

Leaving Economic Uncertainty Behind

Distributors planning to invest in 2014

The U.S. economy appears to have finally turned a corner. Regardless of what the data has been telling us for the past two years, circumstances – both man-made and natural – have kept businesses in a cycle of uncertainty. But now there's a sense that we know where we stand, and now that we know where we stand we can start moving forward.

"The U.S. economy is on firm footing now," says David Manthey, senior research analyst, industrial distribution services at Robert W. Baird & Co. Inc. And that should mean continued growth across sectors, as well.

"Even though for almost everybody, 2014 got off to a terrible start ... I think for most people now, business is good," says Brent Grover of Evergreen Consulting Group. "Overall, people are looking for 2014 to be a good year in terms of sales compared to 2013."

Distributors, for the most part, are positive about the results for the first half of 2014, though expectations may have been tempered by the events of the last few years. "I'd say we're strong. I wouldn't say that we're setting any records right now," says Jeff Haggard, vice president of sales for industrial distributor Haggard & Stocking, Indianapolis, IN. "After 2008 when things were a little rough, the following three years were incredibly strong for us, but we've had a slow-down. Different facets of our business are up, different facets are down."

Broadly, many distributors are still

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waiting for residential construction to return to "normal" levels, but at the same time they're focusing their businesses on where the opportunities are now. Much of that is centered on energy markets and automotive markets. For example, Graybar, Grainger and Praxair are just a few distributors that have expanded their presence in western North Dakota to service customers in the Bakken shale area. And growth in activity at automotive plants in central Tennessee has increased the number of housing and infrastructure projects there.

Because of the shift in attitude about conditions, more companies are poised to increase investment in their businesses. Many of these initiatives are outlined in the 2014 Distribution Trends Report, featured in this special double issue of Modern Distribution Management.

"I think it's going to be a really interesting year in the distribution business," says Andy Behr, director of marketing and business development for Hisco Inc., Houston, TX. "It's analogous to plate tectonics; you have all this strain and stress build up for a period of time, and then the earthquake happens. You get a lot of change in a short amount of time and it seems like the change is instantaneous, but things have been relatively static for a long, long time and the pressures have been building up so you're going to have pretty rapid change."

Connecting the Dots Online and Offline

Distributors have the potential to create more value for their customers with a comprehensive e-commerce interface, but building one that works from both ends for everyone who needs to use it is a chal-

lenge. Many companies still see the importance of the human-to-human interaction in sales, and striking a perfect balance of

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PERSPECTIVE ■ Commentary by Thomas P. Gale**MDM Trends Reveal Opportunities**

This June double issue is a critical benchmarking tool, combined with our annual update of the largest wholesale distribution companies across 15 product sectors. Our research in 2014 identifies areas where significant competitive gaps are emerging, largely driven by shifting customer patterns and demands.

And as in past years, our findings are more about degree of adoption or acceleration than a magic-bullet type of disruptive force. The key 2014 trends reviewed include inventory management, e-commerce, analytics and human resources.

Any time you try to form absolutes around trends in wholesale distribution, the one absolute I have ever found to be true echoes an important reminder: Wholesale distribution continues to be highly fragmented at every level of the supply chain in spite of consolidation waves. This absolute can be a strength, weakness, opportunity and threat at the same time; it is critical for distributors to identify what that looks like for them in 2014.

The real value in trend analysis is to benchmark against not only direct competitors, but across industry sectors and even outside business models. This last point, I might argue, is

perhaps the most important emerging trend executives should note.

The traditional distribution functions of carrying inventory, demand creation and credit are being challenged in 2014 like never before, and AmazonSupply is just the most visible potential threat among many. In addition to emerging e-commerce alternatives, traditional distributors are expanding into new end-markets with broader product offerings. Start-up specialized distribution models are emerging with streamlined inventory, infrastructure and sales costs.

While some traditional distribution companies have redesigned their economic value models, many more still operate fundamentally the same way as 10 or 20 years ago. These companies are most at risk from competitors that are building more efficient cost and service models that customers value.

The emerging trends identified in this issue offer ways to evaluate their impact, as a threat, opportunity or both.

We feel this annual update is an important measure of how market leaders are creating competitive advantage. More importantly, it indicates areas your company can benchmark to strengthen your market position.

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E-Commerce

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customized support and online convenience is an art that has not yet been perfected.

"More and more of our customers want to transact [online]," says Jessica Yurgaitis, vice president of sales and marketing at Industrial Supply Company, Salt Lake City, UT. "They're on computers, they want to see what they're buying, they want to have an image, and they want to be able to just click and buy, put it in a cart and have it delivered the next day."

Having a simple process for buying products online involves lots of time and costs to implement an intuitive system. And many say that providing the online catalog doesn't actually make the need for salespeople go away.

"There's always going to be a need for somebody to come out with a toolbox and show you how to make it work," says David Parks, executive vice president, Hydradyne LLC, Fort Worth, TX.

And Yurgaitis says that others simply want to make a connection with a real person. In some cases, they just want to chat with the people whom they have been talking to for years.

"We still have customers that want to call, and they want to talk about the weather and their grandkids. There are relationships there," Yurgaitis says.

Jeff Haggard, vice president of sales at industrial distributor Haggard & Stocking in Indianapolis, IN, says that the younger generations are driving e-commerce, but traditional sales techniques are still needed.

"We've got to be able to find a balance of traditional sales. We like to provide value on the floor, but yet we have to make the product available to [the younger generation]. If we don't, we're going to get left behind," Haggard says.

Customers don't care where the product they order actually comes from, they only care that they receive the order ... and quickly, says Eric Lamphier, senior director at Manhattan Associates. The focus needs to be on connecting all of those sales nodes to provide the product to that customer, regardless of how or where the sale originated.

To achieve that balance, many distributors, including Grainger and MSC Industrial Supply, are adopting a multichannel approach to sales that includes e-commerce. As one respondent noted in a recent MDM survey, "[We're] slowly looking at online and offline tools to improve efficiency in transacting and operating business."

Data is one of the biggest challenges for implementing an effective e-commerce plat-

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form. Haggard said that he knows how vital e-commerce is to his company's success, but connecting the right product image with the right product name, SKU and price is a precise logistical undertaking. And each manufacturer has their own way of presenting the information – some better than others.

Providing the online buying option isn't the only reason for distributors to embrace e-commerce.

"One of the things in e-business is that your own employees end up using your e-commerce site for information," says Jonathan Bein, managing partner of Real Results Marketing, Boulder, CO. "If they're on the phone with somebody, there's no faster way to find out what you have than to go onto your website."

By offering more than just a transactional site, an e-commerce platform can double as an efficient sales tool – one that younger salespeople will understand and are more likely to use.

Talbot Gee, executive vice president and COO of Heating, Air-conditioning & Refrigeration Distributors International (HARDI), agrees that some demand for online buying is generational. As millennials move into buying positions, they tend to automatically go online for everything they need. And distributors are increasingly seeing higher revenues from online purchases.

There is no one-size-fits-all approach to B2B e-commerce, according to Tom Dorosewicz, president of Whitestone TEC, a provider of e-commerce solutions based in Denver, CO. Every company has a unique set of business rules for working with customers, and it is essential that an e-commerce platform be flexible enough to incorporate those rules.

Linda Taddonio, chief e-commerce strategy officer at Insite Software, agrees distributors cannot simply replicate retail's online strategy. "In B2B e-commerce, there's more complexity," she says. "There are many different personas, maybe a manufacturer or a contract or someone else, that a company may be serving, and they all have different needs that need to be met by that platform."

E-commerce, as a result, can't just be an add-on strategy, she says. "Distributors need to recognize that it needs to be a core part of business."



Online Resources

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Need for Access 'Whenever, Wherever, However' Drives Mobile Adoption

Customers expect salespeople to have immediate, complete information about anything and everything: how much the products cost, how many are available, how fast they can be shipped, and if there are better products that cost less.

"Mobility is just part of what's expected now," says Phil Derrow, president and CEO of Ohio Transmission Corp., Columbus, OH. "Everybody has a smartphone in the workplace, and most people have a tablet or an iPad or some kind of tablet device, and it's just expected that they can get calls and emails and be online whenever, wherever, however."

The ability to do the job quickly, accurately and from anywhere can help increase productivity and revenue. Where a previous sales call would need extra time to see if a product is in stock, a salesperson can now tap through a few spreadsheets or Web pages to access information remotely.

"You can't get out and talk technology and tell your clients all these wonderful things and then not be able to actually do it and show it and use it," says Stewart Strauss, president and CEO of Strauss Paper Company in Port Chester, NY. "It is not optional for the sales people. And I also think it is way more efficient."

But convincing a seasoned fleet of salespeople to use smartphones and tablets is, in some cases, equivalent to giving them a completely new job.

