MODERN DISTRIBUTION MANAGEMENT

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■ *Branding for Distributors, part 2*

# How Important is Branding?

## *Best practices for determining your branding needs*

*In part one of this three-part series, MDM President and COO Ian Heller explored the dangers of working with a pure branding agency and how the wrong partner can do more harm than good for a distributor. In part two, Ian uncovers how you determine the value of branding for your distribution company.*

**By Ian Heller**

Whether or not branding is important to your company depends on the nature of your business model and the market you serve. Every company needs a name and most want a slogan and some marketing statements that sum up their value. Brand awareness certainly helps put prospects into the funnel for your salespeople to close or your marketing campaigns to reach.

However, branding is much more important for some B2B companies than others and very rarely does it make sense for distributors to utilize mass media to communicate their value propositions.

In order to determine your branding needs, I recommend you use a model called the Branding Matrix, which I formulated when I owned a distributor-oriented consultancy, Real Results Marketing, now run by my former business partner, Jonathan Bein.

One assumption behind the Brand Matrix is that branding messages are designed to build a bias for your brand that gives you an edge when customers are considering alternative suppliers. I've found over the years that there are two components that dramatically affect the potential to influence business customers with branding messages:

**1. Size of the purchase**

Most customers spend relatively little time worrying about their small purchases, particularly compared to large purchases. The cost is negligible, the risk of making the wrong decision is minor and they have bigger issues to address. Since most consumer products have these characteristics, brand advertising can influence purchases through emotional appeals. However, as customers consider increasingly larger purchases – particularly in B2B – two factors greatly influence their choices:

*a. Multiple decision-makers are involved in the purchasing process*. Companies often form councils or committees to make strategic purchases choices. That means no matter which bias the individuals on the team have, they are often offset by other individuals with preferences for competing brands. If you bought an ERP recently, I suspect there were multiple decision-makers involved in the selection; the Epicor disciple was balanced out by the Oracle advocate.

Your customers use a similar approach to strategic purchasing relationships. Employing multiple decision makers tends to erode the power of branding to influence the purchase process because the opposing brand forces from multiple companies or products are balanced out on the team. Indeed, whatever emotional preference you can muster probably comes from the loyalty your customer has to your sales and service people – certainly not from your exciting brand tagline.

*b. Buyers apply analytical tools to help them make the decision.* A customer looking for a distributor for its annual MRO contract or other large purchase is comparing facts about your product assortment, online capabilities, technical skill, locations, etc., and then evaluating these versus your competitors. If you're selling to engineers, they want specifications, cut sheets, endorsements from other technical buyers, etc. They're skeptical of advertising

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INSIDE



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**PERSPECTIVE** ■ Commentary by Ian Heller

## Are Pricing Consultants Worth the Price?

Lee Nyari's article in this issue, *Deciding Your Path to Pricing Success*, describes two distributors that took different approaches to successful margin improvement projects. In these examples, both companies relied on outside consultants.

I've seen similar stories of success – but also know of some engagements where very reputable pricing consultants have worked with good distributors and the pricing projects have either produced little benefit, or the entire approach was unwound after it was implemented.

While it's tempting to blame the consultants, when pricing projects fail it's often the distributor's fault. Here are some common reasons pricing projects fail:

**Unclear goals.** If you want to price for volume growth, you'll get vastly different recommendations than if you're working to squeeze earnings out of your existing P&L. Too often, I hear executives ask for both – and while there's normally some slop you can clean up to grow margins without hurting your sales, the reality is that your firm is subject to the laws of price elasticity of demand like every other distributor. Also, be realistic about the timing – good pricing projects focus on implementing long-term process changes that drive gradual improvements over time. Striving for large, short-term gains is unrealistic and unhealthy.

**Insufficient executive sponsorship and involvement.** Often, the pricing initiative is sponsored by the CFO or CEO. They need to be involved, of course, but if sales leadership is opposed to getting a third party involved, the project is likely to fail regardless of the quality of work or ideas.

**Pricing requirements that are too complex.** Complicated pricing requirements create algorithms with loads of variation in system-recommended prices. This is as bad as variation introduced by sales and customer service people. It's maddening to your associates and mystifying and frustrating to customers. Simpler objectives with processes for people to override prices within defined constraints work better for most distributors – at least those who rely on outside and inside sales as their primary method of demand generation.

**Lack of good change management.** Any program that affects prices creates a huge emotional response in your company. Your change management plan should be detailed, thorough and prepared before the pricing consultant arrives – people have strong opinions on price and will get more emotional about it as soon as they hear you're considering a project to improve margins.

So the answer to the question "Are pricing consultants worth the price?" is based more on the distributor than the consultant. If you address these issues and prepare properly, you'll likely have a great engagement and good, lasting results. But if you skip these steps, you can do more harm than good – to your margins, morale and company.

**MODERN DISTRIBUTION MANAGEMENT**

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anyway and the more emotional appeals probably do more harm than good.

If you've ever responded to a customer RFP you know that the buyer was working hard to make the selection process objective and based on hard criteria. Spreadsheet-based scoring models, reference checking, questionnaires, bidding processes – all of these are designed to eliminate bias from the process. Branding is all about creating a bias for your company that is based on emotion and not just the specific capabilities you offer. Customers are trying to evaluate you strictly on the latter while wringing the effectiveness out of the former.

