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■ *MDM Interview*

Redefining Competitive Advantage

Author: People often 'cling' to advantages that have faded

In The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business, *Columbia Business School Professor Rita Gunther McGrath argues that it's time to go beyond the concept of sustainable competitive advantage. McGrath spoke with MDM staff writer Angela Poulson on how organizations can capture opportunities quickly, exploit them decisively and move on before they are exhausted.*

MDM: Tell me a little about the origins of this book.

Rita Gunther McGrath: The book had its origins in a profound sense of unease that I had that we really haven't made much progress in the field of strategy for a long time. Historically, strategy was about the search for superior performance and a thing called sustainable competitive advantage. And the idea was you found something that you did better than other companies in your industry and you threw up entry barriers like crazy, and you then got to enjoy the fruits of your advantage for a long time.

In more and more parts of the economy, that set of assumptions is quite dangerous. What it causes people to do is to cling too long to advantages that are starting to fade, and it causes people to make decisions that are really not suitable for the long-term best interests of their companies.

That got me started on a path of thinking about what would we do if we abandoned the idea of sustainable competitive advantage and what I landed on was the idea that we'd do lots of things differently. You'd hire people differently. You'd use different assets. You'd have different ways of budgeting. You'd have different disciplines around how you spend your money. And when you add it all up what you really have is a really different management approach.

MDM: You mentioned that a sustainable competitive advantage is no longer relevant for some companies. How long has this been the case, and what factors have driven this change?

McGrath: We've had this for a long time in consumer electronics and other very fast-moving industries, like fashion. I think what's happening now is it's taking over more and more of the economy, and there are five things I would point to that are fundamentally driving the change.

The first one is shifting technologies. It used to be that you'd introduce some big innovation project and then you'd have a period where everything kind of settled down for a while, and you'd run things perfectly well until you had the next big punctuating innovation. What's happening now is technological innovations are flying fast and furious.

A related development is digitization. As more and more of the world goes digital, the ease with which things can be copied increases that much more. So as more and more products move to digital platforms, it's harder and harder to contain them.

A third has to do with the rise of competitors from nontraditional places, and globalization is one aspect of this. A lot of ideas about strategy were founded in an era when America had very little competition. A good chunk of the world was behind the Iron Curtain and another chunk of it was pretty devastated from a massive Second World War. A lot of it was

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INSIDE

PERSPECTIVE ■ Commentary by Thomas P. Gale

A Tribute to Allan Chartier, Long-Time Industry Leader

In an industry defined by the quality of relationships, Allan Chartier defined what that means. For more than three decades, he set the standard through his conduct and relationships with customers, suppliers, vendors, friends, colleagues and competitors across several industries. That was not always easy ground to stand on in the roles he assumed, but he was a man of conviction, as anyone who experienced his powerful handshake quickly learned.

Chartier dedicated himself to building and preserving relationships for the good of the industry.

Chartier was president and CEO of Midwest Industrial Tools, Omaha, NE, a machine tool and industrial supplies distributor with operations in Denver, CO, and Salt Lake City, UT. He was still engaged in association and education work until his death in March at the age of 67.

Many who worked with Chartier in his volunteer leadership roles over more than 30 years feel he was in the right place at the right time, as he guided three trade associations through critical times. He is the only industry professional to serve as president and chairman of Central States Industrial Distribution Association (1988), Industrial Distribution Association (1993-1994) and the American Machine Tool Distributors Association (1998-1999).

He was chairman of the ISD network of Affiliated Distributors (1995-1997), and chairman of the ISA Education Foundation board of trustees (2011-2012). He served on supplier advisory boards and was active in his community.

A supporter of education, he served on advisory committees for the University of Nebraska-Omaha, Bellevue University and the University of Alabama-Birmingham. During his recent tenure with the ISA Education Foundation, he drove to Kearney, NE, to inform the winner of an ISA scholarship award from the Gary L. Buffington Memorial Scholarship, a person and program he held deep respect for. He spent time talking with the class about the industry.

There are countless stories of Chartier's generosity to those just coming into the industry. I was one of those in 1992. He was a student of the opportunities and threats to the industry, changing customer needs, and a continuous learner always interested in the opinions of others.

Perhaps the greatest challenge of his leadership service came when he was president of IDA, at a time when there was a movement to disengage with the supplier organization it was connected to, the American Supply & Machinery Manufacturers Association. Relationships were torn and meetings sometimes explosive.

"Allan's role, along with Dick McGrath of

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3M, was enormous," said long-time friend Lee Eagan, president of Oliver H. Van Horn Co., New Orleans, LA. "It was purely unselfish, filled with courage. With only the industry in mind and not the interests of a small minority of powerful people, I think his greatest legacy may have been how he saved an association from splitting up before its time."

"You have heard the saying that the true mettle of a man is measured not by how he reacts in good times but how he reacts in tough times," said Ralph Nappi, former executive of the American Machine Tool Distributors Association and friend to Chartier for 27 years. "Allan distinguished himself in tough times, and I was blessed to see that firsthand over the years. He was a rock for his family and for his business."

