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February 16, 2012

2012 STAFDA Manufacturer's Liaison Committee

BeA Fasteners USA, Inc. is the daughter of German manufacturer Joh. Friedrich Behrens AG. BeA manufactures and markets pneumatic tools and collated fasteners such as staples and nails. BeA USA actively markets in North America, with a focus on industrial applications, including furniture, pallet and cabinet manufacturing as well as in-plant home-building. BeA USA has little exposure to the on-site construction market and exclusively sells pneumatic tools and staples (no nails). All sales are realized through authorized distributors.

#### **Market Overview:**

Overall the market for pneumatic tools and fasteners is still in recovery mode from the recession. This is mainly driven by the devastating state of the construction industry. With far fewer projects to complete, STAFDA distributors have suffered, especially in those states with small industrial markets. (FL, AZ, NV). The results are not only fewer sales in these areas but also consolidation and business shut-downs on the distributor side.

For the industrial market, recent developments lead to a more positive outlook (outside of in-plant home manufacturing), as manufacturers seem to have weathered the storm. Especially the furniture industry is believed to have completed its cycle of slow-downs and consolidation. In addition to recent plant openings by a large European furniture company, US owned factories have been opened in the South. Taking advantage of tax incentives, proximity to the NE consumer market and an abundance of skilled labor have driven this trend.

#### **Key Developments:**

The key factors that impacted the nail and staple industry in 2011 were: a shift in marketing strategy due to the re-alignment of sales efforts of a major US manufacturer, OSHA regulations and inspections, as well as a focus on total-cost of ownership for tools.

The decision of one of the key manufacturers in the nail and staple industry to shift their industrial sales from direct efforts to the distributor channel has uprooted the industry. While some distributors were assigned a large amount of business in a short period of time, which included significant geographic expansions; others have re-aligned their purchasing efforts to combat the new competitive forces. Creating a strategic opportunity for manufacturers of pneumatic tools and fasteners, as legacy purchasing decisions by distributors were re-evaluated.

Increased OSHA inspections in industrial accounts and the resulting fines have created the need to re-tool and retro-fit tools for applications, which were historically not required to be equipped with work-contacts (safeties). The traditional interpretation of OSHA guidelines required work-contacts on pneumatic tools under the following circumstances: applications that use a staple equal or thicker than 18 gauge and longer than one inch; with exceptions for special applications. Many of these rulings have been challenged. The sudden focus of OSHA on these applications have led to investments in tools prior to the end of their economic life-cycle, thus increasing overall tool and parts sales.

For most industrial applications, distributors provide tools and service at no charge to the end-user. With sales and profits having dropped and still being in recovery mode, distributors have taken a renewed focus on profitability of individual accounts. In order to keep costs at acceptable levels, the total cost of ownership of tools over the economic life-cycle has come into focus. Instead of just analyzing the initial start up cost to populate a plant with tools, the long-term cost of parts and service, as well as a standardization of the tool population are part of the decision making process. Once a tool for a certain application has been established as a standard, it is not uncommon to see a replacement of non-conforming tools to minimize the amount of different parts to stock. The result are sales of higher quality, more expensive tools, as well as re-tooling of plants that are equipped with models that do not meet the new standards.

### **Pneumatic Tool Market:**

The market for hand-held pneumatic tools has been severely impacted by the economic downturn. The diminished construction market resulted in far fewer sales of pneumatic tools due to contractors executing a smaller number of jobs; however the market for used tools, either through distributors or on the gray market is solid.

For industrial applications tools sales have recovered, however are still below pre-2008 levels. Reasons for the faster recovery of industrial tool sales are outlined above.

Despite long-term financial benefits, automated equipment sees little demand, as manufacturers seem to plan for the short-term rather than the long-term.

### **Fastener Market:**

The US market for collated nails, is driven by two industries: construction and pallet manufacturing. With the current state of the construction market, price is the driving force. Existing import tariffs for certain PRC (China) manufactured collated nails, as well

as a recently imposed tariffs for UAE (Dubai) manufactured products, have essentially eliminated collated nails manufactured in these countries for the US market. Surprisingly US made nails remain a competitive force, with low-cost product being imported from second-tier supply nations such as Vietnam or Malaysia. Not considering the import tariffs, the thresholds for entering the nail market are minimal, as nails are a simple product to manufacture. This allows distributors to work directly with foreign manufacturers.

With the majority of US sold staples being manufactured in PRC and Korea, pricing is impacted by three factors: price of steel, price of oil (transport) as well as local labor cost. Currently the price of steel is trending downwards, however an increase in labor cost in PRC have cushioned an erosion of prices. The strategic change in purchase behavior outlined above has created opportunities for manufacturers of branded and generic products.

**Outlook:**

The majority of sales of pneumatic tools and fasteners are for products that are consumed domestically. Therefore the impact of a pending European debt crisis will have little impact on the industry. Keys to a full rebound of the industry are consumer spending and the construction market. Total sales figures for 2012 are anticipated to be in line with 2011.