**2. Emotional attachment**

Some purchases are obviously driven by emotion. People buy expensive wine even though extensive research has proven that master sommeliers can barely tell the difference between the cheap stuff and the premium brands. In blind taste tests, ordinary consumers can't pick between them at all.

The same is true of most big American beer brands and also for some expensive products – no one needs a Range Rover and almost no buyer takes a $100,000 SUV anywhere it might be scratched. But driving a Range Rover is very fun, it makes you feel successful and discriminating – and capable of driving into the heart of South America if you want to.

There's nothing wrong with that but you can't affect distribution customers in the same way – they don't define themselves by the brand names of the companies who sell them supplies. No one is likely to run home and breathlessly brag to his kids, "We just selected Ian's Supply as our janitorial products distributor!" Generally, individuals buying for their businesses simply are not as emotionally engaged as they are for many of the purchases they make in the personal lives.

**Plot your brand on the Branding Matrix**

You need to define the nature of your transactions, how your customers buy products from you and your competitors, and to what degree there is some potential to build an emotional connection.

Even within distribution, there is a great deal of variation on both of these dimensions, but branding agencies simply do not have the ability to understand your business well enough to take this into account when they give you recommendations. And it wouldn't matter anyway. They want to persuade you to spend a great deal of money on an engagement and so they must try to make you believe that branding is extremely important to your company – even if it is not.

It's helpful to plot your brand on the Branding Matrix (**Figure 1**) to get a sense for the potential of using branding to influence your customers and prospects.

It's important to note that your brand may have more than one position on the matrix. For example, you may plot your major contract sales (annual MRO contracts, vending contracts, specified products, etc.) in the top right and

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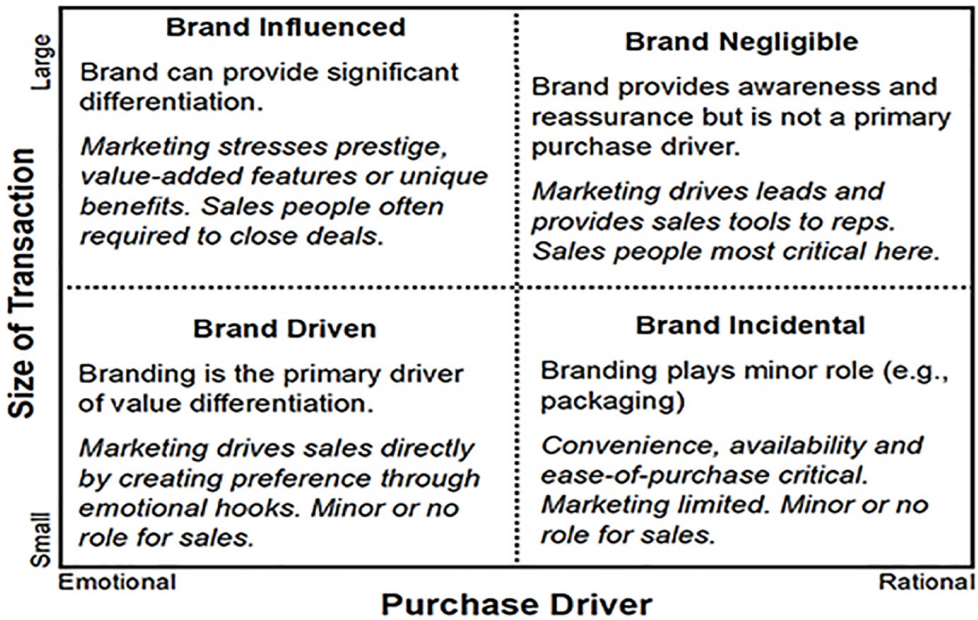
**Figure 1**



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your convenience sales (impulse items at branch counters, email promotions) in the bottom right.

Also, you will find that you can plot specific initiatives on the chart – and their positions may move over time. For example, if you launch a new business unit and you need to communicate it, that brand's position will be farther left than your legacy business – people are curious about new suppliers and a compelling brand message may make them decide to give you a try.

Or you may have promotions that are designed to generate immediate sales and these can be very different than your core business because you're tempting someone with strong money-saving offers and that gets customers excited.

Let's plot some distributor brands on the matrix as examples. (**Figure 2**)

Here's my reasoning for where I plotted each of these value propositions:

