co. Inc., for example, has no outside salespeople. Instead, the company's inside salespeople "actually go out and see their customers," Terry Snower, managing director, says. "When they're here, they're dealing with their customers just like you would expect an inside person. They're picking up the phone. But on a different day, a customer could call them in the morning and need something. They can get in the car and go over there because somebody else inside can cover what they're doing."

When Incredible Supply & Logistics was founded in 2010, it launched without outside salespeople, in large part because its target markets – government and defense contractors – have formal bidding processes that don't favor or even allow for outside sales visits and pitches.

The key is serving your customers how they want to be served. "What's really changed is the person on the other end of the phone has embraced this and is perfectly happy with an inside sales person calling them to add value and help solve their problems," says John Allenbach, president, sales, AgoNow, Tulsa, OK.

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"I do see some need (to change the model)," says Ted Stark, president, Dalco Enterprises, New Brighton, MN.. "But I think it's going to be a slow process. It's really difficult and very stressful and can also be damaging to make a sudden change."

Part of the challenge is the age and experience of the sales force. It can be difficult to get existing salespeople to change how they approach their roles. "You can try to lead them to the water, but they're fighting you all the way to the water," says Rolly Dyck, vice president and general manager, Schilling Supply Co., La Crosse, WI.

"I'm actually going to physically have them sit in my chair and provide them with data. They all had decent months, but what I want them to do is look through their sales from the perspective of what I see. I'm trying to get them to see the challenges that are coming. I'm trying to get them to write their go-forward plan of what activities they have to be doing to ensure the longevity of their sales territory," he says.

As older salespeople retire, distributors like Strauss Paper Co. Inc., Port Chester, NY, are looking to revamp the sales force into a new model. "We are moving smaller accounts to inside sales. It's an area that is part of our strategic plan, but I see that happening at Strauss as we speak," says Stewart Strauss, president and CEO. "If somebody retires, we don't necessarily transfer that whole book to the new person, and we don't necessarily compensate them the same way."

But it's also essential to ensure that the institutional knowledge built up in your sales team isn't lost as the veterans rotate out. Technology can help enable information sharing, but there needs to be a cultural shift, as well, driven by the leadership team, says Michael DeCata, president and CEO, Lawson Products, Chicago, IL. Lawson Products launched an internal social media network to improve communication among all of its sales team. Lawson Central enables salespeople in Miami to quickly and easily answer questions coming from a team member in Seattle.

"The big change, though, was teamwork," DeCata says. "The big change was through culture, through getting people to recognize they're a part of a larger team and a larger enterprise with responsibilities to each other."

The days of the lone wolf salesperson are on the way out, he says. Teams need to understand that they're connected to each other and supporting each other.

-Jenel Stelton-Holtmeier

Amazon Elevates 'Right-Now' Expectations

Just-in-time is just too late for many end customers

2017 Trends

There's no escaping Amazon. Thanks to the company's recent mammoth grocery store bid, even a trip to Whole Foods for organic marinara sauce or a bundle of kale could inflate Jeff Bezos' already exorbitant income.

Though distributors may not feel threatened today the way Walmart, Safeway and other foodservice retailers do following Amazon's latest proposed move, plenty of respondents to our recent MDM market trends survey still list the online giant as a disrupter in their space. And many see a need to retool their delivery processes to ensure the threat remains just that.

"In my last quarterly manager's meeting, it was the first time that we had felt some pressures from Amazon," says Rolly Dyck, vice president, general manager, Schilling Supply Co., La Crosse, WI. "They were in small accounts, where the customers say, 'Hey, I can get it in the next day versus waiting a week for you guys.'"

This recent rise in Amazon-phobia follows a couple of quieter years where the company didn't appear as often in survey responses, but it now appears the Amazon Business model, revamped in 2015 from AmazonSupply, is directly targeting distributors by beating them on delivery and selection, as well as price.

Amazon is changing the way many distributors operate, in part because their B2B buyers are so used to getting shipments delivered quickly at their homes, says Paul Giler, regional industrial sales manager, Mayer Electric Supply, Birmingham, AL. "Customers are expecting more from us than they ever have in the past," he says. "Part of that comes from the Amazon model."

Buyers are also getting younger as more boomers retire, only to be replaced by millennials who have Amazon Prime and take for granted one-click ordering, overnight or same-day deliveries and instant notifications along each step of the way.

Companies that don't keep up are doomed to fall out of favor with the next generation, says Scott Bebenek, president, Independent Distributors Inc., Mississauga, ON. "I know that distributors who don't adapt to this will be catering to a shrinking pool of end users that are all really closer to retirement and they are going to lose touch with the people that are taking those people's place."

For some, that means increasing the speed of delivery to try to compete with the "expectation that when you do business with Amazon, it magically appears on your doorstep tomorrow," says Bruce Levitt, president, Levitt-Safety Ltd., Oakville, ON. "I believe there's going to be a trend, especially as new buyers – older buyers retiring are getting replaced by people who have grown up in the Amazon culture – have the expectation that you've magically somehow got everything on your shelf and you'll get it to me tomorrow."

All that matters is the "consumer is used to having it now," says one Mid-Atlantic HVAC and plumbing distributor owner. "We're selling to a dealer who is selling to a consumer, and they don't want to be without cooling or heating. And they're used to having it now in the rest of their lives, so why can't it be that way here, as well?"

Customers want increased frequency of deliveries, as well, according to Burt Schraga, CEO, Bell Electrical Supply, Santa Clara, CA, whose company now makes deliveries after 4 p.m. – something it never used to do – to accommodate contractors on job sites. Bell's drivers now start shifts at noon to fulfill late afternoon and next-day deliveries. "If our sales have doubled, our fleet has tripled, because there are more deliveries for smaller sales," Schraga says.

Much of how Amazon impacts distribution depends on the vertical. HVAC distributor Watsco Inc. believes it is "well-positioned" against any looming disruption from Amazon, according to President Aaron "AJ" Nahmad. During the first quarter earnings call, he said, "Amazon does not like to handle the size of products that we handle," he said. "A five-ton condensing unit is not delivered very easily by drone, or by FedEx or UPS for that matter. That thing is a little bit of comfort, at least for today."

While customer demands for immediate delivery in certain sectors, such as construction, has always been around, it now puts a strain on profitability, according to Jayson Keever, vice president supply chain & marketing, National Concrete Associates, Toronto, ON.

"With access to information on the internet, with a downturned economy in Canada, everyone's gotten much more aggressive to go after the business," Keever says. "So we've had compressed margins, and we can't continue to provide the same service in the same way with the same cost structure. What we're trying to do is provide the same service but get more efficient."

The challenge facing distribution is delivering an Amazon-like experience while also supporting and defending authorized distribution up and down the supply chain, according to Talbot Gee, CEO, Heating Air-conditioning & Refrigeration Distributors International.

"Our distributors are committed to growing share for their manufacturers, but I think it's essential for both the manufacturer and distributor to be on the same page," he says. "This needs to be the next step in the evolution of the two-step distribution model and not a watering down or layering of distribution to the point there's no benefit for the investments that distributors make to provide customer support, training, education, warranty support and other value adds. That's the biggest macro issue that we're facing right now."

-Eric Smith

3 Ways Amazon is Disrupting Distribution

Amazon's impact on e-commerce and delivery expectations in distribution is evident, but distributors and industry analysts have identified several other ways the online giant is disrupting the industry – online and off.

1. Extended credit terms: In our recent MDM market trends survey, several distributors noted that more customers are paying slower and asking for extended terms. Distributors pointed to Amazon and big-box retailers, like The Home Depot, as the cause. "If you do compete with the Amazons and others, Amazon's got 60-day terms, so customers ask us for 60-day terms," says Terry Snower, managing partner, Cicero Manufacturing & Supply Co. Inc., Chicago, IL. The trend became noticeable about six to eight months ago.

2. Marketplace selling: A big part of Amazon's strength comes from its ability to get distributors and manufacturers selling through its marketplace. For small and mid-sized distributors, it's an opportunity to expand their reach, says Alex Moazed, president and CEO, Applico, and co-author of *Modern Monopolies: What It Takes to Dominate the 21st-Century Economy*. But for larger distributors, it may be a major disrupter if they don't find a similar way to compete.