"It's hard to go from where you're comfortable, to jump to, 'Oh, I have to change the way I go to work because I got a new tablet,'" says Jessica Yurgaitis, vice president of sales and marketing at Industrial Supply Company in Salt Lake City, UT.

If an older sales force is comfortable and also facing retirement, a company might want to supplement their team with members who already want to use technology. But finding qualified people is difficult, says David Parks, executive vice president of Hydradyne LLC, Fort Worth, TX. Parks said that Hydradyne has had to do a lot of its own training and development for new recruits.

But the pushback isn't always just from the sales force; sometimes it's the owner who is uninterested in implementing new technology, says Steve Epner, founder of Brown Smith Wallace Consulting Group. "The younger generation is demanding more access to this technology, but many times (in family-owned businesses) the more mature owners are saying 'Don't do this

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until I retire; I don't want to go through a transition."

Mobile for sales is old news, Epner says. The next step is getting these executives on board with having access to the company's business information from wherever, whenever and however. And as the younger generation starts moving more into the leadership roles, this will continue to grow in importance, he says.

Customers are becoming more accustomed to that mobile efficiency, but it isn't just about having a mobile-optimized website.

Mobile provides the opportunity for customers to interact with the company. For example, Walter Surface Technologies, Windsor, CT, has created several different apps to meet different end-user needs, such as the product finder. The app asks about the customer's needs, narrows down the product needed to one or two items and then it tells the user where/how to order them.

"Your company becomes more than a place to buy stuff. You're a resource right there in their hands wherever they are," says Chester Collier, Walter's senior vice president, global distribution.

Often the challenges involved with getting company buy-in are enough to dissuade many smaller distributors from implementing technologies that could help their operations work whenever, wherever, however. But those that don't get on board could become obsolete.

Ninety percent of the marketplace is controlled by smaller, independent distributors, according to Roger Woodward, president of Alliance Distribution Partners LLC, Gallatin, TN. Woodward's customers are realizing that they need to adapt their companies to new technology. One customer told Woodward, "My business today does not look much different than what my dad ran in in 1975" – and it wasn't a good thing, Woodward says.

"I think the independents are waking up to the fact that they have to introduce more technology in their business, they have to broaden their product offering and they have to be more focused on the ease of transaction," Woodward says. "Helping folks select products more easily and helping them get it ordered more easily."

The ability to show figures and express data visually is a valuable option that a successful salesperson could use to make a sale, and using a pad of paper might not be quite as effective as

it once was.

"You're pretty much going to have to have a tablet or something with a spreadsheet on it, maybe even a projector, so that you can show up at a buyer's office, and you can show them

a spreadsheet, and you can have that conversation," says Steve Deist, partner at Indian River Consulting Group in Melbourne, FL. "That's going to be something that is not going to be optional."

Avoiding Information Overload Essential with Analytics

Demand for more data from all levels of business continues to increase as distributors see returns from engaging in analytics. But as distributors compile more and more data, the challenge of identifying what to do with it also continues to grow.

"[Analytics] is definitely a growing interest in business as you learn just how much information you have and we begin to see what we can glean from analyzing that information in different ways," says Phil Derrow, president and CEO of Ohio Transmission Corp., Columbus, OH. "There's a lot to learn and a lot that we can use to help serve our customers better; help target our activities better, manage our resources better and just run a better business."

The problem: "Most people don't know what to do with the data, charts and spreadsheets they already have," wrote one respondent to a recent MDM survey. "They just need to know what action they should take next."

"The question is, how much data do you need to be productive with analytics, and can you drill through the analytics to get to the heart of the data that you're trying to work on?" says Andy Berry, vice president of sales, wholesale distribution and equipment at Infor. The lack of clean, complete data is one of the biggest challenges for distributors. "I think data analytics is going to be a big, big part of our future. We're starting to really dig into big data and gaining insights, but we've got a lot more to do... You constantly have to be improving the accuracy of your data," says Joseph Nettemeyer, president and CEO, Valin Corp., San Jose, CA.

Even when companies recognize the need to clean up their data, many try to do too much all at once, says Jonathan Bein, managing partner of Real Results Marketing, Boulder, CO, which can quickly become an overwhelming and costly project.

"There's a learning curve, and some of them try to start with boil-the-ocean projects like master data management projects, when instead they maybe should be focused on cleaning up two parts of data: your customer data and your product data," Bein says. "And that's going to

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give you some large percentage of the value of doing the master data management project for a fraction of the cost."

Even clean data can be overwhelming, simply because there is so much of it. Distributors are also looking for their data to be less static. "We're really seeing a strong push, not just for pushing reports out there, but really pushing an interactive way to look at the data," Berry says.

While everyone agrees that this data needs to be accessible, what isn't agreed on is how people want to see the data, says Russ Mellott, senior vice president of sales for Epicor. Everyone wants transparency and speed, but a lot of work still needs to be done on how to provide the right information to the right people.

The use of dashboards, or software interfaces that display data that the distributor deems relevant, is increasing in the industry to address this challenge. These dashboards "try to make the information insightful – instead of data – and make it device-relevant," says Floyd Miller, CEO of SupplyPro, San Diego, CA.

Dashboards can also be custom-tailored for different segments of a business, creating more applicable data for each specific user within the company.

"We are in the process of completing a project to have internal dashboards that reach all the way down to the inside sales force and outside sales force. [Salespeople] will have financial and operational dashboards that are custom tailored to their performance," says David Parks, executive vice president of Hydradyne LLC, Fort Worth, TX. "So if you're an inside salesperson, you'll be able to go into the network and see all of the metrics that apply directly to you."

Dashboards also provide a real-time window into the status of the business. "A CEO doesn't want to have to log on to an ERP system to see how his business is running, nor does he want to have to wait until the end of the month to figure it out," Berry says.

Apart from how the data is presented, distributors are using analytics to analyze customer

data and assist with customer segmentation.

"The next step in the analytics process is to say, 'Why am I making money with these customers, and why am I not making money with these customers?'" says Brent Grover of Evergreen Consulting. After that, they can answer the question: What can I do about it?

By knowing your customers well, you can better deploy your sales force efforts to maximize profitability, says Don Schalk, president and COO of specialty building materials distributor C.H. Briggs Company, Reading, PA.

Diving deeper into customer data can also help uncover potential. "We are doing a lot more research on customer trends, and we can mine our own data to uncover gaps," says Bill Mansfield, senior vice president of sales and market-

ing at Graybar, St. Louis, MO.

Effective customer data can also help the customers themselves, if a distributor is willing to use that data to improve the customer's experience.

"We're always looking at product categories. We're always looking at how things are used. We're having those meetings with the customers and making sure that we're giving them the information they need to make good decisions in their business," says Matt Cohen, president of Replenex, Eden Prairie, MN.

"Business intelligence and analytics is the answer to the business improvement process," says Bill Scheller, CEO of BlackHawk Industrial, Broken Arrow, OK.

Making the Case for Millennials in Distribution

Distribution companies are losing more people than they are adding, according to Prudence Thompson, senior partner at Egret Consulting, Mundelein, IL.

"There is a large influx of companies that are looking across the horizon of their senior leadership team and realizing that collectively they're maybe five to ten years out from retirement," Thompson says.

However, the millennial generation poised to fill these position gaps and the companies looking to hire are finding it difficult to partner with each other. As the skills gap continues to grow, attracting young talent remains a challenge for distribution companies.

"We are trying to develop something new, innovative and fun that somebody actually wants to come and work at," says Heather Riggs, director of supplier development at BlawkHawk Industrial, Broken Arrow, OK.

A good example of that is what Grainger did in Chicago, says Brent Grover of Evergreen Consulting, Cleveland, OH. Although Grainger has a "beautiful suburban headquarters" in Lake Forest, IL, he says, the company created a different workplace in downtown Chicago.

"Why would they do that? Well, young folks probably like to be with other young folks, and they're congregating in the urban centers of our country now, not so much out in the suburbs," Grover says.

For wholesale distribution companies to get in step with younger generations, they may need to think differently about how they operate. Most distributors don't have the resources to open a new office and hire hundreds of

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employees to work on technology-focused initiatives. But they could launch other initiatives to provide a workplace where millennials would want to work.

The perceived millennial generation attitude toward a career is another hiring obstacle. "The millennials, the resumes I get now, you see four and five jobs, they are bouncing," says Jeff Haggard, vice president of sales of Haggard & Stocking, Indianapolis, IN. "When we hire, we want to hire someone for a career, not just for a job."

Without a shift in expectations, an employer may be hesitant to hire. A work history of short-term stints at different companies is viewed negatively by many employers. An employee who does not see an issue with changing jobs every three years for a better opportunity may find pushback from companies, according to Thompson.

"The employee of today is different than the employee of 35 years ago. Millennials have a different approach to life," says Paul Mills, CFO of Haggard & Stocking. "...I think it's just adjusting to those people, the younger people and what their expectations are."