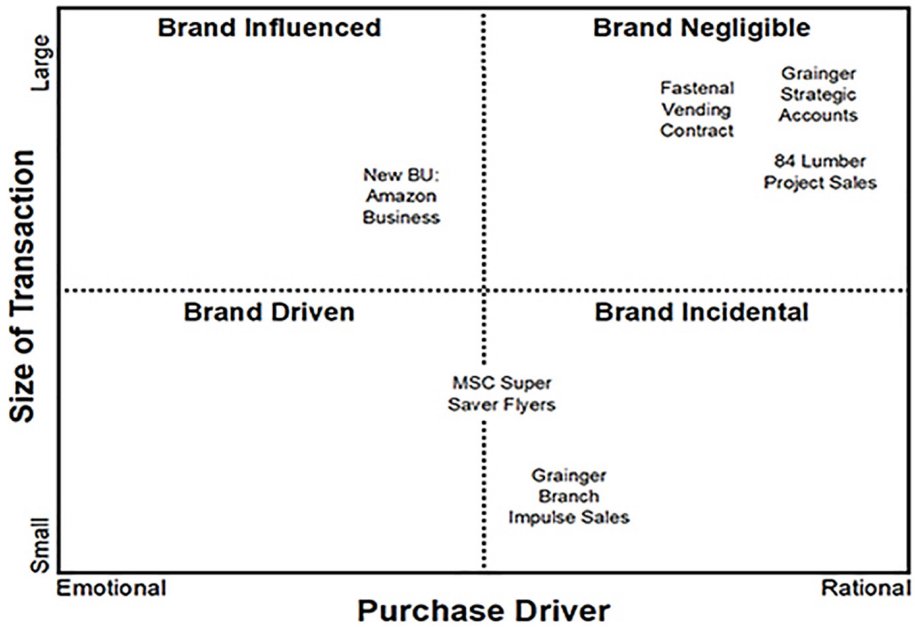
**Grainger Strategic Accounts**: These are long-term, negotiated agreements. Customers will carefully review their MRO requirements and ask suppliers to respond to an RFP. Typically, a cross-functional purchasing team will establish requirements based on their needs and make suppliers compete on a number of dimensions, including price.

**Fastenal Vending Contract:** Similar to the Grainger example but with fewer competitors. However, the customer will make a long-term decision based primarily on capabilities. Marketing supports the salespeople with collateral and presentation materials, but sales is the driver of the business.

**New Business Unit – Amazon Business (AB):** Since AB is a new venture for Amazon, it has some branding challenges to build awareness. In addition, the business model enables Amazon to accomplish sales and marketing activities online that traditional distributors get from their sales function. Also, there is a lot of brand equity in Amazon's retail business that the company can borrow for B2B selling to drive familiarity and preference. For now, many business buyers are curious about this new entity and so good branding can drive trial. Over time, the role of branding in AB's marketing mix will move to the right, but they have so few customers as a percentage of the total market that they can benefit from branding communications for years. In addition, at this stage, Amazon's contracts are often limited to "P Card" agreements, so contracts are likely much smaller on average than Grainger's strategic account relationships. This will also change over time as it attempts to dominate e-procurement for large purchasing organizations. For more on this strategy, see our recently published report, Your Amazon Business Playbook.

**MSC Super Saver Flyers:** MSC Industrial distributes these flyers every other month and makes them available online. MSC's well-known brand means that customers are more likely to open them versus an unfamiliar supplier. The flyers offer discounts, which is exciting to many customers. MSC can prospect aggressively with these flyers both online and in print, so good

**Figure 2**



branding can make a difference. However, purchase decisions are likely impulsive and the products need to be relevant to customer needs.

**Grainger Branch Impulse Sales:** Customers make impulse purchases off of displays because they see products they need or like. The Grainger brand may have gotten them in the door but most buyers are likely repeat customers and not prospects – so marketing's role is mostly limited to building a compelling assortment of attractive displays. The driving brands at this point in the decision cycle are mostly the manufacturers who make the products.

**84 Lumber Project Sales:** A very large portion of these sales are driven by account managers working with contractors in offices and on jobsites. Average transaction sizes are large, deals are negotiated and price and service play a major role. Marketing can provide awareness so that 84 Lumber gets on the "consideration set" of potential suppliers but sales has to close contracts and manage relationships.

As you can see, the brands skew to the right because B2B purchases are inherently less emotionally driven than consumer products. The vast majority of the volume in B2B is in the upper half of the matrix because B2B transactions are much larger on average than consumer purchases. Sometimes purchasing decisions are contracts, which are nearly always of high value and thus take on the dynamics of multiple purchase decision-makers and the use of analytical criteria by buyers.

It's important to understand where your brands and value propositions fit on the matrix because it guides your investments in sales and marketing. For example, if your company gets most of its growth from long-term contracts with large customers, marketing should focus its efforts on lead generation and collateral for your salespeople. Your website should offer advanced e-procurement capabilities and you should be an expert user of CRM processes and systems.

If your company is launching a new business unit or offering, then communicating the brand is important and more general brand advertising will be important as you build awareness.

## Role of market size

One dimension that's not on the chart is the number of customers and prospects in your market. It doesn't affect the fundamentals about the role of branding in your marketing, but it can be an important factor in how you decide to communicate with your customers and prospects.

84 Lumber, for example, has a fairly tightly defined market. It sells to building contractors and there are great lead sources like Dodge and Blue Book to help them identify jobsites that are being planned or are underway. Most of its marketing should consider these and other data sources and should be providing leads to the sales force. For customers too small to justify an account manager, marketing can drive sales growth directly.

However, this is not a market of tens of millions of prospects, so the company's 2017 Super Bowl ad was a poor investment – TV advertising is about making a huge number of awareness impressions at a low cost per impression. 84 Lumber needs to make much more substantive marketing and sales contacts to a small, targeted audience. The Super Bowl ad may have made impressions on more than 100 million people, but the vast majority of them had no potential to buy from the company.

As you might expect, 84 Lumber's Super Bowl ad came from an agency that claims, "We're best known for producing creative that ignites brands and connects with consumers. We do that by grounding everything we do in brave thinking." The agency claims online that its goal for 84 Lumber was to "create a very big splash for the nation's largest private building materials supplier with a very niche and little-known brand."