"For a lot of these businesses, it is essentially going to mean that they lose a lot of business, a lot of their market cap and a lot of employees," says Nick Johnson, head of platform, Applico, and co-author of *Modern Monopolies*. "… We think that a lot of these organizations can transform themselves, actually capitalize on this opportunity themselves. We don't see any reason that Amazon should be the only winner. There's a lot of opportunity for these distributors to build their own marketplaces."

While many questions remain, particularly around who owns the customer for sales made through marketplaces like Amazon's, more players are seeing it as a necessity if they want to continue building sales in today's market.

3. Price transparency: In the past, many distributors have said they're hesitant to make their prices visible on their websites because most of their customers have contracted prices that don't align with those list prices. But, as noted by Grainger CEO DG MacPherson earlier this year, you're not doing it for your existing customers; you're doing it for potential customers. If a prospect comes to your site and doesn't see prices, they may assume that you don't want to show them because they're too high. If they're scoping you out, chances are they're scoping out others – and Amazon is more than willing to show them exactly what they'll pay without a contract.

-Jenel Stelton-Holtmeier

Soft Skills Make Tough Competitors

Lack of focus on soft skills may damage your bottom line

'Attitude is everything' is a phrase easily forgotten in the day-to day-hustle, but the "soft skills" that enable someone to interact effectively with other people continue to be more important than just a motivational catch phrase.

Soft skills can sound like basic business aptitude to many – the ability to work well with others, communicate well, take ownership of work, problem solve and lead teams. But a gap in soft skills, particularly motivation and the ability to interact well with customers and coworkers, may be a contributing factor to a lack of qualified candidates, higher turnover rates, inability to retain clients and a lagging company culture in distribution. Identifying and addressing this soft skills gap could not only lessen HR issues, but improve productivity in the process.

"There is a real challenge in finding qualified applicants," according to Brent Grover, Evergreen Consulting LLC. "Salespeople are hired for their soft skills but support staff, where soft skills aren't a high priority, are having a hard time finding applicants. It's emerging as a major problem area."

Communicating expectations is often a main hurdle when addressing a soft skills gap and can be the life or death of a company culture. This applies not only to prospective candidates, but to current teams, as well.

"One of the biggest things that causes problems is a lack of cascading information," says Steve Slater, COO, Stellar Industrial Supply, Tacoma, WA. "You've heard 'location, location, location.' It's really like communication, communication, communication. When we have our meetings, we'll check back and make sure. Are you cascading the information down from our meetings? Do your people have a sense of what is going on in the corporation and what senior leadership is trying to accomplish guiding the company? What their role is in that? Communication is huge."

A 2012 study conducted by Harvard University noted that 80 percent of achievements in career are determined by soft skills, 20 percent by hard skills. Companies that intentionally combine hard and soft skills in their talent pool will quickly outperform competitors.

"I would rather have the person with the interpersonal skills, with a desire to learn," says Rolly Dyck, vice president, general manager, Schilling Supply Co., La Crosse, WI. "Because even with salespeople, you can have all the greatest technical skills, but if you can't interact with other people, you can be a real downer on the business."

But while a blended skill set of both hard, technical skills and soft skills may be the Holy Grail of hiring, locating and nurturing that skillset can also be a challenge. It may be a choice of one or the other. It can be tempting to hire the candidate with the technical know-how for the job, but the one with keener interpersonal instincts that can be technically trained could be the overall better choice.

"Soft skills are hard to teach," says Paul Giler, regional industrial sales manager, Mayer Electric Supply, Birmingham, AL. Mayer Electric Supply uses an "ASK" triangle to evaluate a candidate's attitude, skills and knowledge. Those are the three things you're looking for, Giler says, "but attitude is the hardest one to get. If you can get somebody with two of those three, provided it's not missing the attitude, you can teach them the other piece. But if they don't have a good attitude, you'll struggle making someone a solid salesperson."

It can be easy to spot poor company culture, but harder to pin down the root cause. A failing culture could just be a failure of soft skills.

"The burden isn't just on the prospective hiree," Stellar's Slater says. "We're also going through extensive off-site training, where we work on our senior management, our senior leaders. You hire all of the great people, but if you aren't supervising them properly, they're just going to leave."

While they may seem easy to pass over, soft skills are often the glue holding a company's culture together.

"We look at ourselves as a customer-centric kind of company, so we want people that are helpful and want to help people," said Ted Stark, president, Dalco Enterprises. "So, we've intentionally incorporated that into our hiring. Where there are technical abilities needed we look at that, as well, but culture and core values trump skills. We can teach or get them education on the skills. Once you get your personality set, that's a lot harder to change."

-Arya Roerig

Data Redefines Channel Roles

Customer, supplier demand for data challenges distributors

2017 Trends

While data-sharing among distributors and their supply channel partners has been discussed for years, new technologies and skillsets have increased the usability of even more data. As a result, respondents to the recent MDM market trends survey noted an increase in requests for data-sharing up and down the supply chain.

Customers want more access to information, primarily around their accounts and technical information on the products they purchase. Suppliers want more data on how distributors are building markets and providing value.

"You're going to be forced to technology to prove your value to your customer," says Steve Slater, COO, Stellar Industrial Supply, Tacoma, WA. "Everybody – the supplier and the customer – is going to have to see the data in electronic form that's going to prove what you're doing; otherwise, you're going to be out."

Providing more for customers around data is critical for differentiation, according to Burt Schraga, CEO, Bell Electrical Supply, Santa Clara, CA. "We want to be known as the easier distributor to do business with. That's the way we can win."

Data can create an opportunity to improve the value you provide to customers, but it can also increase the burden on your teams.

"Sometimes we have better data than our customers do, and it's a double-edged sword," says Henry Looney, president, United Central Industrial Supply, Bristol, TN. "It's a privilege, but at the end of day they're asking for more data requirements or running for more consumption daily. They're trying to manage their businesses and they're saying, 'What are your daily transactions?' and 'How can you help us avoid cost?' You have to provide the data for everything, even warehouse logistics, such as adding more items to make their barcode process quicker, faster, better."

Customers are getting savvier about their own systems and requesting more complete purchasing histories that include product categorization and purchase location, says Jayson Keever, vice president supply chain & marketing, National Concrete Associates, Toronto, ON. "Everyone's chasing the same thing – to drive efficiency. It's an opportunity for the people who embrace technology to come out ahead."

In a recent MDM-Baird Distribution Survey, nearly half (49 percent) of respondents said they were already sharing some point-of-sale data with their suppliers. For some, it's simply a requirement of doing business with those suppliers. For others, though, sharing that type of data helps build a better partnership.

The same applies for other types of data.

"As we've grown and gotten better and more interactive with our suppliers, we're able to give them supplier quality report cards," says Michael DeCata, president and CEO, Lawson Products, Chicago, IL. "We're able to give them better feedback. We're able to work more collaboratively with our suppliers. If anything, our relationships with our suppliers have gotten better and stronger, more constructive and we have become more valuable to them as a channel to market. … Providing data is one more way of proving the connection between us."

But the relationship has to be on a solid foundation to begin with. The data needs to flow up and down the supply chain. Of the respondents to the MDM-Baird Distribution Survey who don't provide POS information to suppliers, one of the most common reasons was a desire to protect customer information from perceived misuse by those suppliers.

"We have the view that we own the customer, not the supplier," noted one respondent.

"There are suppliers that are very interested in understanding your market so that they can kind of drive things more from their end," says Katie Powell, vice president, Munro Cos., Grand Junction, CO. "This is where you sometimes end up with that distribution squeeze-out, where the vendor or supplier wants to drive the market direct to the end user. So they really want to understand us. But that's where we feel distribution has value: We understand our local market, and we can drive up to the end user or to our customer."

As demand for more and better data grows, clearly defining the value you bring to the supply chain becomes more critical. Distribution isn't just about moving product anymore. "Sales that are more transactional in nature – that activity is more likely to be automated. But the sales rep who is consultative, who is adding value, that's not as easy to automate," DeCata says.

-Jenel Stelton-Holtmeier

New Solutions for Customer-Defined Value

Don't let increased customer demands kill your profitability

2017 Trends

The "era of the customer," as many have labeled today's business climate, means distributors are being asked to provide more services yet charge the same price, or sometimes less, for the products they sell. Response to customers' new demands vary by company size, sector and geography, but all distributors agree that retaining business and growing market share while remaining profitable is critical for survival in today's increasingly competitive landscape.