Phil Darrow, president and CEO, Ohio Transmission Corp., Columbus, OH, says that the millennial work force is different, but they don't lack the same work ethic as generations before.

"I don't find young people less willing to work. It's just different," Darrow says.

"Contrary to what many people think, it's

not about salary or a title," says Jim Thompson of consulting firm NewM Group. "Millennials believe they've earned a right to sit at the table. They're looking for their voice to be heard and to be recognized that they have value."

If management provides that recognition and the opportunity to participate more fully in the process, they might be surprised by the results, Thompson says. They bring new ideas

and experiences to the conversation, and that can improve overall productivity. "They do have something to offer," he says.

Derrow also sees benefits from individuals' differences in the work place. Being challenged and adapting to differences can help a business become more productive, he says. "Maybe we can learn something from them."



Online Resources

Get a snapshot of other trends affecting the distribution industry at www.mdm.com/marketleaders.

Training, Technology Take Front Seat in Employee Retention Strategies

Finding the right people with the right skills to fill open positions can be a big challenge for distributors. "We have applicants; we're not sure if we have one that fully meets our needs," wrote one respondent to a recent MDM survey.

To counteract this deficit, more distributors have implemented in-house training and development programs. Distribution companies are starting to invest more money and time in future employees to ensure the return on investment is of equal or greater value.

"We spend a lot of money on training, we are always training," says Stewart Strauss, CEO of Strauss Paper Company, Port Chester, NY. "The question is, is it worth what we have invested? Are we getting the value back?"

Strauss emphasizes product training with his employees and uses a quiz system for evaluations.

"Every month there is a written quiz that goes out to customer service," Strauss says. "We want you to pass. The test is, can you get this done in a normal amount of time if a customer called in and wanted data?"

Training programs allow for employees to enter the industry without a background in distribution. Training also makes it easier for an employer to fill positions from a pool of people with limited skills.

"It's making sure that we have training programs in place to bring people into the organization and bring them up to speed, so we're not always trying to find people who already know what they're doing," says Phil Derrow, president and CEO of Ohio Transmission Corp., Columbus, OH.

Training, however, is not one-size-fits-all, as DXP Enterprises in Houston, TX, discovered. While traditionally they looked to hire new salespeople, not everyone is cut out for sales.

"We want them to tell us where they fit,"

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says James Webster, vice president, power transmission & bearings division, DXP Enterprises. "We train them and put them through all the different fundamentals and basics in our business, and then we ask, 'Where do you like to work?' We need good people in operations too."

For many companies, training involves investment in technology. Bill Mansfield, senior vice president of sales and marketing for Graybar, St. Louis, MO, says the company uses its technology platforms to track employee training and notify employees when new training is available.

The training system, however, is not only for onboarding new employees. Mansfield says it helps develop employees at all levels within the company.

"It really helps us track our goals, identify development needs and keep our leadership succession plans on track," he says.

Developing training programs can be time consuming and expensive, though, making it a challenge for smaller or mid-sized distributors. Associations, such as the National Association of Electrical Distributors and the Industrial Supply Association, are trying to help members overcome those barriers, however, by providing online training programs. These association-provided "learning centers" cover a broad range of topics, from the basics of Microsoft Office to management training.

Distributors are recognizing that more engagement in all levels of employment will help them find the right people and keep them. Providing new content to learn about and pushing for further potential can support individuals' growth and expand on a company's profit margins.

Better Inventory Management Through Data, Collaboration

In order to stay viable in an increasingly competitive market, manufacturers and distributors are working more closely together to better manage inventory. "We are seeing a lot more attempts at collaborative cooperation in forecasting and planning between suppliers and distributors," says Jon Schreibfeder of Effective Inventory Management, Inc.

Budgeting, or "wanting to know precisely how much inventory a distributor will have over the upcoming 12 months," is becoming more important to the partnership, Schreibfeder says, because manufacturers want to manage their investments in distributors.

Distributors also want more information from their vendors. "A lot more people are very interested in vendor evaluation, tracking vendor performance, using vendor performance metrics in negotiations with vendors," Schreibfeder says. "Also, using these metrics and the results of the evaluation to work with the vendor to improve their performance."

Demand for inventory management services continues to grow, with nearly half of the respondents (47 percent) to a recent MDM survey indicating an increase this year. "Managing inventory, sourcing and fulfillment are core competencies of distribution," one respondent wrote. And offering the option can help deepen the relationships within the industry by improving the data that is shared.

"We are working with some of our suppliers on vendor-managed inventory, as well as working with them to share information about our sales to our customers so we can better manage the supply chain and position inventory a little bit better and increase service levels from where they are," says Don Schalk, president and COO of specialty building materials distributor C.H. Briggs Company, Reading, PA.

Tightly managing inventory is critical in today's business environment, Schreibfeder

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says. "We are seeing a lot more emphasis on monitoring and managing firms' total inventory investment." To do this, many distributors are moving to centralized distribution centers or using warehousing as a freight-forwarding station rather than a stocking facility, Schreibfeder says.

While centralized distribution centers are on the rise, it's not the only solution, says Phil Derrow, president and CEO of Ohio Transmission Corp., Columbus, OH. "I see trends going in both directions," he says. "You see some suppliers really emphasizing central warehouses and having everything, moving away from more tightly managed inventories. And I see other suppliers moving the other direction, and emphasizing logistics, to get product to market, from a variety of sources rather than having it in their own warehouse."

In either case, distributors are improving their internal inventory processes. "For us, it's some of our own internal inventory management; putting ourselves into a position that we're able to do a little bit better job with some forecasting for our own purchasing," says Don Fritzing, president of Singer Equities, Glen Burnie, MD.

Distributors are also looking to make smarter inventory decisions through the use of analytics and technology. "We are seeing people really pay attention to the money invested in inventory," Schreibfeder says.

"It seemed that vendor-managed inventory was kind of a buzzword in the early 2000s," says Bob Smith, president and CEO of IMARK Group. "Then all of a sudden it just seemed to die off. But now it seems to be back up again. It's clear that the well-run distributors are really honed in on their inventory management."

Vending Initiatives Become More Deliberate, Strategic

Despite the hype over the last couple of years, most distributors are getting smarter about what they offer through vending services, rather than blindly rushing into offering a vending service. This has caused the explosive growth of the market to cool off a bit, says Steve Deist of Indian River Consulting Group.

"I think the whole vending thing has plateaued," Deist says. "At this point, customers are relatively well educated on the benefits. In a

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lot of cases it's really good fit, in a lot of cases it's not a good fit and most of the hanging fruit has been picked. So that's why it's peaked."

For those that are continuing to pursue vending, it is important to get smarter about why vending is a good solution.

The intense customer demand that drove many distributors into the vending space may

have been a response to the hype from larger companies making the offering, not actual demand, says Brent Rakers of Wunderlich Securities. "By Fastenal and others pushing the vending premise and supporting this vending premise of customers, I think more of the customers were talking themselves into this vending solution as well," he says.

"Fastenal is driving the market and literally driving demand and creating market category," says Floyd Miller, CEO of Supply Pro, San Diego, CA. "Their strategic investments and concentrated efforts are helping make vending a part of the manufacturer's solution and helping to evolve them into today's McDonalds of vending."

Fastenal's pull back and reevaluation of its vending offerings has led other companies to do the same, says Matt Cohen, president of Replenex, Eden Prairie, MN. "At least in our territory, Fastenal was driving so much of that. Fastenal has pulled back," he says. "They were going into the wrong users, there wasn't the pull-through that really was supposed to happen; people started to realize that... the ROI wasn't there on all applications."

It all comes down to knowing how it fits into your company's business model, says Chester Collier, senior vice president of global distribution for manufacturer Walter Surface Technologies, Windsor, CT.

"Vending is not a total solution, and it can't be a total solution," he says. If a distributor is considering including vending machines in its inventory management programs, it has to be a part of a well-thought-out package that includes many other options, he says.

"It is going in and listening to a customer on what they need inside their operation, and then responding with a customized solution for them," says Bill Scheller, CEO of BlackHawk Industrial, Broken Arrow, OK. "... Everybody will take a free vending machine."

One way that distributors are being smarter about their vending offerings is through integration with internal processes, such as supply chain and ERP systems. This kind of shift in thinking is driving a new way of looking at vending.

"There has been this evolution from vending to looking at inventory control solutions, as they are required to integrate better and more robustly into the supply chain and ERP systems," SupplyPro's Miller says. "From a trends perspective, there is an evolution from the machine being an island and literally sitting there as an individual element in the manufacturing process to being more integrated into the systems and the strategic infrastructure of the manufacturer."

There is a growing gap between those who are truly invest in their vending programs and those who are just running a program because it's a hot-topic item. "It is becoming a growing point of difference, as you see more strategic and sophisticated partners separating themselves from the more one off, more tactical partners," Miller says.

One of the ways that these more strategic vending programs are being differentiated is through the use of sensor technology to help manage the inventory in the machine.