"Very niche" and "Super Bowl commercial" are at total odds with each other. This demonstrates that the agency understood that 84 Lumber has a very small audience for its branding and yet the agency produced, placed – and likely recommended – the Super Bowl ad anyway – and now feature this damaging campaign on its homepage when it belongs instead in an agency hall of shame.

We can only speculate as to why this agency thought a Super Bowl ad was a good idea for 84 Lumber, but I'm sure the fees for a campaign that may been $20 million or so were quite lucrative.

This is another lesson on why you need to be careful about engaging with traditional ad agencies. A specialized B2B agency signed up for the long haul would have understood 84 Lumber and recommended something much more effective.

Grainger has also advertised on television. In some ways, TV is a better fit for Grainger than 84 Lumber because the former has products to sell nearly every establishment in the U.S. However, I suspect that even in this case, Grainger would get a better return in much more targeted

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campaigns via online marketing and salespeople because the company already enjoys a very high level of awareness in its target audience and most people who see the ads are not influencing B2B purchasing. Thus, the majority of the impressions are wasted.

Mass advertising is extremely expensive because it is designed to build a little bit of awareness across very large numbers of people at a low cost per impression. It rarely provides anything like a reasonable return for B2B marketers and has little to no value for most distributors.

For the vast majority of distributors, marketing resources should be focused on building a deep and detailed prospect and customer database, acquiring and configuring marketing and sales force automation tools and then driving prospects into a funnel. From there, marketing can send relevant offers to targeted customers and sales can close deals and build relationships. Distributors with these sales and marketing models will get a much better return on their demand generation investments than those who buy consumer-oriented advertising on TV, radio or outdoor alternatives like sports stadium banners.

Use the Branding Matrix as a discussion tool to estimate how important branding is to your business. Know your market size so you pick channels that are efficient for your customer and prospect pool. And if you hire an agency, pick a pure B2B firm that can help you with everything from branding to pay-per-click. To some degree, brand awareness is helpful to every distributor, but only if you create it in people who can actually buy from you.

*In the third and final article of this series, Ian will talk about how to create branding slogans and messages that say the right things about your company, with an emphasis on the customer instead of on the distributor.*

# Deciding Your Path to Pricing Success

## *How distributors manage algorithmic risk in real-life pricing projects*

*Part one of this two-part series discussed how Deloitte's views on algorithmic risk management generally apply in distribution pricing, and key strategies to consider in managing pricing algorithms. This article, the second and final part of the series, illustrates how some of these issues play out in real-life distribution pricing projects, and offers relevant learnings from successful pricing transformation initiatives.*

**By Lee Nyari**

Algorithms are increasingly used across many business functions, but if not managed appropriately, too much of a good thing can backfire. This was the message of a recent Wall Street Journal report by Deloitte, *On the Board's Agenda: Board Oversight of Algorithmic Risk*.

The first article of our two-part series, *Managing Pricing Algorithms*, discussed how Deloitte's views on algorithmic risk management generally apply in distribution pricing. That article outlined some of the key factors that (rightfully) lead distributors to have strong interests in algorithmic approaches to price management.

Next, we offered some advice on how to identify and evaluate signals that algorithmic risks may exist in the pricing area. We then reviewed some common reasons that pricing algorithms underperform and may therefore increase algorithmic risks. These include the use of pricing algorithms that are not sufficiently market-informed and the use of outdated mathematical approaches in the design of the pricing algorithms. Finally, we warned distributors not to make false assumptions about the nature and level of sophistication of their pricing algorithms.

In this second and final part of our series, we illustrate how some of these issues play out in real-life pricing projects by reviewing the role algorithmic risk played for two private equity-owned distributors –ABC Distribution and Widget Distribution. Although both are fictional, their stories are reflective of pricing journeys of real-life distributors. The two distributors are similar in many ways:

- Both have about $60 million in annual sales.
- Both have management teams that appreciate the importance and powerful nature of pricing.
- For several years, both have experienced growing signs that their price structures

may be inadequate for their businesses. Their reps regularly deal with customer objections – and these pressures seem to be gradually intensifying as customers increasingly research prices on the web.

- Both distributors have attempted to refine their price structures by way of internal analytics efforts, but these efforts underperformed versus targets.
- Both management teams decide to invest some time researching external service providers to see if they can find appropriate external help in this area. They have reviewed websites and marketing materials. They have talked to some peers. They have met with service providers attending industry conventions and scheduled discussions with them to have more in-depth conversations about how different providers might help improve pricing practices in their particular businesses. They have even seen some demos of different solutions.
- Both distributors decide to leverage outside experts and are ultimately successful. However, they take different approaches to solving their pricing challenges.

### 1. ABC Distribution's journey

ABC Distribution takes this approach: "Our past ways of pricing have not worked, and this is evidenced by scatterplots that show random variation in invoiced prices/margins. So, we need to adopt a new pricing strategy that makes sense and is proven in the industry."

Initial analysis of ABC's transactional data shows that there is a "lack of bell curves" when prices/margins are mapped against volume. This reinforces management's view that historical pricing practices were not strategically managed by the rep population. ABC decides to scrap its old, dysfunctional pricing models and chooses to adopt a pricing strategy that has been advocated by a pricing software vendor, which has proven to work at several other distributors.