Customers are demanding faster and/or more frequent product delivery (see related article on page 5), but they also want richer, more plentiful product information, according to Katie Powell, vice president, Munro Cos., Grand Junction, CO.

"I would say customers are looking for specs on products more than they did in the past, and so our team has to have access to that information from our vendors and then get it over to the customer," she says.

Logistical support is another value-add service that's growing in demand as B2B customers look to bring products to the end users more quickly and efficiently, according to Henry Looney, president, United Central Industrial Supply, Bristol, TN.

"They're trying to allocate man hours from the warehouse, logistics side of it," Looney says. "They want us to become more involved in that and absorb some of those labor hours. We see an evolution coming that our IT technology systems are going to become more robust to support some of the requirements."

While many distributors already provide 24/7 service, some customers in certain verticals need more than just a toll free number to call in the middle of the night, according to Mark Bray, supply chain director, ACR Supply, Durham, NC. They need in-depth technical support at all times.

"If a customer needs something at 3 in the morning, all they've got to do is call ACR and somebody's on call and will answer," he says. "I don't know about all industries, but in the refrigeration industry, if a compressor goes down at a grocery store and there's $50,000 worth of frozen pizzas and ice cream and refrigerated meats and poultry, they can't lose that and need to be able to have access."

(For more about an after-hours initiative, see the Market Leader profile on Dakota Supply Group on page 14.)

Some companies, such as Bell Electrical Supply, Santa Clara, CA, are even allowing contractors the ability to return material and get account credit – even material the customer bought from other distributors. A service that might seem counterintuitive has become a profit center for the company, according to CEO Burt Schraga. "We try to figure out a way where we're not saying 'no.'"

Not saying "no" is a way to differentiate from the competition, which distributors will need to do to not only grow customer wallet share but also to find new customers, according to Steve Slater, COO, Stellar Industrial Supply, Tacoma, WA.

"We've got to find more ways to differentiate with our value proposition, because there's more and more competition fighting for the same dollar," he says. "… If we go to our customers and we help them improve their processes and make them more profitable, they will reward us in kind with the same."

This approach, which can help create stickiness, is based on "solutions sales" as opposed to "product sales," according to Paul Giler, regional industrial sales manager, Mayer Electric Supply, Birmingham, AL. This strategic shift can insulate a distributor against looming threats facing the industry.

"It's no longer just selling a brown box; you could buy a brown box on Amazon," Giler says. "We're doing more solution-type selling, trying to solve a need. The customer may have asked for this, but what does he really want?"

Giler uses the old example of a customer asking for a hammer and a nail when they really need the best way to hang a picture on the wall. A distributor has to provide a better solution instead of just the hardware. "I don't think you're going to see online companies provide that," Giler says. "When there's a problem, a customer can pick up the phone and we're going to answer their question and show them something they haven't thought of."

Larger companies with scale and more resources might be able to implement new services for their customers, but one advantage for being a small company in today's market is the ability "to quickly adapt, be able to figure it out," says Terry Snower, managing director, Cicero Manufacturing and Supply Co. Inc., Chicago, IL.

"That goes back to getting deep enough into your customers that they trust you so you can say to them, 'OK, we haven't done this. We're going to try it this way. Let's look at it for 60 days. If it's not working, we might have to revise the pricing, or we might have to tell you we've just got to do this differently, but we're going to give it a try,'" Snower says. "We can pretty much react to what they are asking for, and I think anybody that's small who is still doing that is doing it because that's the only way you can survive as a small business."

-Eric Smith

Other Trends to Watch

MDM identified a handful of other distribution trends to watch for the rest of 2017 and into next year. Look for stories on these and other topics relevant to the industry in future issues of MDM Premium and at mdm.com.

Millennial effect growing each day: The generational gap isn't new, but it is growing in importance as boomers continue retiring in droves, according to Paul Giler, regional industrial sales manager, Mayer Electric Supply, Birmingham, AL. "What we've done historically is recycle a lot of the older guys, myself included. You go from place to place," he says. "That's not the direction we're trying to go. We need to bring in new folks. The issue becomes finding someone with an aptitude, a desire, a willingness to move forward with us and learn."

New ways to approach training: Talent retention will grow more competitive in coming years as distributors work to keep the employees they struggled to land out of college or from a competitor or another industry. One way to achieve this is by finding new ways to train employees, according to Dan Tinker, president and CEO, SRS Distribution, McKinney, TX.

"We don't cookie-cutter it," he says. "Everyone in our training program has a mentor, who gives them specific guidance, advice and lessons that are customized to that person. There's a lot of one-to-one mentoring that goes on to transfer that knowledge. It keeps them engaged and gives them a concrete career path."

Shifting the focus away from delivery: A distributor's value-add is providing customers what they want when they need it, but many companies are striving for an even loftier goal – providing customers what they want *before* they need it and taking the urgency of delivery off the board, according to Steve Slater, COO, Stellar Industrial Supply, Tacoma, WA.

"More than 60 percent of our customers have some type of semi-automated or automated replenishment," he says. "The item is there when they need it. In those cases where we don't have that, what we are trying to do is to work with our vendors and get guaranteed expedited delivery. In all of our capabilities, what we want to do is completely avoid that specialized delivery dilemma. (When you've done that) you've taken out the doubt. You've taken out the risk. You've taken out the expense."

BUT, look for increased usage of delivery apps: As delivery demands increase in light of the Amazon effect, some distributors are looking to Uber Freight, Cargomatic and other apps that match shippers with customers to ensure an order arrives on time. Not only can distributors take advantage of these services for delivering their own goods, but they can use company vehicles for extra revenue, according to Mark Bray, supply chain director, ACR Supply, Durham, NC.

"It could be a value-added service on either end for a company that's got its own truck fleet," he says. "If I've got a truck 150 miles down the road, it's about to drive back empty and there's a pallet or two that needs be picked up somewhere and delivered along that lane, I can use the app to make a few extra bucks and not ride around with an empty truck."

-Eric Smith

ISL: Leveraging Logistics to Carve Its Niche

From garage to government, start-up distributor finds success in specialization

In 2017, MDM is recognizing distributors that are innovative in their approach to their markets. Virginia Beach, VA-based industrial distributor Incredible Supply & Logistics was founded in 2010 in Chris Faison's garage. The company leveraged its logistics expertise to carve out a successful niche serving the government and defense contractors.

2017 MDM Market Movers

Distributor: Incredible Supply & Logistics
Headquarters: Virginia Beach, VA
Leadership: President Chris Faison
Details: How industrial distributor ISL went from selling out of the founder's garage in 2010 to a critical supplier to the government and defense contractors.

The immediate aftermath of the Great Recession may not seem like a great time to start a new company, but after a decade of working for a national distributor, Chris Faison did just that. He left his position as a branch manager and founded Incredible Supply & Logistics in his garage in Charleston, SC.

"I saw the opportunity," Faison said. "I could do two things: I could start a company, and I could provide a service that's going to support our troops.

"I just never looked back."

Faison founded ISL in 2010 to fill what he saw as a gap in serving overseas military contractors effectively, in particular around providing parts and materials for mine-resistant, ambush protected (MRAP) vehicles.

"When you think about these vehicles that these companies build, they're made to protect the troops," he says. "But there were hundreds of these vehicles sitting over there collecting dust because the manufacturers were too busy to ship parts."

And many of the companies that were bidding on these projects didn't have the logistics expertise to get the right parts in the right packages to the right people on the other side of the world where these vehicles and products were being used.

"The federal system takes long enough just to get an award placed or get a purchase order placed, so these guys are just sitting around waiting for their parts. There's nothing worse than them getting the wrong thing then," Faison says.

But as with any government-related contract, cost is also a factor. Defense contractors look for suppliers (distributors or manufacturers) who can get them the product the quickest and at the best price, he says, which meant that the new distributor also had to come up with a cost-effective model to meet all the requirements and live up to the promises they made.

"With the federal government, they don't care where you are, and they don't actually want to see anybody," Faison says. They're not allowed to take sales calls for products. Instead all solicitations and biddings must go through the federal system for award management (SAM).

So ISL doesn't have any outside salespeople. Instead, the inside sales team manages accounts via email and phone. And while the company has moved out of Faison's garage to a brick-and-mortar location in Virginia Beach, its small size has allowed it to maintain very low overhead.