"He was a genuine friend and supporter – a mentor, if you will – never too busy to listen, encourage, guide and/or be of assistance," said Chuck Stockinger, president of Thomas Associates Inc. and long-time executive of the American Supply & Machinery Manufacturers Association and the Industrial Supply Manufacturers Association. "Allan always made a difference, wherever and whenever he was involved in anything!"

Mary Ritchie, director of membership services for the Industrial Supply Association and long-time staff member of IDA, became close friends with Chartier and his wife, Lynda, in the early 1990s when Chartier became president of the association. She shared a story that sums up in many ways the character of a man who was indeed in the right place at the right time.

At an annual convention of the IDA, Ritchie asked Chartier to accompany her to the airport to pick up one of the nation's most sought-after business speakers to bring back to the hotel. At the airport, Ritchie introduced herself, and the speaker immediately handed Chartier his suitcase and briefcase to carry to the limo before Ritchie had a chance to introduce him as IDA's president. Chartier said nothing all the way to the car.

Somehow that story seems fitting for a man who so well understood the concepts of service and leadership, and humbly gave so much of himself to his family, community and the industries he helped guide and shape in its ethics and relationships. He stepped up to carry the bags of an entire industry whenever called upon.

Redefining Competitive Advantage

Continued from page 1

geopolitical. In places like India, for example, they didn't export. And China wasn't allowed to do business with anybody. So competition was different back then.

Another thing that has really caused entry barriers to drop is the ability of communication technologies to inform others of what's going on. If you had to wait for the Pony Express to get across the country to find out what the trend styles were on the East Coast, that took a while. But today with Skype you can see it, and you can have styles shown in Milan show up in Taiwan in a matter of minutes.

Another thing which I think is actually a big factor in all of this is the rise of easy and inexpensive travel, which has meant that you now have much more information exchange among individuals.

MDM: A relatively small percentage of wholesaler-distributors have a strategic plan. Why do you think so many companies are reluctant to go through a strategic planning process?

McGrath: I think there are many reasons. The thing about strategy is it helps guide what you're going to do, but it also helps guide what you're not going to do. So it forces organizations to actually make tough choices. And it's hard work to make a strategy. So what people drop back to is planning, which basically means "We're going to take last year's budget and update it by 10 percent, and that's this year's budget." Unless something comes along to really challenge the fundamental core of the company, they don't get pushed to do any real strategy.

MDM: If a competitive advantage is a transient thing, how can companies achieve sustained long-term growth?

McGrath: I did a study looking at growth outliers with large, publicly traded firms, and out of nearly 5,000 of them, there were only 10 that have been able to grow net income every year by 5 percent a year. And the secret for them seems to be this interesting combination of stability and dynamism. They have tremendous stability in their leadership, in their values, in their culture and in customer relationships. But they've also got a lot of dynamism in terms of which markets they get into and out of and how they

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test and probe new opportunities.

The second thing I think is becoming more and more clear is that increasingly the only real competitive advantage is found in network ties and in the way that you build complete customer experiences, which often depends on the quality of the network ties that you have.

MDM: Could you give an example of a company that has succeeded in approaching competitive advantage in this new way?

McGrath: One example is Milliken Company, which had its roots in textiles. They were the last man standing in the U.S. textile industry, and today they're in advanced materials. They're in fibers, and they're in all kinds of chemicals, so they've completely transformed their business in the space of a few decades. And they're still there, still viable.

MDM: Do you think deeply ingrained structures and systems are liabilities in a fast-moving competitive environment?

McGrath: Absolutely. Not all of them, but many of them, because most of them are premised on the assumption of stability.

Let's take a typical one. In a large organization, if I'm running a big division that generates 60 percent of our profits, I get to decide where the money gets spent, right? It makes perfect sense when you've got a very stable business and you want to be re-investing in the core. But let's say that business goes into decline. That behavior becomes dysfunctional, because what you need to be doing is taking resources out and putting them into some alternative innovation.

MDM: You said in the book that companies need to think of customer "jobs to be done" rather than rigid markets influenced by supply and demand. Could you explain what you mean by that?

McGrath: I think what a lot of engineering types do when they're trying to solve a need is to go after the problem like an engineering problem. But what you find when you actually go out and look at what people will pay for, what they pay for is to get certain things done.

Here's an example from an industrial client that I worked with, a flavorings company. We decided to visit a customer, a food manufacturer, to see what needs they had that weren't met. As we walked through their process, we got to this moment where the flavoring was getting dumped into a big vat of the product and somebody happened to ask: "What's the average batch size of our material that you use in making your product?"

The answer was 30 pounds, and this stuff had been shipped from the dawn of time in 50-pound drums. Nobody had thought anything of it, yet when you think about it operationally, it was just a nightmare. The job that needed to get done was doing this mixing in an efficient way, but my guys were obsessed with things like, "How big is your molecule?" and "Is it stable under different temperature conditions?" when the thing that really solved the customer's problem was a packaging innovation.

MDM: Tell me more about how resource allocation affects the way companies can develop competitive advantage.