The vendor ABC selects is quite experienced, and it shares a lot of learnings from other pricing projects, particularly stressing that change management and executive commitment often make the difference between a successful and a failed pricing project. The vendor successfully maps ABC's dataset into the vendor's pricing cube/pricing matrix, and completes the analytics portion of project rather quickly, and with relatively little resource commitment from ABC Distributor's already over-stretched management team.

ABC executives very much appreciate the timely and painless implementation: the business has several other initiatives going on and these stakeholders have little availability. Private equity ownership keeps the pressure on management to drive improvement in many functional areas, and pricing is just one of them.

Sales reps go through training that touts the strategic nature, mathematical sophistication and past success of the new pricing solution. Still, some sales reps remain skeptical of how effectively the new prices will work in practice. When the new pricing is launched, sales reps see many price changes. In some instances, the new prices seemingly override the reps' pricing judgment, and they don't always agree.

Though concerned with the impact of these price changes on their relationships with their customers, reps are instructed to follow the new pricing as management uses controls (and also some incentives) to force the adoption of the new strategies. Although management is fully committed to the success of the pricing initiative, they follow their vendor's advice in some important aspect of transitioning to the new price structure.

The magnitude of the immediate price changes is kept smaller at larger accounts, particularly on more sensitive items. Reps also retain some (though much more limited) discretion to override system prices – and this helps them respond in select instances where price changes could damage strategic customer relationships.

Ultimately, the project is declared a success. Although some business leaves due to price, the favorable impact of the margin gains more than outweighs the impact of this volume loss. Management feels their pricing is now more strategic, allowing them to take risks in the right areas. Obvious pricing errors (such as selling at negative margins) are largely eliminated.

Reps understand that they have limited overriding discretion and are expected to "hold the line" in pricing. They also come to the realization that some noise around pricing, particularly resulting from customers making web-based price comparisons, remains a fact of life in the current business environment.

### 2. Widget Distribution's journey

Widget Distribution takes this approach: "Our past ways of pricing have been inadequate, and this is evidenced by all the noise around pricing, and unexplained variation in invoiced prices/

margins."

The vice president of sales is vocal in his opinion that Widget is a sales-driven organization and that the sales team has over time accumulated a level of industry and customer pricing knowledge not easily replicated by standard pricing algorithms.

Although past efforts did not meet targeted results, Widget executives feel they were on the right track. But they lacked the expertise and time required to effectively devise a price structure that strikes the right balance between being simple enough to be manageable and understandable yet complex enough to reflect the many relevant aspect of marketplace realities that reps consider in pricing decisions.

Widget decides to look for additional expertise elsewhere to help them develop a pricing structure for its business. The company chooses to work with a highly credentialed external consultant with extensive experience in pricing in distribution experience, who was referred to Widget by its private equity owners.

In partnership with the distributor's product management team, the consultant deploys multivariate statistical tools to devise a custom-built product segmentation tree. A council of seasoned sales reps works with the consultant on customer segmentation issues. The team decides to collect and build out some customer datasets to further inform segmentation and better profile prospects and customers. Widget also undertakes competitive price collection efforts.

The consultant conducts all analytics in a fully transparent manner. Pricing strategy discussions are held to identify, develop and document various pricing strategies that the business has used or is interested in adopting (as industry best practices are also considered in these discussions).

Although Widget's data seems just as jumbled as ABC's at first glance, the consultant is able to apply statistical tools to discern various drivers of past price variation from this otherwise "noisy" transactional dataset. As the transactional data is mined, the consultant confirms that Widget's past pricing decisions already align with several sound pricing strategies. Segments with price/margin distributions resembling "bell curves" are formulated. From these analyses and discussions, a set of pricing strategies emerges, which build/expand validated pre-existing pricing approaches, while incorporating additional industry best practices.

This collaborative effort is somewhat taxing on the organization, as key organizational resources are spending a significant amount of time on the pricing project. The project ends up taking a month longer than initially planned for (four months in total). Given how the project unfolds, the delay is deemed necessary and acceptable. This is not without discussion: the distributor's private equity ownership was already pushing for more compressed timelines. Ultimately, however, the board defers to the executive team in observing: "from our past failures we have learned that if we don't do this right, we should not do the pricing project at all."

When the new pricing is launched, it already has significant buy-in from the various stakeholders who were involved in its development. Sales reps from the pricing council voice their support in training sessions, describing how their input was considered in designing the pricing algorithms and how they reflect their own views on pricing in Widget's markets.

As the pricing is rolled out, reps are comforted in that prices won't change in most instances. These prices align with pre-existing pricing strategies that are retained (not scrapped) in the new pricing algorithms – strategies that the distributor and the consultant identified together and validated by analyzing past transactional data.

When prices are changed, prices at larger customers are tweaked more carefully, particularly on sensitive items. Pricing errors that caused undue and still unexplained price variation are eliminated. The results of the pricing initiative are carefully monitored. The distributor's existing Microsoft tools are leveraged to create new reporting on price realization and other matters. The "noise" around pricing diminishes a great deal, and controls are found to be useful but not a major issue in implementation.

As system prices are competitive, the distributor begins to pick up more volume on its website as well. Targeted financial benefits are exceeded, and Widget's project is considered a success as well.

## Conclusion

As the distributor success stories suggest, there is no single right path to pricing transformation. The path can differ, depending on the trade-offs distributors make, knowingly or not, when they select their solution. Algorithmic risk is one of the factors in play; it is subject to trade-offs, just like other factors. In our tale, both distributors arguably made the right calls for their businesses.