It also allows the company to be nimble, another quality valued by defense contractors serving in a fluid landscape. "They'll need to buy MRO supplies one day, the next day it could be tactical supplies, the next day it could be fleet," Faison says. "It changes from day to day depending on what program they're supporting. We're the guys that have figured out how to source any of the items they need. We source that bill of materials from top to bottom and make it easy for them to procure."

Order changes don't have a long approval process to go through, and everyone in the company is cross-trained to step in where they're needed.

In addition, the company considers the manufacturers they buy from as customers. "Early on we realized that we needed to be calling on manufacturers as much as we did our customers, and we needed to provide our value-added pitch to these manufacturers," Faison says. Core to that value-added pitch is the ability to grow share with defense contractors and the government and the willingness to share data about what is being sold and where.

"We can handle the compliance documentation for them (for government accounts)," he says. "We can show them how they can grow their sales." It's a win-win for everyone.

-Jenel Stelton-Holtmeier

SBP Holdings Won't Be Chasing Oil Rigs

Distributor takes more disciplined approach to crowded market

Challenging conditions in oil and gas markets continue to present some hurdles for hose and rigging equipment distributor SBP Holdings, but a balanced growth strategy over the years has made a "rock solid" company, according to President & CEO Don Fritzinger. Fritzinger recently spoke with Editor Jenel Stelton-Holtmeier about the company's approach to changing markets and M&A.

2017 MDM Market Leader Profile

Distributor: SBP Holdings
Headquarters: Houston, TX
2016 Revenue: $331 million
Leadership: CEO Don Fritzinger; Vice President Peter Haberbosch; CFO Craig Osborne; Singer Equities President Sam Petillo; Bishop Lifting Products President Harold King

MDM: How's business?

Don Fritzinger: This remains a solid industry. We share some of the same competitive pressures that everyone else may have in certain regions and some end markets, and it may be challenging at times, but it's still a rock solid and sustainable business.

We experienced the same decline in oil and gas in the Louisiana and Texas regions that everyone else did. But, fortunately we didn't have the same degree of run-up that everyone else had, so we didn't have the same decline. We do still feel some pressures offshore. That activity's just going to take a long time to return to any type of level that we had experienced before.

Our end-market and our geographic diversification really helped us work our way through that period of time relatively unscathed. Over the years, we've made a number of acquisitions of good companies in certain regions. We continue to work towards being able to add to that whole portfolio in the years ahead.

MDM: So you're rock solid right now, but what's your outlook for the rest of the year?

Fritzinger: We see some revenue upticks. We won't see anything offshore, but the onshore oil and gas has certainly expanded. Petrochem industry's been strong. Military looks like it's working its way back. The aggregate business has been strong, and we think the aggregate/construction thing will be a good place to be.

What we're doing is pointing our resources into the areas where we some growth over the course of the year. We expect some single-digit organic increases this year. I don't see a real hockey-stick type growth curve of any kind, any time soon.

The good news – if someone would have said to me last year the election will make all the difference in the world in the sentiment moving forward, I don't think I would have believed them. But after the election, after listening to all that nonsense over the last two years, it finally got to the point that "all right, the decision's made. Here is what we're going to do." Since last December, we've seen an uptick in activity not just in the oil/gas, but in other areas as a result of some positive sentiment with quotes for capital projects that had been delayed for some time. It looked good.

If that will continue, we don't necessarily know. Certainly, these markets aren't really growing that significantly. We still have to rely on being sharper than our competition and take some business from the other guy to be able to get any type of significant increases in revenue.

MDM: You mentioned the offshore is still going to be weak for quite a while, but some of the onshore is growing. Are there specific geographic regions where you're seeing a bit more strength than others, or is it really across the board?

Fritzinger: It depends. There are some specific regions. West Texas, of course, is really the hot spot that everyone's keeping an eye on. We don't do a lot of North Dakota. We were up there, but we closed a location.

The old story, if it looks too good to be true, it probably is? There were a lot of folks that ran into a lot of regions. They just watch the price of oil and they can say, "Boy, this is great." The rig count continues to increase. The drillers have done a great job in making themselves more efficient. They're drilling those holes a lot faster than what they did before, at a lot lower cost.

We'll pick our fights. We know West Texas will be a good place. There's some nice things happening in the Marcellus and the Utica region in the Northeast. There's some things happening in Colorado, out across the center part of the country. We're not in any hurry to be able to run and chase after any new drilling activity that might go. We're going to be a little bit more disciplined than that. We think that there's some other areas that just might be better opportunities for us.

MDM: It's a little belated, but congratulations on your promotion. How are things going in your new role (of president and CEO of SBP Holdings)?

Fritzinger: It's good. The simple thing behind it all is you just hire people that are smarter than you are. When you do that it's a whole lot easier.

What we've been doing for some time is focusing on the management. Many of them are the previous owners who had been with our original businesses (that we acquired) and/or other individuals that had been moved in to these roles along the way. We do a great job of delegating and being able to have them run their individual businesses. Certainly we have our key things that we need to work on from day-to-day, but I delegate to them, let them run their show. As a result, this transition was one that was relatively easy.

My predecessor, Otis Dufrene, is still working with us, predominately on the merger and acquisition side. He's available any time that I need to be able to consult with him on something that happened in the past. It's been a great run. A little more travel, maybe, than I would like sometimes, but it's exciting because we have a lot of really good, young people within the organization.

MDM: With Otis Dufrene working more on the M&A side now, what is the M&A outlook for you?

Fritzinger: It's strong right now. We have a number of opportunities available at the moment that we're working through.

We do a thorough review on areas that we want to be able to target. Looking forward, with changes in the tax laws and the potential lowering of capital gains rates, I think that will create further opportunity in M&A as owners want to exit.

Certainly that owner wants to make certain that he's selling when the business is rebounding. He's worked this business his whole life. If they went through any type of economic challenges over the last few years, any type of rebound may create a more attractive exit point for them. I think there are a lot of people that are looking for different types of opportunities and solutions.

We typically have a case where there's a pipeline of people that we're talking to over a period of time. It starts with an initial call, then sitting down and talking about the culture of their business and our business. How would it fit? What happens to employees? How would the exit process work? Will the name stay in place? How will this work moving forward?

Many times, they'll ask the question: What are we going to do to invest in their company? It's something that's a process. It doesn't happen quickly, sometimes over a period of years. We have to exercise patience with the individuals who are looking at selling their business. In many cases, it's been an important part of their life or something that's been tied to several generations within their family. We're very, very sensitive to that.

We like to be able to go out there and see what's available. See what we can do to create some opportunity for them and for us. It's exciting times on that end. M&A shouldn't necessarily be seen as threatening in any way, shape or form. It's a natural thing that's going to happen when someone decides that they're going to retire and don't have someone within their family who's going to keep the business going.

MDM: Historically speaking, it seems that SBP likes to bring in the managers and the people who have experience within the company being acquired.

Fritzinger: You bet. We don't simply say, "We have people we're going to move over there and plug in." It's happened in some cases. Individuals said they wanted to retire, and they had a relatively small business. We want the previous team to remain in place. We're typically very, very excited if the owner has a number of young people that are working there who are looking for opportunities.

We clearly try to minimize the amount of disruption that takes place any time there's an acquisition.

MDM: We've heard a lot about leadership and its importance for creating a strong company culture. What are some of the ways that strong leaders can guide a company through rocky and prosperous times?

Fritzinger: Experience means a lot. Having been through it before is important. It's like anything else. You get into a piece of business, or you go into an area, you start a new product line, you may really put some sound decision making into place up front, but you may ultimately find you made a mistake along the way. It's always a good idea when you have an entry strategy that you also have an exit strategy just in case.

We like having balance. We like the geographic diversity. We like the idea of having varied end markets. Having a pie chart that has a lot of equal segments is very important to us. We don't necessarily stray too far off what is our normal, core products and services.

I tell our leaders time and time again, it's our job to steer around the icebergs. Be very vigilant, think more than just next month or next quarter. Be thinking several years down the line.

What's important is that everyone communicates. You're in a position where you can act as a mentor, and you share those notes throughout the entire organization. I also think it's important to do a tremendous amount of reading and understanding what's going on in the other businesses and what other companies are experiencing. Giving managers the opportunity to interact with peers in other areas has always proved to be very healthy. You're not in the battle all alone.

MDM: How has the approach to sales changed over the years?

Fritzinger: It's a different ball game today than what it was 30 years ago. Literally, there was very little sales training that took place back then aside from product training. You handed an individual the keys to the car, you gave them a list of contacts, you gave them samples, and you sent him on his way. "Go out and find us some business."