McGrath: Resource allocation is at the crux of what happens in any company. If you want to change what a company does, that's the first place to start. Are companies getting resources out from under the core businesses so that they can pay for the innovations of the future? You want to see some investments that could be the next core business, and you want to see some investments in options. Investments in options are small investments you make today that buy you the right, but not necessarily the obligation, to make a bigger investment in the future.

If you really want to get good at this, you need to have this continual re-configuration. You're constantly investing in something new and constantly withdrawing resources and managing for efficiency things that are mature and beginning to fade.

MDM: What advice do you have for companies trying to initiate this shift in how they think about competitive advantage?

McGrath: I think the first thing you need to do, depending on the company, is start to have people get familiar with the concept. Obviously senior-level support and drive for this is pretty critical. But what I see a lot of is a lot of people in the middle ranks of companies saying, "Oh my God, we have to do something." But by the time it gets up to the senior level, they're all sitting around drinking port and life is good. The senior team needs to have a sense of urgency.

I think it's also thinking about what systems you want to use as your points of leverage. For some companies it'll be fixing the innovation system, or the resource allocation process. For some companies, it'll be structure.

My main encouragement would be when you're thinking about opportunities and customers, really think about the customer's complete experience. I see so many companies do their piece and leave the rest of it untouched, and the result is often a very unhappy customer. What you really want to do is observe. You want to be looking for areas where customers are just making do, because your solution isn't really good enough. It may be causing them cost and complexity where they may not even realize it.

The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business *is available through the Harvard Business Review store at hbr.org or at Amazon or Barnes & Noble.*

Go or No Go: The Value of Due Diligence

Dig deep into a target company before making a deal

Due diligence is a critical piece of ensuring that an acquisition results in the value a distributor expects to gain from a transaction. If done wrong, an acquisition can affect everything an owner has built and can damage not only the financials but also the culture of a distribution business. In this article, Jay Greyson of Supply Chain Equity Partners discusses some of the most common mistakes distributors make with acquisitions.

This is an exclusive summary of the April episode of MDM Executive Briefing, The Distribution M&A Playbook, featuring Greyson. Watch now at www.mdm.com/executivebriefing-archive.

In the first couple of months of 2013, M&A transactions in the wholesale distribution industry accelerated, with a higher number of deals done compared with the prior-year period. That pace continues, driven by ongoing private equity involvement in the market and cash-strong strategic buyers – large public distributors, mostly – looking to acquisitions to grow faster.

As sectors consolidate, distributors must integrate M&A into their strategic plans, according to Jay Greyson of Supply Chain Equity Partners. Greyson was featured in April's Executive Briefing program, available on mdm.com.

A distributor may know its local competitors intimately one day; the next, one of those competitors may be acquired by a national or even global distributor, providing more support for growth in that market. "The competitive environment can literally change overnight," Greyson says. Distributors should consider whether acquisitions may be a good growth vehicle or whether they want to become part of a larger organization.

But acquisitions should not be done just for the sake of doing acquisitions. Greyson says distributors need a strategic plan. It's important to know where the business is going. "Are you trying to expand geographically?" he asks. Or do you want to target a specific industry or better service a type of account?

Is organic growth the best option to accomplish those goals? Or can a goal be accomplished with an acquisition? For example, it's becoming more important to have a strong e-commerce platform. Doing that right can take more than a year, but an acquisition of a company that already has a strong platform may accomplish the goal more quickly.

But distributors need to make sure they get all the right pieces in the right places before moving forward.

Due Diligence

When a distributor has decided to pursue acquisitions and has decided on a target, due diligence is critical. Due diligence looks at every facet of a company, including who the customers are and the concentration of customers; vendor relationships and the concentration of vendors (and whether they will allow for M&A); IT systems; and distribution center operations.

"All of that is secondary to management and key personnel," Greyson says. Find out first what management wants to do after the acquisition. Management has a relationship with customers, as do key salespeople; those relationships may be integral to the success of the acquisition.

Distributors are putting their balance sheets at risk, Greyson says, and there are many ways a deal could fall apart, including not doing due diligence or not hiring an accounting firm to check the target's financials. "You have to dig really deep into everything because you never know where you're going to find the gotchas," Greyson says.

Distributors should make sure they have

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expertise in-house or that they hire someone to help them ensure the deal goes smoothly. "Done right, it can add significant value to the enterprise and company. Done wrong it can have significant downside implications," Greyson says.

Buyers often overlook vendor concentration and customer concentration. "We've seen in many instances in which the top three to five customers represent 40 percent to 50 percent of the business," he says. But what got the business those customers 20 years ago may be a different set of attributes or criteria than they'll need going forward.

What's more, losing just one of those customers can put a serious dent in the value that the buyer gets from the acquisition.

Must-Haves

Greyson recommends naming two to five things you must have to go through with an acquisition. If you are buying a company because of that company's e-commerce capabilities, then bring in an expert in that area to make sure that what you are buying is actually what you need.

Whether you're buying or selling a company, make sure you have this set of go or no-go criteria, Greyson says. And make sure there is a strong team in place to investigate those criteria. Extend due diligence if needed.