ABC benefited greatly from transitioning to a more strategic approach to price manage-

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mdm Industrial & Construction Markets Update

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## Manufacturing Sector Continues to Expand in February

Economic activity in the manufacturing sector expanded in February, and the overall economy grew for the 106th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business. The February PMI registered 60.8 percent, an increase of 1.7 percentage points from the January reading of 59.1 percent.

The New Orders Index registered 64.2 percent, a decrease of 1.2 percentage points from the January reading of 65.4 percent. The Production Index registered 62 percent, a 2.5 percentage point decrease compared to the January reading of 64.5 percent.

The Employment Index registered 59.7 percent, an increase of 5.5 percentage points from the January reading of 54.2 percent. The Supplier Deliveries Index registered 61.1 percent, a 2 percentage point increase from the January reading of 59.1 percent. The Inventories Index registered 56.7 percent, an increase of 4.4 percentage points from the January reading of 52.3 percent. The Prices Index registered 74.2 percent in February, a 1.5 percentage point increase from the January reading of 72.7 percent, indicating higher raw materials prices for the 24th consecutive month.

Comments from the panel reflect expanding business conditions, with new orders and production maintaining high levels of expansion; employment expanding at a faster rate to support production; order backlogs expanding at a faster rate; and export orders and imports continuing to grow faster in February. Supplier deliveries continued to slow (improving) at a faster rate. Price increases occurred across most industry sectors. The Customers' Inventories Index indicates levels remain too low. Capital expenditure lead times improved by five days while production material supplier lead times extended four days during the month of February.

### Distributor news

**HD Supply Holdings Inc.**, Atlanta, GA, has completed the acquisition of **A.H. Harris Construction Supplies**, Hartford, CT. The company promoted Jeremiah George to regional vice president for the Midwest.

**Motion Industries** reported sales for 2017 of $5 billion, up 7.2 percent compared to the previous year. Operating profit increased 14.1 percent to $384.2 million. Fourth-quarter sales were $1.2 billion, an increase of 7.4 percent compared to the same period a year earlier. Operating profit increased 27.2 percent to $103 million.

**Kaman Corp.**, Bloomfield, CT, reported sales for 2017 of $1.8 billion, down slightly from the prior year. Profit fell 15.3 percent to $49.8 million. Distribution sales decreased slightly for the year to $1.1 billion. For the fourth quarter, Kaman Corp. sales were $473.9 million, up 9.4 percent year-over-year. Distribution sales rose 2.3 percent in the fourth quarter to $263 million. Profit decreased 8.6 percent to $13.8 million.

**Bunzl plc**, the international distribution and outsourcing group, reported that group revenue for the year increased 16 percent at actual exchange rates to £8.6 billion (US$12 billion). At constant exchange rates, revenue increased by 10 percent compared to 2016. Organic revenue growth increased to 4.3 percent, the highest level since 2006.

**BlueLinx Holdings Inc.**, Atlanta, GA, reported sales for 2017 of $1.8 billion, a 3.5 percent decrease from the previous year. The company reported a profit of $63 million for the year, compared to $16.1 million a year ago. Fourth-quarter sales were $433.6 million, an increase of 2.8 percent compared to the same period a year earlier. The company reported a profit of $53.5 million, compared to $10.4 million the same quarter a year ago.

**Essendant Inc.**, Deerfield, IL, reported sales for 2017 of $5 billion, down 6.2 percent from 2016. The company reported a loss of $267 million, compared to a profit of $63.9 million in 2016. Fourth-quarter sales decreased 4.5 percent to $1.2 billion. The company reported a loss of $1.5 million, compared to a loss of $2.4 million the same quarter a year ago.

**Lawson Products Inc.**, Chicago, IL, reported sales for 2017 of $305.9 million, up 10.6 percent from the previous year. The company reported a profit of $29.7 million for the year, compared to a loss of $1.6 million in 2016. Fourth-quarter sales were $80.6 million, up 19.8 percent from the prior-year period. The company reported a profit for the quarter of $20.2 million, compared to a loss of $4.6 million for the same period a year ago.

**Foundation Building Materials Inc.**, Tustin, CA, reported sales for 2017 of $2.1 billion, up 48 percent from 2016. Profit was $82.5 million, up from a loss of $28.4 million. For the fourth quarter, sales totaled $516.8 million, up 11.8 percent from the same period in 2016. Profit was $75.9 million, compared to a loss of $8.8 million the previous year.

**Builders FirstSource Inc.**, Dallas, TX, reported sales for 2017 of $7 billion, up

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10.5 percent from 2016. Profit was $38.8 million, down from $144.3 million the previous year. The company reported fourth quarter sales of $1.8 billion, up 15 percent from the same period in 2016. The company reported a loss of $42.7 million for the quarter.

**SRS Distribution**, McKinney, TX, a roofing distribution holding company, has opened three new greenfield locations in Grand Rapids, MI, Middletown, OH, and North Sacramento, CA.

Electronic components distributor **TTI Inc.**, Fort Worth, TX, has announced plans to establish a focused Mil-Aero business segment.

Wholesale electrical product and solution supplier **Border States Electric** will open two branches in Washington and Idaho.