There was a time when you didn't need appointments. You knew exactly where you had to target your relationships. Today you're in a position that's a lot more difficult. You have to be able to communicate to people through voicemail, through emails, and what have you. Just wandering to the guard shop doesn't give you the opportunity to get into a business. People don't have time to see salespeople. You better have a true value offering if you're knocking on that door and trying to create an opportunity for you and your company.

It's exciting, though. It requires companies to change. Change creates opportunity. We're in a position that we have to be able to react to that.

DSG's Late Night Loyalty Advantage

Distributor responds to shifting customer preferences with "After Hours Experts"

Customer satisfaction drives Dakota Supply Group. The Fargo, ND-based electrical, HVAC and plumbing distributor recently launched its "After Hours Experts" initiative to provide technical, service and sales support for customers beyond the routine Monday to Friday, 8-to-5 schedule. CEO Todd Kumm spoke with Associate Editor Eric Smith about how the company works to differentiate amid changing customer demands.

MDM: How's business?

Todd Kumm: The year started off, to be quite honest, a little slow. I don't know whether it was election hangover or what. I truly believe that people didn't plan much, not knowing what the outcome of the election was going to be. Now, of course, everybody wants everything done right away. So, they're trying to catch up.

2017 MDM Market Leader Profile

Distributor: Dakota Supply Group
Headquarters: Fargo, ND
Leadership: CEO Todd Kumm; COO Dan Miller; Chief Segment Officer Mike Tupa; IT Director Brian Feickert; HR Director Melissa Lunak; Corporate Sales Manager Ryan Tracy; Corporate Pricing Manager Paul Mund; Director of Marketing and Analytics Todd Eber

North Dakota's down a lot because of oil; we've really flattened out there. And agriculture is a little slow too – I think the ag markets have taken a beating. But we're seeing growth in the urban areas. Markets like Minneapolis and most of our urban areas tend to be a little stronger right now, so we are a little more comfortable.

MDM: As the economy slowly comes back to life, what kind of approach is the leadership team taking?

Kumm: This gives you a chance to train up your people, make sure you've got the right ones in the right places. We also evaluate debt and inventory. We've got to make sure we have the right stuff on the shelves. We don't tend to drop our inventory as fast as ,say, business might drop. One of our strengths is having inventory, especially in the rural areas.

MDM: You mentioned training your people – what is DSG's approach to recruiting and retaining the best and brightest talent and how critical is that for your success?

Kumm: Customers want to know who they're talking to as much as which company they're talking to. They build an individual relationship. So for us, retention is just as important as, if not more important than, acquiring new talent. It takes new talent time to build relationships out in the field.

Because Dakota Supply Group is an ESOP (employee stock ownership plan, which DSG formed in 1996), that's a benefit that helps us attract people. Distribution is a good cash flow industry, which works well with ESOPs and helps us retain talent.

MDM: You've been with the company for more than a quarter century. Are you seeing changes in the type of workplace that the new generation is seeking?

Kumm: The traditional career path of working in the warehouse and moving to inside sales and then outside sales – I don't think that flies anymore. Millennials don't want to take that kind of career path. I think they want to contribute more immediately.

And I think it's important that you communicate how they're contributing. Open book management helps them a lot. They want transparency, to know how something works in the big picture.

MDM: Dakota Supply Group recently launched an "After Hours Experts" initiative to help customers beyond regular branch hours. What drove this decision and what's been the response?

Kumm: It's a way of differentiating ourselves. In the long run, it will go hand in hand with our e-commerce, but until that's where it needs to be, we want to be accessible to our customers. We don't get tons of calls at night, but every call we answer at night bumps our company up on the loyalty scale. This is about being there for the customers when they need us. The distribution industry is pretty much 8 to 5.

I would say we lost 15 percent of our market share to the do-it-yourself home market – Lowe's, Home Depot and others – because we didn't want to open up outside 8 to 5 or on Saturdays and Sundays. So they started servicing people. The same holds true with e-commerce. We have to answer what they want. One of the great things about e-commerce is that you're open 24/7. This was a way to address that.

MDM: So where are you on the e-commerce path?

Kumm: We're in the process of improving it. We don't have the search capabilities and some of the things that, say, Amazon does – and I don't know if we'll ever reach the level that they do – but we have to make it more user friendly. But we're trying to develop it as more than just an e-catalog.

I want to help the customer, especially since we're in the contractor market, from beginning of a bid all the way through invoicing, job reports and eventually material. I think that's how we have to differentiate ourselves.

MDM: How much revenue is coming through e-commerce? And do you have a goal for where you'd like it to be?

Kumm: We're less than 1 or 2 percent, but I think in five to 10 years that'll be 20 percent of our business. I think as distributors, we want that because it's also more efficient. Let's be real. That's how we're going to have to compete on the labor side of the market. I do see it driving up to that. But we'll still have to provide some after-hours assistance for customers and allow them to ask questions.

That's our still our niche in the market – our expertise. That gives us a unique advantage over a lot of the large e-commerce places.

MDM: Where do you see the biggest threats for your company and for distribution as a whole? And how do you insulate yourself from the disruptions that are lurking?

Kumm: There are several disruptions I think we have. But the biggest one is not looking on the horizon to see how consumers are changing their habits. And thinking that we have to stick with what we've always done. Companies have to change. That's part of what consumers want.

Again, the example I would cite is being 8 to 5 and no weekends. Yeah, that makes it really easy for me to manage my team, and everybody's happy. But that isn't what consumers want.

Not recognizing or anticipating consumer needs and what would create stickiness is one fear. The other is not being able to utilize our total technical knowledge or talent knowledge. That's the one strength that we have. You might have somebody that's really good with boilers across the company. Do you want that person to answer questions for customers in all five states or just one branch?

MDM: How do you define culture as a leader at DSG? And do you see leadership as being a critical component of a strong culture that can withstand disruptions and threats?

Kumm: Yes, I do. I think one of the things that leadership has to do in the situations that you just described is stick with their culture. They can't be wishy washy and do what's good for them individually at the time. They have to stick with the culture. Culture means buying into our major values, such as opening up and discussing things we need together.

We have a list of six major values that we've really been pushing that we want to concentrate more to get the next level of results. But it's steering you down that path.

I hear a lot about strategy, and I like strategy, but that changes over time. I think culture will trump strategy every time because it's something you're going to stick with. Strategy can change on a whim. Culture comes first. And part of good leadership is not changing your culture, your values and your beliefs, but sticking with them.

It's also showing people why they're important. A lot of people have a whole different career or lifestyle or beliefs, so it's important to change their beliefs so that they align with the path the company is on. Whether that's done through the hiring process or culture management, it's probably got to be done through both.

(Editor's note: Dakota Supply Group has a company song, "Dakotaland," sung to the tune of "O Christmas Tree." Kumm even shared the song's opening line: "Dakotaland, Dakotaland, upon this badger mound I stand." Though "not everybody buys into that right away," Kumm says of singing the song as a company, it's ingrained in the culture at DSG.)

MDM: Dakota Supply Group has made a handful of acquisitions over the past few years. What's the growth plan for DSG as you guys look ahead?

Kumm: I would definitely look at acquisitions. In our industry, I always compare an acquisition to buying that hot rod – the owner has to be willing to sell the hot rod. And both parties have to be willing to agree on the price. While the owner looks at the blood, sweat and tears he put into it, I see the fiscal value.

And with two factors, there are not too many companies I can just automatically walk up to and say, "Hey you've got to sell to me; I'm buying all your stock." It doesn't work that way. The other part of that is, you how know people are with their hot rods. Some of them feel they're worth a lot more than what I might. And I understand that. It's probably his third or fourth engine. And I'm not paying for the first two, but he thinks I should because that's what he has invested in it.

But I do think you have to look at acquisitions because we're in a very mature industry and there's not a lot of green growth out there. If you look at some of the studies, it takes a lot for customers to switch. Green starts are harder to get to where you want and are probably more expensive than acquisitions.

MDM: What else can you share about the company or the industry?

Kumm: I'm an optimist. I think there are a lot of things that we can do to differentiate ourselves, but we just have to respond to what the end consumers want. That's the age we're in – the age of consumerism. And I think that's fine. They have their right to do that. They're paying for it.