"When the limited quantity of an item falls beneath the minimum, the distributor is alerted so it can resupply the end customer, so that the end customer doesn't begin to look at other suppliers of that product," says Rock Rockwell, CEO of eTurns.

Beyond quicker turnarounds, these sensors can also help track product sales information, providing better data to both the distributor and the customer, Rockwell says.

The machines can do a full physical inventory two to three times a day, a service that couldn't previously be done due to the cost of labor that this service would require, says Rockwell.

Greater Care Required for Product Expansion

As customers look to get more products from fewer distributors, the challenge of finding the perfect balance between product and inventory is becoming more challenging. "It's a chicken or the egg thing. They need to expand the products they offer, but they also need to be leaner on the inventory side," says Roger Woodward, president of Alliance Distribution Partners LCC, a master distributor in Gallatin, TN.

The result is that many distributors are taking a more strategic and balanced approach

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to making sure that where they expand makes sense for their companies.

"I've never found it productive to just jump into something new because it's something new, that's unrelated to what we already do. I think that diminishes the impact of our efforts, I think it distracts people from what they are good at," says Phil Derrow, president and CEO of Ohio

Transmission Corp., Columbus, OH. "While we are always looking to expand our reach with customers and add value to them in different ways, if we were selling soap, we wouldn't be likely to suddenly start selling bearings. And vice versa. They're not related."

The perception that expanding a line card to include jan-san or safety products is easy often comes from focusing only on commoditized items, such as toilet paper or office products. While those may make sense for any distributor to include – "They have to buy their office products somewhere and they might as well put it on the same PO as their hammer and their respirator," says Jessica Yurgaitis, vice president of sales and marketing for Industrial Supply Company, Salt Lake City, UT – many of the higher end products aren't a fit for that type of commoditization, says David Gordon of Channel Marketing Group.

Some items require specialized knowledge or training, he says. For safety items, it's not just about a product; people's lives that could be on the line.

And just because a distributor can carry something doesn't mean they should, says Steve Deist of Indian River Consulting Group. If companies approach product expansion from a "Hey, let's find more stuff to sell" approach, "you're typically not going to be very success-

ful," he says. "If you approach from the customer angle and say, 'What are some things that the customer would love us to be able to offer, one stop shopping on or all in one package or all together?'" that's where companies can succeed.

For one, commoditized products are often more susceptible to price wars, says Ted Stark, president of Dalco Enterprises, a distributor of facilities maintenance solutions based in New Brighton, MN. If everybody has the exact same thing, customers are logically going to go where they can get the best price, he says.

Secondly, because many of the other products, such as safety gear or automation products, require specialized knowledge, distributors have to recognize that they will have to invest in training to be truly effective in those markets. It's not just about providing the product.

"Safety's now about 30 percent of our overall business and growing, Yurgaitis says. "It's a place where we can be a real value to our customers and help them with OSHA requirements standards, so there's a human element in why safety is growing for us."

Product line expansion will continue as more distributors keep looking for ways to get more of the customer's spend, but taking the time to really evaluate how the expansion will proceed will be the key to success, Deist says.

Acquisition Activity to Pick Up in 2014

While the last decade has been marked by heavy consolidation across industries, 2013 was a quieter year. Even distributors that have been highly active consolidators, such as Airgas and Sonepar, seemed to keeping their heads down a little more.

"The prevailing slow-growth environment was quite possibly limited some of the M&A activity in the last 6 to 9 months," says Brent Rakers of Wunderlich Securities. "There's still definitely a consolidation interest. ... There's a lot of interest still in expanding your product set and deals that expand your customer set."

That said, a few large deals in 2013 changed parts of the landscape for 2014. MSC Industrial Supply acquired Barnes Group's North American distribution business, and Grainger made advances into newer categories such as safety.

Industry-watchers expect consolidation trends will accelerate as strategic buyers build on multichannel models and invest in new tools that help them drive relationships with suppliers and customers across multiple locations. "We continue to see strong activity across the distri-

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bution space," says Jason Kliewer, Managing Director for investment banking firm Robert W. Baird & Co.

Private equity firms also continue to be active in distribution, Kliewer says. "Large distributors tend to command a relatively small percentage of their total addressable markets, leaving an opportunity for private equity firms to invest and build consolidation platforms. These sponsors help to grow these businesses ahead of an eventual sale to another private equity firm, a strategic buyer or an IPO."

Distributors also continue to look overseas for growth as suppliers and customers focus on building global supply chains. "Around half of our sale assignments in recent years have included an international buyer or seller," Kliewer says.

Lending markets are strong, Kliewer says, which drive valuations upward. But while M&A markets are generally strong, Kliewer says there's a scarcity of industry leading distributors currently available in the market.

Engman-Taylor Creates Cost Saving Teams

Distributor pays employees to save customers money

Engman-Taylor Co. Inc., Menomonee Falls, WI, was selected as an MDM Market Mover for its three-pronged approach to providing cost savings and value-add for its customers.

Engman-Taylor Company Inc., Menomonee Falls, WI, has woven cost savings and value-add into the culture and structure of its business.

The industrial distributor and integrated supplier of cutting tools, assembly and power tools, abrasives, gauging equipment and general mill supplies has even trademarked its approach to saving customers money in its Cost Circles program developed in 1994.

"The key driver for us is cost savings for the customer," says Jim Mueller, the distributor's vice president of operations.

Cost Circles takes a three-pronged approach, examining and reducing costs in manufacturing, administrative and price circles for the customer. Mueller says that if a company focuses on just one of those, the impact will be small. "The maximum impact is if you focus on all three," he says.

Due to the often shorter-term nature of savings in the administrative and price circles, Engman-Taylor has invested the most in the manufacturing realm, dedicating teams known as Customer Cost Savings Teams that operate on-site and in the distributor's in-house Solutions Centers. The teams are built of engineers and technical specialists.

The distributor's applications specialists form an autonomous technical support group. "Our specialists will look at all possible manufacturers and choose the best solution for the project. It allows us to provide autonomous support that we really believe is important."

Solutions Centers allow ETCO to test products in-house before applying them at the customer sites. And whenever possible, the distributor brings customers to the Solutions Center.

In one case, a customer experienced an employee injury during a loading process. The distributor brought some of the material into its facility and simulated a material handling solution for the problem that caused the injury. The customer bought the equipment, which was then installed.

Price becomes less of a factor when Engman-Taylor can provide a real solution to a real problem, Mueller says. "It really strengthens

2014 MDM Market Movers

Distributor: Engman-Taylor Co. Inc.

Headquarters: Menomonee Falls, WI

Leadership: President & CEO Rick Starr

Details: Industrial distributor and integrated supplier Engman-Taylor trademarked its Cost Circles program, reducing costs for customers in manufacturing, price and administration.

that relationship," he says. "It solidifies it."

Engman-Taylor has also integrated vending programs into its solution for customers. A Cribmaster distributor for more than two decades, Engman-Taylor takes the same approach to that service as it does to the rest of the business. "You don't just want a vending machine in the corner that's telling you when to order something," Mueller says.

Engman-Taylor uses what it calls a "What's Used Where" analysis for its customers. The analysis helps the distributor understand the layout of the plant, which products are used where and in what quantities. The analysis is done at the start of a program, but he says it has to be monitored throughout. "You're never done," he says.

Tracking and communicating cost savings is critical. The distributor developed a program to do this: a cost reduction documentation software called CODEX. Each month, the distributor reports to customers on savings, as well as other metrics it tracks. Increasingly, the distributor is also implementing dashboards that allow for the posting of live data to customers through a Web portal.

"I always tell everyone that I never want a customer to come and ask me what we're doing for them," Mueller says. "I want it to be in front of them constantly so they never ask themselves: 'What are you guys doing for us anyway?'"

To drive this, on-site engineers are paid a bonus, or "reverse commission," on savings they find and implement for customers. A solution may even cut Engman-Taylor's sales on a product by half.

"The reality is, that's how passionate we are about cost savings," Mueller says. "We realize that is how you keep the customer."

Customers are operating with a lean work force today, he says. "They are leaning more and more on us to come in and assist them. That's what we're doing."

Capitol Coffee's Proactive Problem-Solving

Investments in tech, product line help keep distributor ahead of the curve

Capitol Coffee, Raleigh, NC, was selected as an MDM Market Mover for its investment in e-commerce, product line expansion and a unique ordering/concierge service.

The mantra "How can we do it faster, better, cheaper?" has driven office supply distributor Capitol Coffee's push for continuous improvement since the company's founding in 1979. Capitol, which started out as an office coffee distributor, now sells "everything from the bathroom to the break room, under the sink, in the fridge and around the coffee brewer," CEO Charles Brunson says, and offers a unique concierge service to keep its customers stocked at all times.

The push for product line expansion started very early in Capitol's history, when founders Buddy Brunson and John Scott were making sales rounds and noticed a lot of other office products at their customers' locations.