**Crescent Electric Supply**, East Dubuque, IL, has named Joe McDermott as regional vice president.

Janitorial supply distributor **Brady Industries LLC**, Las Vegas, NV, has named Scott Schleifman to the newly created position of corporate director of supply chain management.

**Kimball Midwest**, Columbus, OH, has promoted Chas McCurdy to chief sales officer. The company has also promoted Patrick McCurdy III to vice president of sales.

**Anixter International Inc.**, Glenview, IL, has appointed William Galvin will become president and CEO. Galvin succeeds Robert Eck who will retire in June 2018.

**SUPERVALU Inc.**, Minneapolis, MN, has named Rob Woseth as executive vice president and CFO.

## Economic news

**The Conference Board Consumer Confidence Index** increased in February, following a modest increase in January, according to the latest report from The Conference Board. The Index now stands at 130.8, up from 124.3 in January. The Present Situation Index increased from 154.7 to 162.4, while the Expectations Index improved from 104 last month to 109.7 this month.

**Real gross domestic product** increased at an annual rate of 2.5 percent in the fourth quarter of 2017, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.2 percent.

**The Chicago Fed National Activity Index** (CFNAI) ticked down to +0.12 in January from +0.14 in December. Two of the four broad categories of indicators that make up the index decreased from December, and two of the four categories made negative contributions to the index in January. The index's three-month moving average, CFNAI-MA3, decreased to +0.17 in January from +0.43 in December.

**The Conference Board Leading Economic Index** for the U.S. increased 1 percent in January to 108.1, following a 0.6 percent increase in December, and a 0.4 percent increase in November.

**Construction spending during January 2018** was estimated at a seasonally adjusted annual rate of $1,262.8 billion, nearly the same as the revised December estimate. The January figure is 3.2 percent above the January 2017 estimate.

**Canadian investment in new housing construction** totaled C$4.7 billion (US$3.7 billion) in December, up 10 percent compared with December 2016.

**Prices for products sold by Canadian manufacturers**, as measured by the Industrial Product Price Index (IPPI), rose 0.3 percent in January, mainly due to higher prices for energy and petroleum products. Prices for raw materials purchased by Canadian manufacturers, as measured by the Raw Materials Price Index (RMPI), increased 3.3 percent, primarily as a result of higher prices for crude energy products.

The third quarter 2017 **Sales History & Outlook Report** released by the Power Transmission Distributors Association showed that PTDA distributors total sales increased 4.2 percent in the third quarter compared to a year ago.

## Manufacturer news

**Saint-Gobain**'s Performance Plastics business has acquired **HyComp LLC**, Cleveland, OH.

**Atlas Copco** has acquired **Walker Filtration Ltd.**

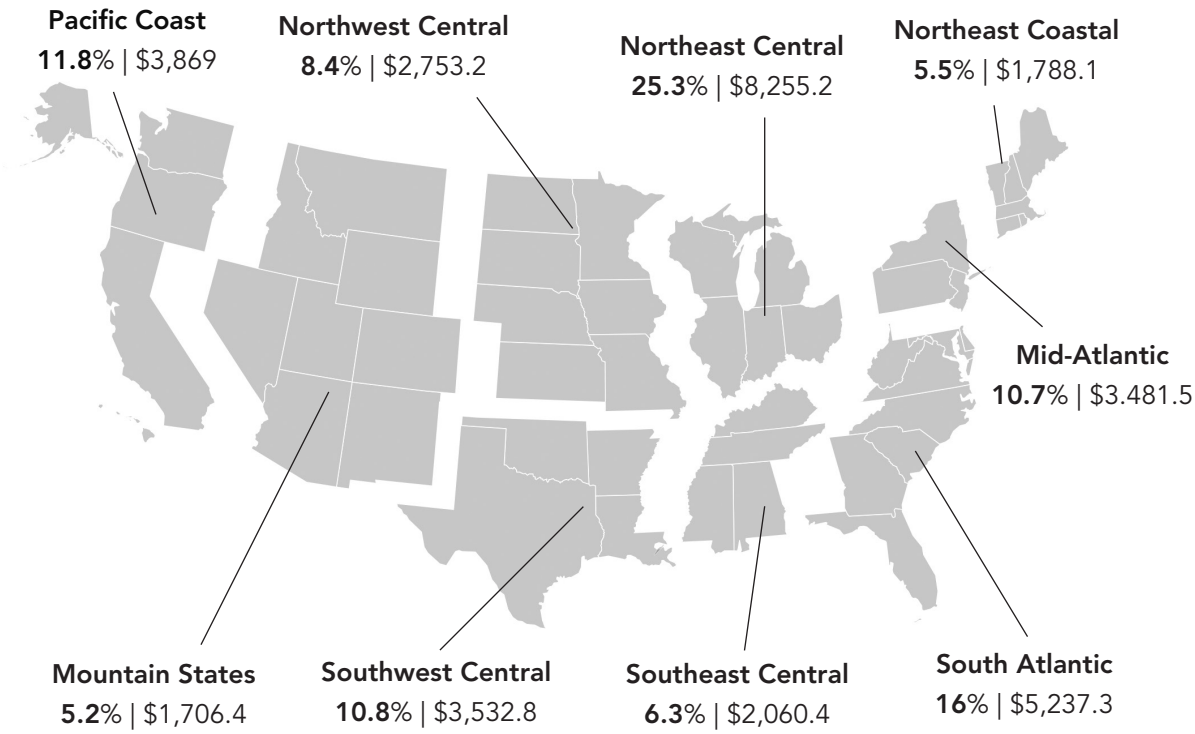
**Encore Wire Corp.**, McKinney, TX, reported sales for 2017 of $1.2 billion, an increase of 23.8 percent from the previous year. Profit increased 98.2 percent to $67 million. Fourth-quarter sales were $301.3 million, an increase of 25.9 percent. Profit was $28.5 million, compared to $11.4 million in the fourth quarter of 2016.