I also look a lot at the distribution and manufacturer partnerships, and what's our real role with each other. I think sometimes manufacturers and the distributors tend to almost be in competition with each other on who gets to make the most money out of this. The contractor wants to make money. We want to make money. The manufacturer wants to make money. Bottom line, the consumer wants the product as cheap as is possible. And we have to partner with both sides of the equation to make it work better.

MDM: So obviously channel relationships and partnerships are a critical part of thriving in this industry.

Kumm: Yes. Distributors are really there to help those people market. Give them access to the number of locations that they wouldn't have. Look at some of the values, handle the accounts receivable. There's a lot of value that we provide, including the number of deliveries. And sometimes distributors don't sell the value we provide to manufacturers enough. I think we need to so that they understand what we do for them. But we also have to understand what they do for us.

Market Moves from 2017's Top Distributors

Some of the industry's largest distributors made strategic moves in 2017 in response to changing market demands. These MDM Market Leaders and others aren't afraid to restructure their pricing, retool their business divisions, rebrand their company or refocus their value proposition.

Here are the moves four leading distributors have made in recent months to adapt:

Grainger expands investment in e-commerce: Grainger launched Gamut.com, a site designed with engineers and maintenance professionals in mind, specifically, people "faced with technical and complex projects that may be unique in nature," says spokesman Joe Micucci. Gamut.com features more than 400,000 products compared to Grainger's 1.6 million. Orders made through the site are fulfilled by Grainger. Look for more on Grainger's Gamut gambit in future issues of MDM.

HD Supply reinforces core with another divestment: The building materials distributor unloaded its waterworks division for $2.5 billion to private equity, the company's fifth divestiture in three years. Calling the move "transformational," President and CEO Joe DeAngelo said the transaction "will further simplify and focus HD Supply on our highest value creation opportunities, accelerate debt reduction, create additional cash to enable next generation growth investments and innovation as well as return cash to HD Supply stockholders."

Wolseley has new look, leadership: The UK-based plumbing and heating distributor is changing its name to Ferguson plc, a nod to the "most significant brand in the Wolseley Group of companies" and the division that accounts for 84 percent of the company's profitability, according to outgoing CEO Frank Roach, who is retiring July 31. In addition to the rebrand and shuffling of the C-suite, Wolseley said it will "exit" its Nordic business and focus resources elsewhere.

MSC sharpens value proposition: E-commerce now represents about 60 percent of MSC Industrial Supply's overall sales, so the company's focus is on moving the business toward "technical, high-touch product lines such that the MSC value proposition becomes way deeper than just price and transact," according to Erik Gershwind, president and CEO. The company is building up inventory across its network to ensure it is able to continue to deliver on that value proposition.

-Eric Smith

2017 MDM Market Leaders: Annual Lists of the Top Distributors

For access to the top distributor lists for all 15 sectors, additional information on each company included in these lists and an overview of trends for each sector, visit **www.mdm.com/Market Leaders**.

Online Resources

Read about trends affecting specific sectors at mdm.com/marketleaders.

Top 40 Industrial Distributors

1. W.W. Grainger: $10.1 billion
2. HD Supply: $7.4 billion
3. Airgas, an Air Liquide company: $7.0 billion
4. Motion Industries: $4.6 billion
5. The Fastenal Company: $4.0 billion
6. McMaster-Carr: N/A
7. MRC Global Corp.: $3.0 billion
8. Winsupply: $3.0 billion
9. MSC Industrial Direct: $2.9 billion
10. Applied Industrial Technologies: $2.5 billion
11. NOW Inc. (DistributionNOW): $2.1 billion
12. Wurth - Americas: $1.9 billion
13. Vallen Distribution: N/A
14. Interline Brands: N/A
15. Edgen Murray: N/A
16. Wolseley Industrial Group: $1.4 billion
17. Kaman Industrial Group: $1.1 billion
18. F.W. Webb: $1.0 billion
19. DXP Enterprises: $962 million
20. ERIKS North America: N/A
21. Global Industrial: $716 million
22. The United Distribution Group: N/A
23. BDI: $662 million
24. Turtle & Hughes: N/A
25. SunSource: N/A
26. Wajax: $461.6 million
27. BlackHawk Industrial: N/A
28. Gas And Supply Co.: N/A
29. DGI Supply: N/A
30. FCX Performance: $346 million
31. SBP Holdings: $331 million
32. RS Hughes Co.: $326 million
33. OTP Industrial Solutions: $326 million
34. Lawson Products: $277 million
35. AWC: $275 million
36. Hisco: $260 million
37. Dillon Supply Company: $250 million
38. Ryan Herco Flow Solutions: N/A
39. Kimball Midwest: $227 million
40. Hydradyne: N/A

For additional information on each company and an overview of trends for the industrial sector, go to mdm.com/2017-top-industrial-distributors.

Top 10 Building Materials Distributors

1. ABC Supply: $8.5 billion
2. Builders FirstSource: $6.4 billion
3. Beacon Roofing Supply: $4.11 billion
4. BMC Stock Holdings: $3.1 billion
5. Allied Building Products: $2.6 billion
6. 84 Lumber: N/A
7. US LBM Holdings: N/A
8. HD Supply White Cap: $2.1 billion
9. BlueLinx Corp.: $1.9 billion
10. SRS Distribution: $1.8 billion

Top 25 Electrical Distributors

1. Sonepar North America: $9.6 billion
2. WESCO International: $7.3 billion
3. Graybar: $6.4 billion
4. Anixter International: $6.4 billion
5. Rexel (North America): $4.7 billion
6. CED: N/A
7. Border States Electric: N/A
8. Crescent Electric Supply: N/A
9. City Electric Supply: N/A
10. W.W. Grainger (electrical/lighting): $909 million
11. Mayer Electric Supply: $817 million
12. Elliot Electric Supply: N/A
13. McNaughton-McKay Electric: $725 million
14. EIS: $752 million
15. The Reynolds Company: $534 million
16. State Electric Supply: N/A
17. North Coast Electric: $489 million
18. Turtle & Hughes: N/A
19. Summit Electric Supply: $434 million
20. Kirby Risk: $370 million
21. Dakota Supply Group: N/A
22. Van Meter: $330 million
23. Kendall Electric: N/A
24. Werner Electric Supply: N/A
25. Wholesale Electric Supply Co. of Houston: N/A

Top 10 PT/Bearing Distributors

1. Motion Industries: $1.7 billion
2. Applied Industrial Technologies: $1.4 billion
3. Kaman Distribution Group: $553 million
4. BDI: $397 million
5. Wajax Industrial Components: $379 million
6. W.W. Grainger (PT/motors): $304 million
7. The Fastenal Company: $277 million
8. Ohio Transmission Corp.: N/A
9. DXP Enterprises (PT/bearing): $144 million
10. CB: N/A

Top 10 HVACR/Plumbing Distributors

1. Ferguson Enterprises: $13.8 billion
2. Watsco: $4.2 billion
3. Winsupply: $3.0 billion
4. Hajoca: N/A
5. MORSCO: N/A
6. Wolseley Canada: $1.3 billion
7. W.W. Grainger (HVAC): $1.2 billion
8. Johnstone Supply: N/A
9. F.W. Webb: $1.0 billion
10. R.E. Michel: N/A

2017 TOP DISTRIBUTORS mdm

View the complete lists for all 15 sectors, an overview of trends by sector and the 2017 Distribution Trends Report at **www.mdm.com/MarketLeaders**

Other sectors included online:

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

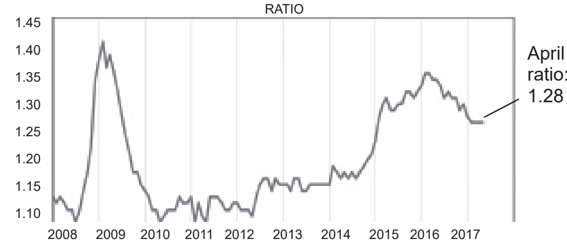
Monthly Wholesale Trade Data

Wholesale revenues in April were $462.3 billion, up 7.3 percent from April 2016 and down 0.4 percent from March. April sales of durable goods were down 0.2 percent from last month, but up 7.3 percent from a year ago. Sales of nondurable goods were down 1.1 percent from March, but up 7.3 percent from last April.