"Being the entrepreneurs they were, they would ask, 'If we had a good price on copy paper, would you buy it from us?'" Charles Brunson says.

The answer was a resounding yes, which led to Capitol expanding its SKU offerings. However, Capitol was using a "rolling warehouse" inventory method. Trucks would be loaded with products, sent out to customers and have products taken directly off the back as orders were placed. This limited the catalog that Capitol could carry and negatively affected service.

If a customer were to place an unexpectedly large order of coffee filters, for example, coffee filters would be out-of-stock for the rest of their customers that day. This inefficiency led Capitol to move from a "rolling warehouse" inventory model to what it refers to as "pre-write."

The company would have someone run out and write the orders, bring them back to the office, then have another person deliver them, allowing Capitol to do twice as many orders, Brunson says.

This proactive inventory approach led to Capitol's concierge program, a higher-service, vendor-managed style of inventory. With the concierge service, a member of Capitol would "walk into the [customer's] break room, clean all the equipment, then... stock all the different dispensers and whatnot that we service for them," Brunson says. "Then, they would take an order and a delivery specialist would follow two days

2014 MDM Market Movers

Distributor: Capitol Coffee

Headquarters: Raleigh, NC

Leadership: CEO Charles Brunson

Details: Capitol Coffee began as an office coffee distributor, but quickly expanded to provide more products and services to its customers with its "concierge" service.

later with the order, and deliver it and put it away, and if need be restock again at that time."

While the concierge service was popular with Capitol's customers, it created some new challenges for the business. The concierge had to go to the office, download that day's route information from the company's database, enter orders on a handheld device while on the route, and then return to the office to upload orders back into the database.

"That caused a hiccup in our program, because we could not order that product fast enough," Brunson says. "Just-in-time ordering wasn't a possibility for a lot of products, and we had to stock a lot more of those items."

There were also issues with technology compatibility. Capitol used an industry-specific software to process orders, handheld devices to input them, a SQL program to manage all the data, different software to handle back-office functions and Quickbooks to manage payroll and financials.

Capitol decided to integrate all of its processes under a single NetSuite platform. This investment allowed the company to streamline its inventory, as well as update its e-commerce capabilities.

Prior to upgrading its platform, 3 to 4 percent of customers placed orders through Capitol's Web interface. Now nearly half of the company's orders come via the Web or email, Brunson says.

Brunson sees technology investments as critical to remaining viable in an increasingly competitive marketplace. "Staples has embraced online ordering – and all the office supply guys have – so they've definitely got that piece down," Brunson says. "If you don't have it, you lose the business.

"Nobody thought it was important for a coffee service to have online ordering available," he adds. "Let me tell you, they're struggling now and trying to play catch-up."

Redwood Plastics' Online Success Story

Online sales and marketing program pays big dividends for plastics distributor

Redwood Plastics, Vancouver, BC, was selected as an MDM Market Mover for its focus on reaching its customers through online channels, even before the distributor had an effective e-commerce platform.

When Redwood Plastics' first attempt at building its online presence through an e-commerce site failed, it would have been easy to backpedal and go back to business as usual. After all, five years ago was a different online world – particularly for distributors. Online wasn't as critical then. But the industrial plastics distributor saw it as an opportunity to engage with customers even without that purchasing portal.

With that first e-commerce platform, "we just didn't do it properly," says Angela Rodenburgh, director of marketing. "We didn't go all in and do the research at the forefront.

"But we saw an opportunity to do a lot of conversations, SEO and gain the searchability results from an online standpoint," she says.

Because Redwood's competitors weren't embracing it, it also offered an opportunity to really differentiate this seven-branch distributor from some of its much larger competitors.

The philosophy behind the strategy is to increase engagement, and in turn conversions, through digital platforms. By opening up the lines of communication, it establishes Redwood as the go-to place for questions about industrial plastics. "It's not just broadcasting messages about ourselves," Rodenburgh says. "Probably 80 percent of our time is being engaged by answering questions on LinkedIn, on Twitter or on another site. Only 20 percent is broadcasting."

No one really cares when a company says how awesome they are, she says. So the focus needs to be on something more practical to stand out and get a return from the time investment in an online strategy, because measuring that return can be a challenge.

"With B2B it's a different ballgame," Rodenburgh says. With B2B, customers tend to be immediate buyers and very open to telling companies where they saw a certain promotion. With B2C, she says, it's a lot rarer to hear, "Hey, I found you on Twitter."

The efforts have paid off. The company recently opened a department that solely uses online platforms to contact customers. Customers can email questions or talk to inside sales reps via online chat or video conferencing. And inside sales people can provide detailed responses

2014 MDM Market Movers

Distributor: Redwood Plastics

Headquarters: Vancouver, BC

Leadership: President & CEO Pat Curley

Details: Redwood Plastics created an online strategy to engage customers in as many ways as possible. That strategy has led to increased sales conversions and company expansion.

to requests for quotes received via email – often better responses than what field sales reps could provide, Rodenburgh says.

"Some of the requests that come in may seem really out there for our field sales reps, and many of them just don't want to deal with them, so they don't really," she says.

And the company is already planning to expand the department due to growing demand.

Online also allows for more targeted marketing and messaging across the varied markets and sectors in which Redwood operates. "We're not selling the same things in our Vancouver branch as we'd sell in Michigan," Rodenburgh says. "So why would we want the messaging to be the same?"

The online opportunities aren't just external, either. The company has an employee blog that is available to the public where hiring and event news are posted. "It helps build a sense of community between our employees and our customers," Rodenburgh says. "It shows that we're real people too, not just salespeople."

It's also a recruitment tool, she says, because it helps to highlight the culture at Redwood for potential employees who may not know much about the company otherwise.

Redwood Plastics is building a new e-commerce site that is expected to launch by the end of this year. "This time we're going all in," Rodenburgh says. "We don't want to just be an online inventory store." The site will focus not only on the stock shapes available, but allow customers to customize products online or upload drawings that experts at Redwood will then use to create custom products.

This is how people are looking for information now, Rodenburgh says, and as the generations shift, the numbers using online tools first and most will keep growing. "If you're not where they're looking, they're not going to find you," she says. And if customers don't find you, you simply won't be there for long.

DGI Supply: Building on the Core

Industrial distributor focuses investment internally to strengthen company

Industrial distributor DGI Supply, Wheeling, IL, has focused much of its investment in recent years on building out its internal infrastructure and on providing a better training program for new employees - all with a focus on strengthening its core. Lindsay Konzak spoke with Bill Henricks, COO; David Crawford, senior vice president; Mickey Davis, vice president of sales & marketing; and Todd Mills, director of marketing services, to learn more.

MDM: How's business going so far this year?

Bill Henricks: So far so good. We're up a little over 5 percent. It's a combination of organic and acquisitions. We've slowed down a little on the acquisition side. We're still getting and enjoying good growth from acquisitions, but it's a little bit of everything.

MDM: Are you optimistic?

Henricks: It's guarded optimism. We're still working on a lot of infrastructure projects and making our core stronger. We think that insulates us to a certain extent from some competitive pressures to the extent we can make our company a better company.

MDM: What is driving your acquisition strategy? What do you look for?

Henricks: What we've looked for traditionally is additional scale in certain geographies and in certain end-user verticals and products. And so acquisitions have been good for us, and we've made several over the past several years. We've made one to three acquisitions every year for about 10 consecutive years.

I think we're at the point where we've got a solid base, and now we're focused more on infrastructure projects related to our distribution center network, our e-commerce platform, our inside sales platform, our training and development, and we're having some success there.

Acquisitions have been great, but perhaps on some level a healthier sign is that the organic business is strong and if you can accelerate that, that's healthier.

David Crawford: Our customers are still looking for value from distributors. Our team has done a really nice job of documenting the value we bring our clients. We had over \$50 million

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in documented productivity improvements in 2013. That is a requirement that our customers have from us. If you're going to differentiate yourselves ... the demands are changing as far as their expectations in the supply chain. The expectations on bringing value hasn't changed.

... It's still about bringing value to our customers. That's how we're getting the organic growth.

MDM: Tell me about the new website you are about to launch in 2014.

Todd Mills: Obviously with a new website, you want to have a good e-commerce solution. We're trying to differentiate ourselves by making it more user-friendly, to make it a place where our customers can not only come to buy product but also come to find more information on our products and our premier partners. ... We are really focusing on application videos and product recommendations, and trying to do additional things for our premier partners to highlight them. They're excited about this.

... In addition, for the customers, we want to make sure we have a website that says what makes DGI Supply unique - what differentiates us, so we're featuring all of our services. All the stuff DGI Supply does with productivity, we have a home place for our customers to see what we do beyond just selling online.

We're also going to feature tools for our customers - machining calculators, industry links - making our website a resource for customers.

MDM: With that, you also have your sales force carrying iPads in the field.