"If it's done wrong it can have a significant impact on your firm – your culture, financials of your business, how your customers view you, and how vendors view you. If it's not done right … it can impact everything you or your family or ownership have taken decades to build," Greyson says.

Greyson says it's easy to fall in love with a company as you move through the M&A process. The two teams are working together, and customer and vendor meetings are taking place. But if something happens that was not expected, don't hesitate to take a step back.

"Don't be afraid to step away from the table," Greyson says.

-Lindsay Konzak

Revenue Growth in Distribution Outpaces U.S. GDP; Outlook Positive

The wholesale distribution industry grew slightly faster than the overall U.S. economy in 2012, increasing by 1.1 percentage points more than nominal U.S. GDP. This number, as reported in MDM's 2013 Wholesale Distribution Economic Trends Reports, represents the aggregate revenue for wholesale distributors in 19 sectors.

Total revenues of wholesale distributors grew by 5.1 percent to $4.9 trillion in 2012, demonstrating comparatively slower growth than previously seen in the aftermath of the recession. Revenues increased by 3.7 percent after adjusting for the effects of price change, with the energy and agricultural sectors most impacted.

MDM forecasts that industry revenues will increase by 5.4 percent in 2013, with more modest U.S. economic growth of 2.2 percent.

A key driver of growth in several sector is pent-up demand that has built up over the past few years, as uncertainty about the overall strength of the economic recovery continued to drag on confidence. The Motor Vehicles and Motor Vehicle Parts Wholesale Distributors and the Building Materials and Construction Wholesale Distributors sectors posted the fastest rate of growth in 2012.

Price largely stabilized in 2012 after a volatile 2011. As a result, there were smaller gaps between the rates of actual and real (or inflation-adjusted) revenue growth (see Table 1). Of the 19 major sectors covered in the report, 17 registered actual revenue growth (independent of price changes) during the year; 15 recorded positive real rates of growth. In comparison, all but one sector had actual revenue growth in 2011, and all 19 sectors grew in 2010.

For 2013, MDM is forecasting growth for all 19 sectors, led by increases in Building Material and Construction Wholesale Distributors (22 percent).

Total fourth-quarter 2012 employment in the industry increased by 87,300 jobs (1.8 percent). The wholesale distribution industry now employs more than 4.8 million people – more than one out of 25 private sector U.S. nonfarm workers. Only two sectors reported year-over-year job losses in the quarter.

Productivity in wholesale distribution grew in 2012. Average weekly earnings in wholesale distribution were 28 percent higher than average earnings in all private U.S. industries and increased modestly in 2012.

Order the 2013 Wholesale Distribution Economic Trends Reports, including additional details on 19 sectors, at www.mdm.com/WDER.

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Revenue Growth for the Distribution Industry, 2007-2012

Revenue for distributors has grown significantly since the first quarter of 2010.