Inventories. Inventories were $590.9 billion at the end of April, down 0.5 percent from the revised March level and up 1.6 percent from the April 2016 level. April inventories of durable goods were down 0.3 percent from last month, but up 2 percent from a year ago. Inventories of nondurable goods were down 0.8 percent from March and up 1.1 percent from last April.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2007-2016

(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 1.28. The April 2016 ratio was 1.35.

Sales and Inventories Trends: April 2017

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 3/16-4/16	Percent Change Sales 4/15-4/16	Percent Change Inventory 3/16-4/16	Percent Change Inventory 4/15-4/16
42	**U.S. Total**	**462,344**	**590,976**	**1.28**	**-0.4**	**7.3**	**-0.5**	**1.6**
423	**Durable Goods**	**222,165**	**360,250**	**1.62**	**0.3**	**7.3**	**-0.3**	**2.0**
4231	Automotive	38,399	66,857	1.74	1.3	7.3	-1.4	1.0
4232	Furniture & Home Furnishings	6,747	11,436	1.69	-2.5	-0.8	0.2	4.9
4233	Lumber & Other Construction Materials	11,098	16,237	1.46	-0.2	7.5	-0.1	9.9
4234	Prof. & Commercial Equip. & Supplies	39,697	42,945	1.08	0.7	5.9	-0.3	9.6
42343	Computer Equipment & Software	19,033	16,450	0.86	0.5	5.5	-1.7	10.5
4235	Metals & Minerals	13,771	26,199	1.90	1.5	20.3	0.2	1.4
4236	Electrical Goods	47,135	48,587	1.03	0.7	6.5	-0.1	6.5
4237	Hardware, Plumbing, & Heating Equipment	11,459	22,878	2.00	-1.2	5.4	-0.3	1.5
4238	Machinery, Equipment & Supplies	34,316	98,458	2.87	-0.8	5.3	0.0	-2.9
4239	Miscellaneous Durable	19,543	26,653	1.36	0.4	12.0	-0.6	-0.5
424	**Nondurable Goods**	**240,179**	**230,726**	**0.96**	**-1.1**	**7.3**	**-0.8**	**1.1**
4241	Paper & Paper Products	7,931	8,314	1.05	0.4	-1.5	-1.8	-0.4
4242	Drugs	54,862	59,578	1.09	0.3	4.1	-0.6	0.0
4243	Apparel, Piece Goods & Notions	12,092	26,347	2.18	-3.7	-10.1	0.0	-10.1
4244	Groceries & Related Products	53,650	36,168	0.67	0.6	3.9	1.6	4.8
4245	Farm-product Raw Materials	16,877	23,560	1.40	-5.8	3.8	-2.4	0.9
4246	Chemicals & Allied Products	9,893	11,687	1.18	-1.9	5.5	-0.3	2.2
4247	Petroleum & Petroleum Products	52,028	21,456	0.41	-1.5	33.2	-5.0	16.8
4248	Beer, Wine & Distilled Beverages	11,880	15,337	1.29	0.7	1.8	-0.3	-2.2
4249	Miscellaneous Nondurable Goods	20,966	28,279	1.35	-3.9	-3.1	-0.5	1.9

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis.
Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

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Industrial & Construction Markets Update

VOL. 47, NO. 11-12 | JUNE 10 & 25, 2017

Wolseley Sales Up 10.8% in 3Q

UK-based Wolseley plc, parent company of Ferguson Enterprises, reported third quarter sales of £4.3 billion (US$5.4 billion), up 16.7 percent. On a like-for-like basis, sales were up 6.6 percent. Trading profit for the quarter was up 9.5 percent to £254 million (US$320.5 million). Three acquisitions completed in the quarter for total consideration of £21 million (US$26.5 million).

Fiscal year-to-date sales were £12.7 billion (US$16 billion), up 6 percent year-over-year. Trading profit increased 2.1 percent to £769 million (US$970.3 million).

U.S.

Third quarter sales for Ferguson, Wolseley's U.S. plumbing and heating business, were up 24.3 percent from last year to £3 billion (US$3.8 billion), and 8.5 percent on a like-for-like basis. Acquisitions contributed another 2.8 percent of revenue growth. All businesses generated like-for-like revenue growth in the quarter with good growth across residential and commercial markets and industrial markets improving.

UK

Like-for-like revenue in the UK was 0.4 percent lower than last year including inflation of 3 percent. Repairs, maintenance and improvement markets remained weak.

Canada & Central Europe

Like-for-like revenue in Canada and Central Europe was 5.1 percent ahead of last year. The merger of Tobler with Walter Meier in Switzerland has been completed, and Wolseley now owns 39.2 percent of the combined business.

Nordics

Sales in the Nordics region were up 4.3 percent on a like-for-like basis.

Distributor News

Chicago, IL -based **Grainger** officially launched **Gamut.com**, a new e-commerce platform designed to provide information to industrial professionals.

German industrial gases companies **Linde AG** and **Praxair Inc.**, Danbury, CT, have entered into a definitive business combination agreement to come together under a new holding company through an all-stock merger of equals transaction. Linde and Praxair expect the transaction to close in the second half of 2018.

HD Supply, Atlanta, GA, has entered an agreement to sell its waterworks business unit, the nation's largest distributor of water, sewer, storm and fire protection products, to **Clayton, Dubilier & Rice** for a purchase price of $2.5 billion.

Dutch industrial distributor **ERIKS** has agreed to sell Fischer GmbH Kunststoff Präzision, Laupheim, Germany, to **Röchling Engineering Plastics**.

A. M. Castle & Co., Franklin Park, IL, has commenced voluntary Chapter 11 reorganization proceedings with the U.S. Bankruptcy Court for the District of Delaware.

Summit Electric Supply, Albuquerque, NM, has realigned the company's sales operations from a two-region model to a four-district model. In addition to the territorial reorganization, Summit created four new district vice president roles to lead the sales teams in those new districts.

B&D Industrial, Macon, GA, has acquired the online business **Industrial Control Direct**.

Mallory Safety and Supply, Portland, OR, has acquired the safety distribution business of **United Fire Health and Safety** of Portland, OR.

Motion Industries, Birmingham, AL, has moved into its newly built distribution center in Grand Prairie, TX.

Fastenal Co., Winona, MN, reported sales for May of $383.4 million, a 14.9 percent increase year-over-year. Daily sales increased 9.7 percent to an average of $17.4 million.

Tencarva Machinery Company LLC, Greensboro, NC, has opened a new branch office in Columbus, MS. The new facility aims to provide a more focused and consistent presence in the Columbus marketplace.

Bob Aiken has resigned as president and CEO of **Essendant Inc.**, Deerfield, IL.

Anixter International Inc., Glenview, IL, has appointed William Galvin to president and COO, effective July 1.

SRS Distribution, McKinney, TX, a roofing distribution holding company,

continued on p.2 of this section

News Digest
Continued from p. 1 of this section

MARKETS UPDATE SUPPLEMENT P. 2

has promoted Dan Tinker to president and CEO and John Bradberry to EVP and COO.

ISSA, Northbrook, IL, the worldwide cleaning industry association, and members of **IEHA**, Westerville, OH, voted to approve the resolution for the two associations to merge. The merger will take effect July 1, 2017.

Economic News

Real gross domestic product for the U.S. increased at an annual rate of 1.2 percent in the first quarter of 2017, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.1 percent.

New orders for manufactured durable goods decreased 0.7 percent to $231.2 billion in April, according to the **U.S. Census Bureau**. This decrease followed four consecutive monthly increases, including a 2.3 percent March increase.

Manufacturing jobs decreased by 1,000 in May after being unchanged in April, according to the **U.S. Bureau of Labor Statistics**.

The **manufacturing sector** expanded in May while the overall economy grew for the 96th consecutive month, according to supply executives in the latest **Manufacturing ISM Report on Business**. The May PMI was 54.9 percent, an increase of 0.1 percentage points from the April reading.

The Conference Board Consumer Confidence Index decreased slightly in May to 117.9, from 119.4 in April. The **Present Situation Index** increased marginally from 140.3 last month to 140.7, while the **Expectations Index** decreased from 105.4 in April to 102.6 in May.

Privately owned housing units authorized by building permits in May were at a seasonally adjusted annual rate of 1,168,000, according to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development.