Mickey Davis: There are a couple of different things going on with the iPads. One is we use the iPads to track our CRM data back to our sales portal - and it's easy for them to access the information and provide the information on the go instead of waiting until the end of the day.

... They can also check pricing, orders, back orders, shipping dates - any kind of information associated with an account can be pulled up in front of a customer immediately and that eliminates getting back to them in a few days. It's immediate. The accounts like the immediate

response. And we feel it adds a lot of value at this particular point in time.

MDM: In 2013, you launched a new focus on national accounts business.

Crawford: The national accounts was launched based on what we have seen from our customers looking to leverage their purchases with fewer suppliers. We looked at that as a strength of our organization; when you have 34 locations in the U.S., eight in Canada and seven in Mexico – it's a differentiator. ... We had a number of customers that have moved their manufacturing from the United States to Mexico, with that there has been a nice handoff. Leverage is a big aspect of it.

All of these customers, even though they have manufacturing facilities throughout North America, they are still looking for that local presence.

Davis: One of the things that helped escalate the national account program was our ability to use automated procurement solutions for different accounts that have actually referred us up to the corporate headquarters to expand the program throughout all their locations.

MDM: Tell me about the infrastructure investments you're making. What's driving that?

Henricks: It's a similar notion as the national accounts plan – around the corner, around the world. Traditionally local presence in a lot of markets with a sales office and a decent complement of inventory.

Increasingly the e-commerce world is wanting fewer shipments. So we've added this layer of logistics infrastructure to support the local sales offices, and now they carry just a smattering of customer-specific inventory, supported by DCs. We went live with Carol Stream (IL) in March, and we're going to be replicating this model to three other regions in the United States and adding infrastructure in Canada and Mexico, as well.

These are the break bulk opportunities to support the local supply centers, but are also important to support the e-commerce customers and our traditional full-line customers. The notion is fewer shipments and faster delivery. We're able to get to scale with our logistics partners to the point where we can ship next day from these DCs in the contiguous United States and Canada.

MDM: Are you seeing growing demand for

faster shipments and shorter lead times?

Henricks: I'd say so. It's an on-demand world. I think that's a general statement that inventories are in general down. They're looking to push more value-add on their supply chain partners. That is a trend that works to our benefit particularly as it relates to the P in MROP – the production consumables. They want to keep their machines fed.

MDM: You have recently developed an online training program. What is your focus with that?

Davis: We have a program in place where we're bringing on new hires at what we consider to be an aggressive pace. It's an aging industry, and it's becoming increasingly hard to find people with industry knowledge to come into the business.

That leads us to the training program. It is an online program and works off Symbaloo. We have a specific type of training we would like new hires to go through, but also our account managers. The first week of training is an introduction to DGI Supply. The second week is an introduction of DGI administrative policies to get you acclimated to the company.

I won't go through all the 40 training modules. ... A critical part of the training we use is the Industrial Supply Association learning center.

The training goes on for the initial first 12 months new hires are on board. They are training every week. ... While they are training, they work under the mentorship of a senior account manager in the field. ... We feel like we can escalate, elevate and increase their overall introduction into the industry and therefore into DGI Supply and the marketplace.

MDM: It sounds like you are focused on the organic part of your business and building on what you have in place to position yourselves growing forward.

Crawford: It's about the customer experience. If you make it more enjoyable and make it easier for clients to buy products from you, and source from you, deliver quicker, more accurately and more efficiently, and you help them manage inventory through supply chain solutions and work with them from a national accounts perspective. ... We feel like we have a focused solution that will help our customers save money and keep jobs in this country.

F.W. Webb Takes Diverse View of Market

Changing customer base leads distributor to expand into diverse sectors

Diversity is a key element to F.W. Webb's continued success. While maintaining its position as one of the largest plumbing, heating, HVAC and PVF distributors in North America, the company actually serves 14 distinct disciplines from plumbing to pumps to high purity process components. And, according to President Jeff Pope, they'll expand into additional disciplines if opportunity arises. Editor Jenel Stelton-Holtmeier spoke with Pope about how F.W. Webb has evolved to meet changing customer needs and the direction the company is going.

MDM: How's business?

Jeff Pope: Business has been good for us. We're up about 8 percent over last year, and we have an aggressive plan for the rest of the year. We're on target for now, and we have six and a half months still to go. We're trying to get double-digit growth by the end of the year.

MDM: The industry keeps changing. What are some of the key drivers you're seeing?

Pope: Customers' changing needs, but those are always changing. For example, vending machines seemed to be a driver that had come, but now seems to be waning, at least in our area. So now it's back to just doing the blocking-and-tackling of trying to have the products when the customers need it and get it over to the customer just in time for them.

MDM: F.W. Webb has been focused on integrated supply over the last several years. What role does it play for the company and the industry?

Pope: Integrated supply for us has grown a lot. We seem to be in more of the "partner mode" for our customers than we have been over the last few years. Customers are going in that direction, so we've had to adapt. Industrial accounts seem to be using that more and more these days. Whether it's a phase or not, I'm not sure. But for now we're a partner and a supplier.

MDM: F.W. Webb serves a very diverse set of sectors. Why so many different directions?

Pope: It helps because you have economic cycles in all the different markets. So if one is down, it's good to be in many others to offset that.

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It also helps with meeting customer needs. With an industrial account, we're able to provide them not only with the MRO and PVF material, we also have a sprinkler division so we can fabricate, thread, cut and weld grooved pipe for their specific needs. We have a plastics division, so we have all the industrial pipe, valves, fittings, pumps, gauges, etc.

We have a High Purity Process Division to provide the products in that world. Valve actuation – we play a role in that market through our Process Controls Division. This group includes instrumentation where we can make panels and skid-mounted systems for customers. We also do safety relief valve repair through this division.

MDM: What drove your company into these diverse areas?

Pope: Our customers did. In New England, it used to be that paper mills were the major customers for us, but now they're not as big as they used to be. So we've adapted. And there are markets we can get into where we might not be the biggest fish in the pond but there's a lot of opportunity that we can take advantage of – that's where the biopharmaceutical effort came from and many of the other areas, as well.

MDM: Has most of the expansion come from acquisitions?

Pope: It has been a mix. The sprinkler division started through acquisition, but that occurred over 30 years ago. It has been more of an organic development.

Our High Purity Process Division was not an acquisition. We saw an opportunity in biopharmaceuticals and added people that knew that industry. We set up shop in one of our branches and provided them with the inventory and resources they needed to play in that market. We've since grown that team to service other high purity industries such as food & beverage and nutraceuticals.

Others, such as valve automation, safety relief valve repair and thermoplastics were through acquisition.

We recently added a person to focus on the

power market, an area we're just getting into.

MDM: Do you plan to continue expanding the areas you operate in?

Pope: Sure, as the opportunity comes. We're in a lot of places that have a lot of opportunity for growth. We have more than 80 locations throughout the Northeast, with New Jersey and Pennsylvania being our latest entries.

MDM: F.W. Webb recently upgraded its WebbCONNECT platform. What role does it serve for your customers?

Pope: WebbCONNECT is our platform for entering orders online. Our challenge is that we have around 180,000 SKUs that we have to get coded in the system, and we have a data governance group that has to put the words to it to describe all 180,000 items. It's an ongoing process, too, because manufacturers keep adding products.

It's an ongoing, five-days-a-week effort to populate our website with easy-to-understand products, pictures and easy-to-enter orders. We've been at the data governance part of it for three or four years, but we're still just scratching the surface.

We first launched WebbCONNECT about five years ago. I think the Internet has become more user-friendly than it was back then, so more customers are going right online to find stuff. And we want to make it as easy as possible to find Webb and to buy stuff.

MDM: How important is e-commerce to F.W. Webb?

Pope: It will be very important, even though right now it's just a small piece of our overall sales effort. We certainly expect it to grow, that's why we have the data governance team. That's why we have an IT department that's adding benefits and features and products, trying to figure out on a constant basis what's the best way to present it for customers to order product. How easily can we get them to where they need to be?

But there are a lot of other important ele-

ments for our customers. About 22 percent of our business is sourcing products that aren't on our system. So customers have needs, they call us up at one of our more than 80 branches, and we'll spend 22 percent of our time finding those products. It goes back to being a real partner to our customers.

MDM: Are there any other challenges with e-commerce?

Pope: Photography is a challenge. People want to see pictures of the products naturally, and when you have 180,000 products, that's a lot of pictures. It's a matter of hoping the vendors have quality photos, and if not, we have to find a different way of doing it. We had a full-time product photographer for a few years. Now we're doing custom photo work on a case-by-case basis.

In the plumbing world, we have things like fixtures and faucets that the homeowners want to see, too, like a virtual showroom. So we want to make sure those photos are a little more dynamic than the basic photos.

MDM: How do you identify your customers' needs?