Source: 2013 Wholesale Distribution Economic Trends Reports www.mdm.com/wder

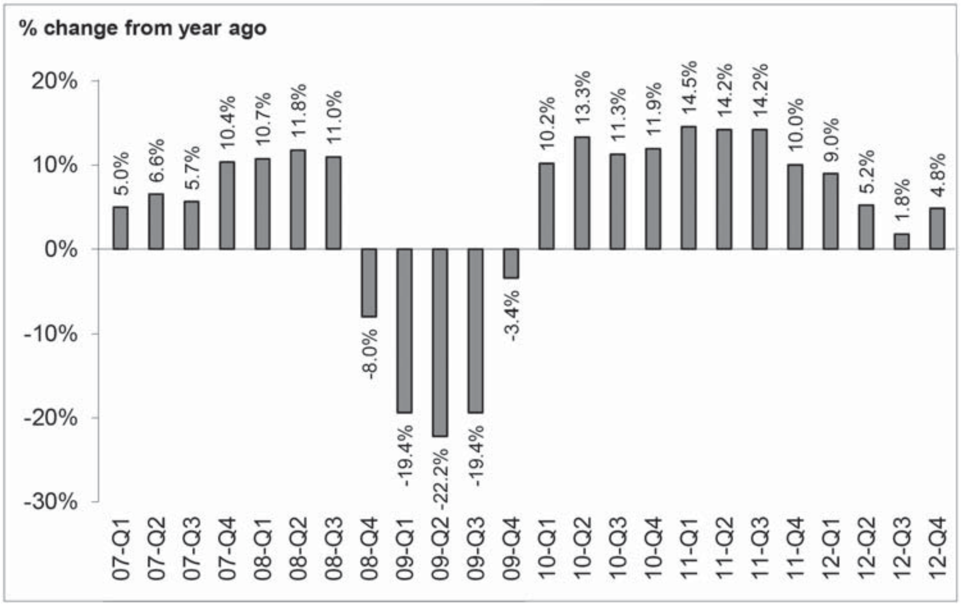


Table 1: Revenue Growth & Forecast for Major Sectors

Major Sector (Largest to Smallest Sector Revenues)	2012 Revenues	Change (2012 vs. 2011) Actual Revenues	Real Revenues*	2013 Forecast
Oil and Gas Products Wholesale Distributors	$769.2	7.0%	6.2%	6.7%
Grocery and Foodservice Wholesale Distributors	$577.2	6.1%	4.0%	5.2%
Pharmaceutical Wholesalers	$426.6	0.1%	-3.2%	2.9%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	$400.7	20.3%	18.3%	13.8%
Industrial Distributors	$382.9	8.4%	5.5%	7.9%
Electrical and Electronics Wholesalers	$378.7	1.8%	1.0%	3.1%
Miscellaneous Durable Goods Wholesale Distributors	$240.1	-8.5%	-6.6%	2.7%
Other Consumer Products Wholesale Distributors	$237.2	6.9%	3.9%	3.5%
Agricultural Products Wholesale Distributors	$225.6	2.3%	-3.3%	9.3%
Computer Equipment & Software Wholesale Distributors	$193.5	-1.0%	2.3%	1.4%
Commercial Equipment & Supplies Wholesale Distributors	$188.4	4.5%	2.7%	4.9%
Metal Service Centers	$152.6	8.9%	-5.0%	6.8%
Apparel and Piece Goods Wholesale Distributors	$143.4	5.9%	3.5%	4.2%
Beer, Wine and Liquor Wholesalers	$122.8	5.1%	1.8%	5.8%
Chemicals and Plastics Wholesale Distributors	$120.4	4.6%	4.9%	3.4%
Building Material & Construction Wholesale Distributors	$111.2	14.5%	12.2%	22.0%
Hardware, Plumbing & Heating Equipment/ Supplies Wholesalers	$108.4	6.8%	4.6%	11.4%
Office Product Wholesalers & Paper Merchants	$85.3	1.1%	-0.3%	3.2%
Furniture & Home Furnishing Wholesale Distributors	$52.7	1.6%	-0.9%	1.1%
Total	$4,917.1	5.1%	3.7%	5.4%

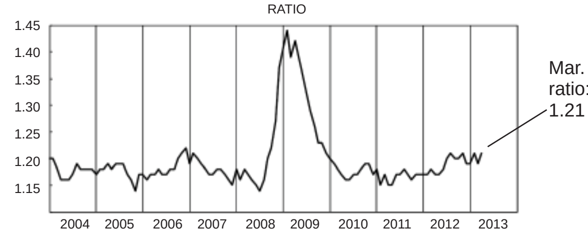
*Real Revenue is revenue adjusted for inflation

Monthly Wholesale Trade Data

Wholesale trade revenues in March were $414.7 billion, down 1.6 percent from the revised February level, but up 1.3 percent from March 2012, according to the U.S. Census Bureau. March sales of durable goods were down 0.6 percent from last month, but up 1.7 percent from a year ago. Sales of nondurable goods were down 2.5 percent from February, but were up 1 percent from last March.

Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2004-2013

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories. Total inventories of wholesalers were $503.1 billion at the end of March, up 0.4 percent from the revised February level and were up 4.7 percent from the March 2012 level. March inventories of durable goods were up 0.5 percent from last month and were up 7.2 percent from a year ago. Inventories of nondurable goods were up 0.1 percent from February and up 1.2 percent from last March.

Inventories/sales. The March inventories/sales ratio for merchant wholesalers was 1.21.

Sales and Inventories Trends: March 2013

NAICS Code	Business Type	Sales $Millions	Inventory $Millions	Stock/ Sales Ratio	Percent Change Sales 2/13-3/13	Percent Change Sales 3/12-3/13	Percent Change Inventory 2/13-3/13	Percent Change Inventory 3/12-3/13
42	**U.S. Total**	**414,688**	**503,126**	**1.21**	**-1.6**	**1.3**	**0.4**	**4.7**
423	**Durable**	**186,809**	**301,036**	**1.61**	**-0.6**	**1.7**	**0.5**	**7.2**
4231	Automotive	33,953	44,485	1.31	1.7	5.6	1.2	-0.3
4232	Furniture & Home Furnishings	4,362	7,267	1.67	0.6	-1.3	0.2	1.9
4233	Lumber & Other Construction Materials	10,375	14,554	1.40	0.3	14.0	-0.2	18.7
4234	Prof. & Commercial Equip. & Supplies	32,456	34,308	1.06	-1.0	1.7	-0.3	7.7
42343	Computer Equipment & Software	16,287	13,355	0.82	-0.9	0.2	-1.0	12.5
4235	Metals & Minerals	12,240	27,198	2.22	-2.5	-6.9	-0.3	2.0
4236	Electrical Goods	31,696	43,084	1.36	0.5	1.9	0.3	5.2
4237	Hardware, Plumbing, & Heating Equipment	9,162	19,470	2.13	-1.6	1.4	2.1	8.3
4238	Machinery, Equipment & Supplies	33,267	85,384	2.57	-1.5	2.6	1.2	15.2
4239	Miscellaneous Durable	19,298	25,286	1.31	-3.5	-5.8	-0.8	0.1
424	**Nondurable Goods**	**227,879**	**202,090**	**0.89**	**-2.5**	**1.0**	**0.1**	**1.2**
4241	Paper & Paper Products	7,152	7,315	1.02	-2.9	0.4	-0.8	1.0
4242	Drugs	36,855	35,515	0.96	3.9	2.9	0.1	2.0
4243	Apparel, Piece Goods & Notions	11,767	22,447	1.91	-5.5	1.3	1.7	3.3
4244	Groceries &Related Products	48,484	36,734	0.76	-0.3	1.4	1.2	7.4
4245	Farm-product Raw Materials	18,599	20,765	1.12	-2.7	4.3	0.9	-6.4
4246	Chemicals & Allied Products	10,348	12,097	1.17	-1.8	3.9	-0.3	4.6
4247	Petroleum & Petroleum Products	63,598	25,443	0.40	-7.5	-2.5	-3.4	-8.8
4248	Beer, Wine & Distilled Beverages	10,630	14,298	1.35	1.9	6.7	1.3	10.8
4249	Miscellaneous Nondurable Goods	20,446	27,476	1.34	-2.0	0.7	0.2	1.0