April **construction spending** was estimated at a seasonally adjusted annual rate of $1,218.5 billion, 1.4 percent below the revised March estimate, according to the U.S. Census Bureau of the Department of Commerce. The April figure is 6.7 percent above the April 2016 estimate of $1,142.5 billion.

continued on p.4 of this section

Calculation of MDM Inflation Index for May 2017

		BLS Price Indices May '17	BLS Price Indices Apr. '17	BLS Price Indices May '16	% Sales Weight	Weighted Indices May '17 (1)X(4)	% Change May '17 Apr. '17	% Change May '17 May '16
1136	Abr. Prod.	595.8	595.5	584.8	19.1	113.80	0.05	1.88
1135	Cutting Tools	508.9	510.6	508.7	18.9	96.19	-0.32	0.05
1145	Power Trans.	818.2	817.9	811.0	15.4	126.00	0.04	0.89
1081	Fasteners	518.0	518.0	516.6	9.0	46.62	0.00	0.26
1149.01	Valves, etc.	966.6	963.5	962.9	7.6	73.46	0.32	0.39
1132	Power Tools	382.0	380.6	379.1	6.5	24.83	0.35	0.76
1144	Mat. Handling	608.1	608.4	599.8	6.2	37.70	-0.05	1.39
0713.03	Belting	887.4	882.0	834.0	6.1	54.13	0.62	6.41
1042	Hand Tools	789.4	788.4	784.3	8.1	63.94	0.13	0.65
108	Misc. Metal	471.5	470.7	470.1	3.1	14.62	0.18	0.30

"New" May Index	340.3	May Inflation Index	651.29	0.08	1.26
"New" April Index	340.0	April Inflation Index	650.75		
		May 2016 Inflation Index	643.21		

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

Brammer and IPH to Merge in Major European Deal

In a deal that significantly shifts the distribution competitive landscape for power transmission, MRO and flow technology products across Europe, private equity firm Advent International, which took Brammer private earlier this year, has agreed to acquire IPH, a European industrial supplies distributor, from PAI Partners. The combined companies will have revenues of €2.1 billion (US$2.4 billion).

While holding different product mixes, the two companies have arguably been the most direct international competitors across the core product categories of bearings, mechanical power transmission, fluid power, tools and other MRO products, as well as safety products. This deal could offer opportunity to other distributors as customers that used these companies as their primary suppliers seek alternate competitive sources. Likewise, major suppliers to these two companies in the past may seek alternate channel partners.

IPH had revenues of €1.3 billion (US$1.5 billion) in 2016 across a dozen companies in 10 European countries. It has pursued an aggressive acquisition strategy over the past 10 years to build the original company platforms of Orexad in France and Biesheuvel in the Netherlands. IPH serves a range of industries. IPH was valued at €465 million (US$518.3 million) when PAI bought it in 2013. The private equity firm added more than 50 acquisitions and entry into five new countries.

Brammer Ltd., with €754 million (US$840.4 million) in revenues in 2016, has 460 locations in 23 countries. The company has faced a number of turbulent years due to aggressive acquisition and a strategy that emulated models of both Fastenal and Motion Industries in the U.S. Its acquisition of Lonne Holding in Norway in 2014 was ill-timed with a heavy focus on serving Scandinavian energy markets, and its aggressive vending machine program, patterned after Fastenal, did not yield the expected ROI, according to multiple MDM sources. Brammer was struggling in 2016 when Advent took it off the London Stock Exchange in a €250-million (US$278.6 million) deal this February.

European competitive landscape

Until this deal, ERIKS Group is estimated to have held a European market share fairly close to IPH. For 2015, ERIKS global revenues of more than €2 billion (US$2.2 billion), with about two-thirds in Europe (the remaining one-third is from North America). Its acquisition of WYKO in 2006 gave it both a strong presence in the UK as well as a strong portfolio of power transmission, fluid power and MRO products to complement its traditional focus on hose and flow control products. The combined revenues of the ERIKS/WYKO business in 2006 was €850 million (US$947.4 million).

Dexis, a subsidiary of Descours & Cabaud, sells a product mix close to that of IPH and Brammer. Its 2016 revenues of €800 million (US$947.4 million) are primarily concentrated in France, but it also has operations in eight other European countries.

W.W. Grainger does not report European earnings as a discrete unit, but 2016 revenues for its international businesses, which include Europe, Asia and Latin America, were $844 million. Grainger's European businesses include fastener and MRO distributor Fabory, acquired in 2011 with revenues at the time of €250 million (US$278.6illion), and tooling specialist Cromwell Group, acquired in 2015 with revenues then of €283 million (US$315.4 million), primarily in the UK.

Similar to U.S. market dynamics, M&A strategies in Europe are increasingly being driven by Amazon Business and generational transitions taking place at customers across all market segments. That means creating stronger technical services and value-added positioning that focuses on specific industry niches and larger national and international multi-plant accounts, while conceding smaller customer segments that may be more price sensitive and inclined to shop digitally for the lowest commodity pricing.

The combination of IPH and Brammer into a larger entity creates a clearer differentiation between the value propositions of the smaller specialty distributors at a local level. As one distributor noted, "It creates some confusion in the market as the integration takes place and there is an emphasis on quarterly performance, and we have an opportunity to strengthen our customer relationships based on the local service we provide." But, he added, "in five years I expect they will be a very tough competitor when they do integrate the companies, and we have to keep improving our value to compete effectively."

The integration of the IPH and Brammer businesses is expected to take at least a few years. The deal could spark increased M&A activity by Descours & Caboud, Grainger and ERIKS, though ERIKS has not been as active among the primary industry consolidators.

-Thomas P. Gale

MARKETS UPDATE SUPPLEMENT P. 3

News Digest
Continued from p. 2 of this section

MARKETS UPDATE SUPPLEMENT P. 4

The U.S. goods and services deficit was $47.6 billion in April, up $2.3 billion from the revised March figure of $45.3 billion, according to the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, through the Department of Commerce. April exports were $191 billion, $0.5 billion less than March exports. April imports were $238.6 billion, $1.9 billion more than March imports.

The **NFIB Small Business Optimism Index** was flat in May at 104.5, ending three straight months of declining optimism, according to the NFIB Small Business Economic Trends Report.

The **Producer Price Index for final demand** was unchanged in May, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. Final demand prices rose 0.5 percent in April and edged down 0.1 percent in March. On an unadjusted basis, the final demand index increased 2.4 percent for the 12 months ended in May.

April U.S. cutting tool consumption totaled $168 million according to the U.S. Cutting Tool Institute and The Association for Manufacturing Technology. This total, was down 16 percent from March and 3.6 percent from April 2016. With a year-to-date total of $716.1 million, 2017 is up 3.5 percent when compared with 2016.

The Conference Board Employment Trends Index increased in May, following an increase in April. The index now stands at 133.70, up from 132.77 (an upward revision) in April. The change represents a 6.4 percent gain in the ETI compared to a year ago.

The value of **residential building permits issued by Canadian municipalities** fell 2.5 percent in April to C$4.5 billion (US$3.3 billion). Lower construction intentions for single-family dwellings more than offset a moderate gain in the multi-family component.

Canada's industrial product price index increased 0.6 percent in April, according to Statistics Canada. **The Raw Materials Price Index** increased 1.7 percent, primarily due to higher prices for crude energy products. Of the 21 major commodity groups, 14 were up, 3 were down and 4 were unchanged.

Canadian manufacturing sales rose 1.1 percent to a record high $54.4 billion (US$40.9 billion) in April, mainly due to higher sales in the petroleum and coal products, and primary metal industries. Sales were up in 13 of the 21 industries, representing 62 percent of Canadian manufacturing sales.

Heating, Air-conditioning and Refrigeration Distributors International reported a 5.6 percent sales increase for April. The average annualized growth for the 12 months through April 2017 was 8.4 percent.

Manufacturer News

Diversified manufacturer **3M**, St. Paul, MN, has entered into an agreement to sell its electronic monitoring business to an affiliate of **Apax Partners**, a global private equity advisory firm, for $200 million.

3M has appointed Michael F. Roman as COO and EVP, and Hak Cheol (H.C.) Shin as vice chair and EVP. Both appointments are effective July 1.

Swedish manufacturer **Atlas Copco** has agreed to acquire 34 percent of **Mobilaris MCE**, Lulea, Sweden, a subsidiary of Mobilaris AB.

Material handling products manufacturer **Columbus McKinnon Corp.**, Amherst, NY, reported sales for the fiscal year ended March 31 of $637.1 million, up 6.7 percent from the prior year. Profit decreased 54.1 percent to $9 million.

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