Pope: We conduct customer focus groups to listen to what our customers want and try to anticipate what they are going to want down the road.

We have customer advisory councils that help, where we ask customers as groups what they would like to see in an ideal supplier. Through that we implemented a call center to provide customers with answers more quickly rather than having to sift through everything online.

The challenges they bring up are a lot of the basic ones: Time is the biggest challenge. They want to talk to the person they call right away – they don't want to wait on hold. They want to get in and out at the counter right away, but they also like talking to our people at the counter. We try to provide both experiences for the customer.

F.W. Webb will be 150 years old in 2016. We've gotten here by listening, responding and changing with our customers needs.

2014 MDM Market Leaders: Annual Lists of the Top Distributors

Top 20 Industrial Distributors

1. Wolseley Industrial Group: \$12.9 billion
2. W.W. Grainger: \$9.4 billion
3. HD Supply: \$8.5 billion
4. MRC Global Corp.: \$5.2 billion
5. Airgas: \$5.1 billion
6. Motion Industries: \$4.4 billion
7. DistributionNOW: \$4.3 billion
8. The Fastenal Company: \$3.3 billion
9. MSC Industrial Direct: \$2.5 billion
10. Applied Industrial Technologies: \$2.4 billion*
11. McMaster-Carr: N/A
12. Edgen Group: N/A
13. WinWholesale: \$2.2 billion
14. Sonepar Industrial: N/A
15. Interline Brands: \$1.6 billion
16. Wurth Group - Americas: \$1.5 billion
17. DXP Enterprises: \$1.2 billion
18. Kaman Industrial Technologies: \$1.1 billion
19. F.W. Webb: \$850 million
20. ERIKS (North America): \$800 million

Top 10 Electrical Distributors

1. Sonepar: \$7.7 billion
2. WESCO Distribution: \$7.5 billion
3. Rexel (US & Canada): \$6.1 billion
4. Graybar: \$5.7 billion
5. CED: N/A
6. Anixter: \$4.3 billion
7. HD Supply Power Solutions: \$1.8 billion
8. Border States Electric: \$1.3 billion
9. Grainger (Electrical): \$1 billion
10. Crescent Electric Supply: \$1 billion

Top 5 Power Transmission/Bearing Distributors

1. Motion Industries: \$4.4 billion
2. Applied Industrial Technologies: \$2.4 billion*
3. Kaman Industrial Technologies: \$1.1 billion
4. BDI: \$739 million
5. Wajax Industrial Components: \$365 million

Top 5 HVACR/Plumbing Distributors

1. Ferguson/Wolseley Canada: \$12.9 billion
2. Watsco: \$3.7 billion
3. Hajoca (incl. EMCO): N/A
4. WinWholesale: \$2.2 billion
5. Johnstone Supply: \$1.5 billion

Top 5 Building Materials Distributors

1. ABC Supply: \$5 billion
2. ProBuild Holdings: N/A
3. Allied Building Products: \$2.3 billion
4. Beacon Roofing Supply: \$2.2 billion
5. BlueLinx Holdings: \$2.15 billion

Top 5 Electronics Distributors

1. Avnet: \$25.5 billion
2. Arrow Electronics: \$21.4 billion
3. Future Electronics: N/A
4. TTI, Inc./Mouser Electronics: \$2.6 billion
5. Digi-Key: N/A

2014 Market Leaders

View the complete lists,
including the Top 40 Industrial
& Top 25 Electrical Distributors;
trends by sector; and the
2014 Distribution Trends Report at
www.mdm.com/marketleaders

Other Sectors Included Online:

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

*Calendar year 2013

Wolseley Sales Fall 0.8% in 3Q

UK-based Wolseley plc, parent company of Ferguson Enterprises, reported third-quarter sales of £3.1 billion (US\$5.2 billion), down 0.8 percent. On a like-for-like basis, sales were up 5.1 percent.

Trading profit for the half was £155 million (US\$260 million).

Growth was driven by strength in the U.S. and the Nordics, offsetting challenging conditions elsewhere.

Fiscal year-to-date, sales were £9.6 billion (US\$16 billion), up 1.3 percent from the year-ago period. Sales for ongoing operations were up 3.3 percent. Trading profit increased 6.5 percent to £505 million (US\$846 million).

Third-quarter sales for Ferguson, Wolseley's U.S. business, increased 0.5 percent to £1.7 billion (US\$2.8 billion). On a like-for-like basis, sales were up 9 percent. Sales improved in the blended branches, waterworks, fire and fabrication and B2C businesses, while industrial remained comparatively weaker.

Overall U.S. trading profit of £122 million (US\$204 million) was £7 million (US\$11.7 million) ahead.

Sales for Wolseley Canada in the third quarter were £156 million (US\$261 million), down 17.9 percent from the third quarter of 2013, down 1.6 on a like-for-like basis. New residential construction volumes were weaker, partially offset by continued infrastructure investment. Blended Branches grew modestly. Gross margins were ahead of last year and operating costs were tightly controlled. Trading profit of £3 million (US\$5 million) was behind £4 million (US\$ 6.7 million) from last year.

In the U.K., third-quarter sales of £451 million (US\$755.6 million) decreased 2.8 percent year-over-year. Like-for-like sales were down 3.5 percent. Trading profit in the period was £24 million (US\$40 million), remaining unchanged from the same period a year ago.

In the Nordic region, like-for-

continued on p.4 of this section

Distributor News

The Fastenal Company, Winona, MN, reported sales for May of \$313.5 million, an increase of 8.3 percent from the previous year. Daily sales increased 13.5 percent to an average of \$14.9 million.

HD Supply Holdings Inc., Atlanta, GA, reported sales for the first quarter ended May 4 were \$2.2 billion, an increase of 5.5 percent year-over-year. The company reported a loss of \$12 million for the quarter, compared to net loss of \$131 million in the first quarter the previous year.

HD Supply Facilities Maintenance opened a new distribution center in Tampa, FL.

Industrial distributor **Applied Industrial Technologies**, Cleveland, OH, has agreed to acquire **Knox Oil Field Supply**, San Angelo, TX.

France-based electrical distributor **Sonepar** has entered into a majority partnership with **Sun Power** in Malaysia and acquired **VaP** in the Czech Republic.

Sonepar has acquired **IESA** and **Melexa**, based in Costa Rica and Colombia respectively.

Airgas Inc., Radnor, PA, has acquired **Team Welding, Ltd.**, Houston, TX, which does business as **Technical Alloy & Industrial Gas**.

Airgas announced a price increase on bulk and packaged industrial, medical and specialty gases beginning July 1, 2014, or as contracts permit.

Grainger, Chicago, IL, reported sales for May increased 6 percent year-over-year. Results for the month included a 2 percent increase from acquisitions and a 1 percent decline from unfavorable foreign exchange.

Grainger plans to build a 1.3 million square-foot distribution center in Bordentown Township, NJ.

Air Products, Lehigh Valley, PA, named Seifi Ghasemi president and CEO, effective July 1.

Genuine Parts Company, Atlanta, GA, announced that **S. P. Richards Company**, the company's office products group, has agreed to acquire **Impact Products, LLC**, a provider of facility, janitorial and safety supplies.

Praxair Inc., Danbury, CT, started up a new packaged gas fill plant in Bismarck, ND, increasing its cylinder gases capacity in the Bakken shale oil formation region.

Praxair opened a new 600 tons-per-day air separation unit in Memphis, TN, expanding the company's ability to supply gaseous and liquid oxygen, nitrogen and argon in the southeastern U.S.

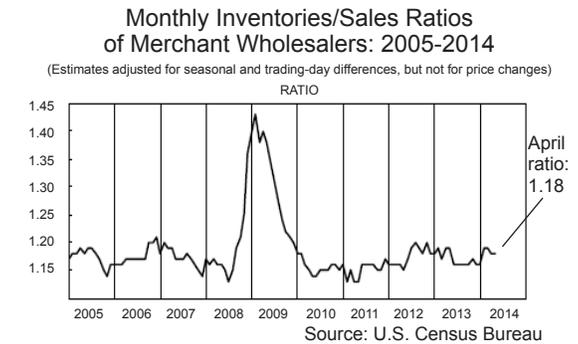
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**MARKETS
UPDATE
SUPPLEMENT
P. 2**

Monthly Wholesale Trade Data

Wholesale revenues in April were \$450.2 billion, up 1.3 percent from March and up 7.8 percent from April 2013. April sales of durable goods were up 1.7 percent from last month and were up 6 percent from a year ago. Sales of motor vehicle and motor vehicle parts and supplies were up 2.9 percent from last month. Sales of nondurable goods were up 1 percent from March and were up 9.4 percent from last April.

Inventories. Inventories were \$530.6 billion at the end of April, up 1.1 percent from March and up 6.7 percent from April 2013. April inventories of durable goods were up 0.9 percent from last month and were up 6.6 percent from a year ago. Inventories of nondurable goods were up



1.4 percent from March and were up 6.8 percent from last April.