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

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Industrial & Construction Markets Update

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NFIB Small Business Optimism Index Rises in April

The NFIB's Index of Small Business Optimism for April rose 2.6 points to 92.1, just above the recovery average of 90.7. Four Index components rose, two fell and four were unchanged. The NFIB is the National Federation of Independent Business.

Pessimism continues to plague the sector, as still far more of those surveyed expect business conditions to be worse in six months than those who think they will be better.

"Small-business confidence saw an uptick this last month, but it was a 'ho hum, yawn, at-least-it-didn't-go-down' reading. The subpar recovery persists for the small business sector," said NFIB chief economist Bill Dunkelberg. "Economic performance is contradictory – corporate profits are at record levels and the stock market hits new highs, yet GDP growth for the past six months has averaged about 1.5 percent and the unemployment rate is 7.5 percent.

"Nothing in the NFIB data suggests that the small business half of the economy is expanding other than by an amount driven by population growth and associated new business starts now in excess of terminations. The lack of leadership in Washington and the resulting uncertainty depresses consumers' and business owners' willingness to spend and invest, and make bets on the future," he said.

Owners were asked to identify their top business problem: 23 percent cited taxes, 21 percent cited regulations and red tape and 16 percent still cited weak sales. Only 2 percent reported financing as their top business problem.

Here are some key indicators from the April report:

Job creation: April was another positive, albeit lackluster month for job creation. Small employers reported increasing employment an average of 0.14 work-

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Distributor News

Grainger, Chicago, IL, reported daily sales in April increased 8 percent versus April 2012, including 3 percentage points from volume, 2 percentage points from price, 2 percentage points from acquisitions and 2 percentage points from the timing of the Easter holiday, partially offset by a 1 percentage point decline from foreign exchange.

DXP Enterprises, Inc., Houston, TX, has acquired **Tucker Tool Co.** Inc., Mechanicsburg, PA, a distributor of cutting tools, abrasives, coolants and machine shop supplies. Tucker Tool serves customers in the chemical, oil & natural gas, power generation, general engineering and transportation markets.

Univar Inc., Redmond, WA, a global distributor of chemistry and related services, has completed the acquisition of **Quimicompuestos**, a distributor of commodity chemicals in Monterrey, Mexico.

Graybar, St. Louis, MO, reported sales for the first quarter of $1.3 billion, an increase of 0.2 percent compared to the same period last year. Profit fell 51 percent to $7.9 million.

Interline Brands Inc., Jacksonville, FL, reported sales for the first quarter were $380.8 million, an increase of 21.4 percent compared to the same period a year earlier. Interline reported a loss of $1.5 million for the quarter, compared with a year-ago profit of $7.5 million.

HD Supply Power Solutions, a distributor of products and services for public power, investor-owned utilities, construction and industrial customers, has added three new locations. The distributor opened facilities in Texas and North Carolina and expanded in Utah.

Building products distributor **ABC Supply Co**. Inc., Beloit, WI, has opened a new branch in Bergenfield, NJ. The new store will serve professional contractors and builders, offering a full assortment of steep-slope roofing, siding and related tools and accessories.

Germany-based **Wurth Group** reported sales for 2012 of €9.98 billion (US$13.1 billion), up 3 percent from 2011. In its core business, the trade in assembly and fastening material for the craft and industry sector, the Wurth Group grew by 3.7 percent to a total of €5.5 billion (US$7.2 billion) in 2012.

WinWholesale, Dayton, OH, and the Win Group of Companies extended its presence in Charlotte, NC, with the opening of **Charlotte Windustrial** to provide contractors, fabricators and original equipment manufacturers with pipe, valves and fittings.

Needham Electric Supply, Canton, MA, has opened a new branch location in West Springfield, MA, the company's 13th in Massachusetts.

Beacon Roofing Supply Inc., Peabody, MA, reported sales for the second quarter ended March 31, 2013, of $416 million, an increase of 5 percent

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MARKETS UPDATE SUPPLEMENT P. 2

News Digest

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compared to the same period a year earlier. Organic sales declined 5.1 percent. Net loss for the second quarter was $161,000 compared with a profit of $3.1 million in 2012.