## Metalworking MRO Market Demand in the U.S. | Market Snapshot

Market demand for Metalworking MRO in the U.S. was $32.7 billion in 2017, according to data from MDM Analytics. All estimates are 2017 end-user demand, in U.S. dollars, including distributor margin. Products included in this profile include: Abrasives, brushes, machine tool accessories, coolants and other fluids, oil and grease, saw blades, cutting tools and hand precision measurement tools.

### U.S. Total: $32.7 billion

■ **U.S. End-User Market Demand for Metalworking MRO by Region, $ Millions (2017 est.)**




■ **U.S. End-User Market Demand for Metalworking MRO: Top 10 End Markets**

Top 10 end markets in $ volume, by NAICS code, consuming Metalworking MRO (2017 est.)

| End User | | Estimated Consumption |
|---|---|---|
| 336412 | Aircraft Engine and Engine Parts Manufacturing | $1,258,341,109 |
| 336390 | Other Motor Vehicle Parts Manufacturing | $1,192,742,353 |
| 336111 | Automobile Manufacturing | $893,332,142 |
| 332710 | Machine Shops | $813,014,088 |
| 333120 | Construction Machinery Manufacturing | $763,035,451 |
| 336411 | Aircraft Manufacturing | $693,761,154 |
| 333111 | Farm Machinery and Equipment Manufacturing | $692,523,828 |
| 238220 | Plumbing, Heating, and Air-Conditioning Contractors | $556,358,311 |
| 333517 | Machine Tool Manufacturing | $543,653,093 |
| 333618 | Other Engine Equipment Manufacturing | $497,249,285 |

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

mdm analytics

**MARKETS UPDATE SUPPLEMENT P. 4**

## Deciding Your Path to Pricing Success

Continued from p. 8 of the last section

ment. Practically speaking, ABC might not have been able to timely and properly implement Widget's type of pricing solution. There is more to business than just pricing, and many key ABC resources were consumed on projects to drive improvement in other functional areas. While they may have accepted taking on more algorithmic risk, they overcame the challenges thanks to executive commitment, a careful approach to gradual implementation of sensitive price changes, and the use of controls in price management.

Widget also benefited greatly from its pricing project. The company's initiative arguably involved less algorithmic risk. This was more important at Widget. Given its sales-driven price management culture, taking on more algorithmic risk might have derailed adoption. But this came with important trade-offs: Widget's project required more effort and more time to implement, and it also called for a level of pricing science expertise that is rarely found in the distribution industry.

Deloitte suggests we "should recognize the positive impact of algorithms." We agree and strongly encourage distributors to use algorithmic approaches to manage their prices. In fact, market-aligned, advanced pricing algorithms can provide distributors with a competitive advantage.

We also agree with Deloitte that distributors should "use mechanisms to manage algorithmic risk." Managing algorithmic risk in distribution pricing entails an understanding of trade-offs among different factors under consideration when distributors plan out and execute pricing initiatives.

An appreciation of the risk-reward aspects of these trade-offs can make the difference between failure and success, as distributors embark on their own journeys toward improved price management in their businesses.

*Lee Nyari is managing partner of The Innovative Pricing Group, a consultancy offering strategic price management solutions for distributors. Reach him at lnyari@pricinginnovation.com.*

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**Fluor Corp.**, Irving, TX, reported sales for 2017 of $19.5 billion, an increase of 2.6 percent from last year. Profit decreased 32 percent to $191.4 million. Fourth-quarter sales were $5 billion, an increase of less than 1 percent. The company reported a profit of $60.3 million for the quarter, down 14.5 percent.

**Saint-Gobain** reported sales for 2017 of €40.8 billion (US$50.3 billion), up 4.4 percent from 2016. Profit increased 19.5 percent to €1.6 billion (US$2 billion) from the previous year. Fourth-quarter sales were €10.2 billion (US$12.6 billion), an increase of 4.6 percent.

**General Cable Corp.**, Highland Heights, KY, reported sales for 2017 of $3.8 billion, a decrease of 0.5 percent from 2016. The company reported a loss of $56.6 million in 2017, compared to a loss of $93.8 million in the previous year.

**TriMas Corp.**, Bloomfield Hills, MI, reported sales for 2017 of $817.7 million, a 3 percent increase from the previous year. The company reported a profit of $31 million, compared with a loss of $39.8 million in 2016.

**Webco Industries Inc.**, Sand Springs, OK, reported sales for the fiscal second quarter of $111 million, a 21.1 percent increase year-over-year. The company reported a profit of $8.4 million, up from $2.2 million the same quarter a year ago.

**Continental Building Products Inc.**, Herndon, VA, a manufacturer of gypsum wallboard and finishing products, reported sales for 2017 of $489.2 million, an increase of 6 percent from the previous year. Profit was $59.8 million, up 35.9 percent from 2016.

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