Inventories/sales ratio. The April inventories/sales ratio was 1.18. The April 2013 ratio was 1.19.

Sales and Inventories Trends: April 2014

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	Percent Change Sales 3/14-4/14	Percent Change Sales 4/13-4/14	Percent Change Inventory 3/14-4/14	Percent Change Inventory 4/13-4/14
42	U.S. Total	450,186	530,591	1.18	1.3	7.8	1.1	6.7
423	Durable Goods	206,215	324,307	1.57	1.7	6.0	0.9	6.6
4231	Automotive	34,009	53,579	1.58	2.9	5.1	0.3	7.3
4232	Furniture & Home Furnishings	5,346	8,650	1.62	3.1	6.3	0.7	7.5
4233	Lumber & Other Construction Materials	10,026	14,922	1.49	1.8	3.8	0.1	6.6
4234	Prof. & Commercial Equip. & Supplies	39,398	40,907	1.04	2.4	6.7	0.4	4.9
42343	Computer Equipment & Software	22,758	18,464	0.81	3.4	9.3	3.0	3.5
4235	Metals & Minerals	13,212	27,795	2.10	-1.9	3.0	2.5	3.3
4236	Electrical Goods	36,884	36,570	0.99	2.3	8.0	2.8	4.2
4237	Hardware, Plumbing, & Heating Equipment	9,940	19,497	1.96	-0.5	4.5	1.7	3.0
4238	Machinery, Equipment & Supplies	38,882	95,287	2.45	1.7	10.9	0.4	11.7
4239	Miscellaneous Durable	18,518	27,100	1.46	-0.1	-2.8	-0.1	0.4
424	Nondurable Goods	243,971	206,284	0.85	1.0	9.4	1.4	6.8
4241	Paper & Paper Products	7,977	7,467	0.94	0.7	6.4	2.3	5.1
4242	Drugs	40,444	42,878	1.06	3.0	13.3	2.6	22.8
4243	Apparel, Piece Goods & Notions	12,388	24,810	2.00	-1.6	13.3	1.0	7.3
4244	Groceries & Related Products	52,450	33,824	0.64	1.2	10.2	1.5	4.0
4245	Farm-product Raw Materials	21,244	23,520	1.11	0.1	1.9	1.4	4.3
4246	Chemicals & Allied Products	11,057	12,443	1.13	1.1	8.3	0.8	7.6
4247	Petroleum & Petroleum Products	67,052	20,692	0.31	-0.1	14.6	0.4	-3.3
4248	Beer, Wine & Distilled Beverages	10,861	14,788	1.36	1.8	5.3	1.0	3.2
4249	Miscellaneous Nondurable Goods	20,498	25,862	1.26	3.1	-4.2	0.6	1.2

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.

News Digest

Continued from p. 1 of this section

Houston-based **GHX Industrial, LLC**, a subsidiary of **The United Distribution Group**, has acquired Harvey, LA-based **Hose Specialty & Supply Co., LLC**.

National Oilwell Varco Inc., Houston, TX, has completed the spinoff to its stockholders of its distribution business as an independent public company, **NOW Inc.**, operating as **Distribution-NOW**.

Pipe, valves and fittings distributor **MRC Global Inc.**, Houston, TX, has acquired **MSD Engineering Limited**, a distributor of valve and valve automation solutions to Southeast Asia.

MRC Global has agreed to acquire **Metron Holding AS**, the parent holding company of **Hypteck AS**.

Graybar, St. Louis, MO, a distributor of electrical, communications and data networking products and provider of related supply chain management and logistics services, has opened a new service center in Dallas, TX.

United Stationers Supply Co., a subsidiary of **United Stationers**, Deerfield, IL, has agreed to acquire **CPO Commerce Inc.**, Pasadena, CA, an

e-retailer of power tools and equipment.

HVACR/plumbing distributor **F.W. Webb Co.**, Bedford, MA, will open a new location in Allentown, PA, in May.

VEC, LLC, Charlottesville, VA, a distributor of datacom and security supplies, has agreed to acquire **Connect-It**, a datacom products and custom cable provider in Raleigh, NC.

Plastics distributor **Curbell Plastics Inc.**, Orchard Park, NY, has appointed Gerry Helbig as president.

Economic News

Wholesale prices decreased 0.2 percent in May, seasonally adjusted, the U.S. Bureau of Labor Statistics reported. The 0.2 percent decrease in prices for final demand can be traced to the indexes for final demand services and final demand goods, both of which also declined 0.2 percent.

Real gross domestic product for the U.S. decreased at an annual rate of 1 percent in the first quarter according to the second estimate

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Calculation of MDM Inflation Index for May 2014

	BLS Price Indices May '14	BLS Price Indices Apr. '14	BLS Price Indices May '13	% Sales Weight	Weighted Indices May '14 (1)X(4)	% Change May '14 Apr. '14	% Change May '14 May '13
1136 Abr. Prod.	575.3	578.6	556.0	19.1	109.88	-0.56	3.47
1135 Cutting Tools	497.8	494.0	488.1	18.9	94.09	0.77	2.00
1145 Power Trans.	802.3	802.0	798.5	15.4	123.55	0.04	0.47
1081 Fasteners	508.5	510.4	507.2	9.0	45.77	-0.37	0.27
1149.01 Valves, etc.	961.4	962.4	931.8	7.6	73.07	-0.10	3.18
1132 Power Tools	362.2	362.0	348.9	6.5	23.55	0.06	3.81
1144 Mat. Handling	580.8	579.4	567.4	6.2	36.01	0.25	2.37
0713.03 Belting	838.8	838.8	853.3	6.1	51.17	0.00	-1.70
1042 Hand Tools	784.6	783.6	772.7	8.1	63.55	0.13	1.54
108 Misc. Metal	477.4	477.2	476.3	3.1	14.80	0.06	0.24

"New" May Index	332.0	May Inflation Index	635.44	0.01	1.65
"New" April Index	331.9	April Inflation Index	635.35		
		May 2013 Inflation Index	625.14		

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

News Digest

Continued from p.3 of this section

released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.6 percent.

Manufacturing industrial production increased at a 2.1 percent annual rate during the first quarter of 2014 and is expected to grow 3.2 percent in 2014 and 4 percent in 2015, according to the Manufacturers Alliance for Productivity and Innovation U.S. Industrial Outlook.

New orders for manufactured durable goods in April increased 0.8 percent to \$239.9 billion, according to the U.S. Census Bureau. This increase, up three consecutive months, followed a 3.6 percent March increase.

April **U.S. cutting tool consumption** was \$175 million, according to the U.S. Cutting Tool Institute and the Association for Manufacturing Technology. This total was up 2.1 percent from March and down 3.3 percent from April 2013.

March **U.S. manufacturing technology orders** totaled \$391.5 million, according to the Association for Manufacturing Technology. This total was down 20.4 percent from March but up 9.8 percent when compared with April 2013.

Industrial production increased 0.6 percent in May after having declined 0.3 percent in April, according to the Federal Reserve. **Capacity utilization** for total industry increased in May to 78.6 percent.

The Conference Board Leading Economic Index for the U.S. increased 0.5 percent in May to 101.7. The **coincident economic index** increased

0.3 percent, and the **lagging economic index** increased 0.4 percent.

Privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,001,000. This is 6.5 percent below the revised April estimate of 1,071,000, but is 9.4 percent above the May 2013 rate of 915,000.

Construction spending in April 2014 was estimated at a seasonally adjusted annual rate of \$953.5 billion, 0.2 percent above March and 8.6 percent above April 2013, according to the U.S. Census Bureau of the Department of Commerce.

In the May Manufacturing ISM Report on Business, the **purchasing managers index** was 55.4 percent, an increase of 0.5 percentage points from April's reading of 54.9 percent, indicating expansion in manufacturing for the twelfth consecutive month.

Manufacturer News

European building materials supplier **Saint-Gobain** has acquired **Phoenix Coating Resources Inc.**, an aeronautic parts manufacturer in Mulberry, FL.

Diversified manufacturer **Actuant Corp.**, Milwaukee, WI, has acquired **Hayes Industries Ltd.**, Sugar Land, TX.

Actuant sales for the third quarter ended May 31 were \$378.2 million, up 9.9 year-over-year. Profit was \$50.6 million the previous year.

Wolseley

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like revenue of £444 million (US\$743 million) increased by 5.5 percent. Trading profit of £10 million (US\$16.8 million) in the quarter was £3 million ahead of last year.

Like-for-like revenue in France declined by 1.6 percent to £148 million (US\$248 million) as new residential construction remained weak. Trading profit of £3 million (US\$5 million) was £2 million below last year.

Like-for-like revenue in Central Europe declined by 1.8 percent to £152 million (US\$254.6 million). Trading profit of £3 million (US\$5 million) in the quarter was £6 million below last year.