Building products distributor **BlueLinx Holdings** Inc., Atlanta, GA, announced that George R. Judd will no longer serve as president and chief executive of the company, effective May 14. Judd will also resign as a director of BlueLinx following the 2013 Annual Meeting of Stockholders May 16. The board has appointed Howard S. Cohen to serve as executive chairman while the board conducts a search for a successor.

Edgen Group Inc., Baton Rouge, LA, reported sales for the first quarter of $406.1 million, down 19.7 percent from the same period in 2012. Edgen reported a net loss of $5.4 million, compared to a year-ago profit of $4.1 million. Sales from Edgen's Energy & Infrastructure segment decreased 28 percent. Oil Country Tubular Goods sales decreased 10 percent.

Economic News

The **Conference Board Leading Economic Index** for the U.S. increased 0.6 percent in April to 95.0 (2004 = 100), following a 0.2 percent decline in March, and a 0.4 percent increase in February. The Conference Board Coincident Economic Index and Lagging Economic Index both increased 0.1 percent.

Led by declines in production-related indicators, the **Chicago Fed National Activity Index** decreased to -0.53 in April from -0.23 in March. Three of the four broad categories of indicators that make up the index decreased from March. The index's three-month moving average, CFNAI-MA3, ticked up to -0.04 in April.

Industrial production decreased 0.5 percent in April after having increased 0.3 percent in March and 0.9 percent in February, according to the Federal Reserve. Manufacturing output moved down 0.4 percent in April after a decline of 0.3 percent in March. At 98.7 percent of its 2007 average, total industrial production was 1.9 percent above its year-earlier level.

March **U.S. manufacturing technology orders** were $507.9 million according to The Association for Manufacturing Technology. This total was up 30.4 percent from February and up 3.2 percent from March of last year. With a year-to-date total of $1.3 billion, 2013 is down 5 percent from 2012.

The Producer Price Index for finished goods de-

Calculation of MDM Inflation Index for April 2013

		BLS Price Indices Apr. '13	BLS Price Indices Mar. '13	BLS Price Indices Apr. '12	% Sales Weight	Weighted Indices Apr. '13 (1)X(4)	% Change Apr. '13 Mar. '13	% Change Apr. '13 Apr. '12
1136	Abr. Prod.	554.8	553.6	549.2	19.1	105.97	0.21	1.03
1135	Cutting Tools	488.1	487.8	486.7	18.9	92.24	0.06	0.28
1145	Power Trans.	798.2	795.7	772.6	15.4	122.92	0.31	3.32
1081	Fasteners	507.2	503.9	499.9	9.0	45.65	0.64	1.46
1149.01	Valves, etc.	940.9	941.9	929.9	7.6	71.51	-0.10	1.18
1132	Power Tools	348.9	349.2	346.5	6.5	22.68	-0.06	0.70
1144	Mat. Handling	567.1	565.9	553.9	6.2	35.16	0.20	2.38
0713.03	Belting	867.5	864.6	799.9	6.1	52.92	0.34	8.45
1042	Hand Tools	771.0	767.9	750.2	8.1	62.45	0.40	2.77
108	Misc. Metal	475.7	475.5	474.1	3.1	14.75	0.06	0.36

"New" April Index	327.2	April Inflation Index	626.25	0.22	2.22
"New" March Index	326.5	March Inflation Index	624.88		
		April 2012 Inflation Index	612.64		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247 creased 0.7 percent in April, seasonally adjusted, the U.S. Bureau of Labor Statistics reported. Prices for finished goods fell 0.6 percent in March and increased 0.7 percent in February.

Privately-owned **housing starts** in April were at a seasonally adjusted annual rate of 853,000, 16.5 percent below the revised March estimate, but 13.1 percent above April 2012, according to the U.S. Census Bureau and the Department of Housing and Urban Development. Single-family housing starts were 2.1 percent below the revised March figure.

Builder confidence in the market for newly built, single-family homes improved in May, according to the National Association of Home Builders/Wells Fargo Housing Market Index. The HMI increased three points to a 44 reading, bouncing back from a downwardly revised 41 in April.

The **First Quarter 2013 PTDA Business Index** was 61.1, a substantial increase over last quarter's reading of 50.7. This indicates that the power transmission/motion control industry expanded for the 12th consecutive quarter at a slightly faster pace compared with 4Q12. The first quarter index is significantly lower when compared to the same quarter in previous years.

Manufacturing sales in Canada edged down 0.3 percent to $49.5 billion in March, the third decline in four months, according to Statistics Canada. The decline largely reflects lower sales in the petroleum and coal product, and chemical manufacturing industries. Excluding petroleum and coal, manufacturing sales rose 0.3 percent.

Seasonally adjusted **industrial production in Europe** in March grew by 1 percent in the euro area (EA17) and by 0.9 percent in the EU27 when compared with February, according to estimates released by Eurostat. In February, production increased by 0.3 percent in both zones. Compared with March 2012, industrial production decreased by 1.7 percent in the euro area and by 1.1 percent in the EU27.

Seasonally adjusted **European production** in the construction sector fell by 1.7 percent in the euro area (EA17) and by 1.1 percent in the EU27 in March 2013, compared with the previous month, according to first estimates released by Eurostat. In February 2013, production declined by 0.3 percent in the euro area and remained stable in the EU27.

Manufacturer News

Brady Corp., Milwaukee, WI, reported sales for the third quarter ended April 30, 2013, of $305.7 million, an increase of 11 percent compared to the same period a year earlier. Profit fell 84.7 percent to $4.2 million. Organic sales fell 4.7 percent.

Kennametal Inc., Latrobe, PA, has agreed to acquire **Comercializadora Emura S.R.L.** and related entities, La Paz, Bolivia, while securing related material sourcing agreements. The acquisition would further Kennametal's efforts to diversify and balance its tungsten sourcing capabilities.

The Timken Company, Canton, OH, has acquired **Standard Machine** in Saskatoon, Saskatchewan, Canada, expanding its industrial services capabilities. Standard Machine provides new gearboxes, gearbox service and repair, open gearing, large fabrication, machining and field technical services to end-users in Canada and the western U.S.

Emerson, St. Louis, MO, reported sales for the second quarter of $6 billion, an increase of 1 percent from the same period a year earlier. For the first six months, sales for Emerson were $11.2 billion, up 3 percent year-over-year. Profit increased 11 percent to $937 million.

Allied Motion Technologies Inc., Denver, CO, reported first-quarter sales of $25.1 million, a decline of 6.3 percent compared to the same period a year earlier. Profit fell 17.1 percent to $960,000. Sales in Europe were flat, and sales in the U.S. decreased 11.6 percent.

Snap-on Inc., Kenosha, WI, a manufacturer of tools, equipment, diagnostics, repair information and systems solutions, has acquired **Challenger Lifts** Inc., Louisville, KY, for $38 million. Challenger, with 2012 sales of $45 million, designs, manufactures and distributes vehicle lifts and accessories to customers in the automotive repair sector.

Hardinge Inc., Elmira, NY, an international provider of advanced metal-cutting solutions, has agreed to acquire **Forkardt** from **Illinois Tool Works**, Glenview, IL, for $34 million.

Louisiana-Pacific Corp., Nashville, TN, reported sales for the first quarter of $538 million, an increase of 49 percent compared to the year-ago quarter. LP reported a profit of $63.5 million,

NFIB
Continued from p. 1 of this section

ers per firm in April. This is a bit lower than March's reading, but the fifth positive sequential monthly gain. Job creation plans rose 6 points to a net six percent planning to increase total employment.

Sales: The net percent of all owners reporting higher nominal sales in the first quarter of 2013 compared to the fourth quarter of 2012 rose 3 points to a negative four percent, the best reading in 10 months, although there are still more firms reporting declines than those reporting gains. Sales expectations improved 8 points from March to a net four percent

Hard to fill job openings: Nearly half (49 percent) of owners surveyed hired or tried to hire in the last three months and 38 percent (78 percent of those trying to hire or hiring) reported few or no qualified applicants for open positions.

Capital outlays: The frequency of reported capital outlays over the past six months fell 1 point to 56 percent, after rising steadily, albeit by small increments, since January. The frequency of expenditures being made remain at the high end of recession-type readings, consistent with the lack of interest in expansion and the dim outlook for business conditions. The percent of owners planning capital outlays in the next three to six months fell 2 points, with a reported 23 percent planning to make future expenditures.

Inventories: The pace of inventory reduction continued, with a net -6 percent of all owners reporting growth in inventories. For all firms, a net -1 percent (unchanged) reported stocks too low, historically a good level of satisfaction with inventory stocks. Plans to increase inventories gained 5 points but rose only to a net 0 percent of all firms.

Inflation: Twenty percent of surveyed NFIB owners reported price increases (up 2 points) and 15 percent reported reducing their average selling prices in the past three months (down 2 points). The net percent of owners raising selling prices was three percent, up 4 points. Twenty-one (21) percent of owners plan to raise average prices in the next few months.

News Digest
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compared to a year-ago loss of $11.3 million.

Precision Castparts Corp., Portland, OR, reported sales for the 12 months ended March 31, 2013, of $8.4 billion, an increase of 16.3 percent from the prior year. Profit increased 16.5 percent to $1.4 billion. Sales for the fourth quarter were $2.4 billion, an increase of 25 percent year-over-year. Profit increased 23.2 percent to $414.2 million.

Rexnord Corp., Milwaukee, WI, sales for the fiscal year ended March 31, 2013, were $2 billion, up 3 percent from the prior year. Profit increased 67.6 percent to $50.1 million. Fourth-quarter sales increased slightly to $540.3 million. Profit more than doubled to $23.9 million.

The Home Depot, Altanta, GA, reported sales for the first quarter ended May 5, 2013, of $19.1 billion, a 7.4 percent increase from the first quarter of fiscal 2012. Profit increased 20 percent to $1.2 billion.

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