



# Trade News

JULY 2010

## PRESIDENT'S MESSAGE

**Robert Devers**  
A-Jax Co., Inc.  
Jacksonville, FL



If you are like me, you may have started off this month saying, "July?! Where has the year gone?" Hopefully you're seeing some economic relief in your market and are on the road to recovery. Your STAFDA Board of Directors met last month in Phoenix and we each provided an update on business conditions in our area (see pages 2-4). Two sentiments that stuck out in my mind was when one Director compared his region to the movie, "Ground Hog Day," and another Director commented he was an eternal optimist because who else would continue month after month hoping things would turn around!

By now you should have received your Phoenix Convention & Trade Show packet for STAFDA's November 7-9 meeting. I'm happy to report the initial response has surpassed last year's numbers to date in Associate, Distributor, and Rep registrations as well as Trade Show booths sold! In addition, STAFDA tries to stay on the cutting edge and recently introduced a "STAFDA App." It's a fully integrated mobile website you can use to make sure you're getting the absolute most out of your time in Phoenix. View it from your iPhone or other personal hand-held device. Manage your trade show schedule, keep track of show specials, and find Phoenix restaurants and attractions. Please check it out by visiting [www.tripbuilder.mobi/stafda2010](http://www.tripbuilder.mobi/stafda2010).

Plan to spend time with STAFDA's endorsed consultants in Phoenix during the **Tech & Consultants' Fair**. My company recently went through the process of updating our personnel policy and procedures manual. We adopted most of the documents provided by **Nancy Combs**, STAFDA'S HR Consultant, knowing with

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## PROFIT PERFORMANCE IN A DOWN YEAR

*Dr. Al Bates, president, Profit Planning Group, Boulder, CO, recently compiled the 2010 STAFDA Performance Analysis Report (PAR) based on '09 data. This annual confidential study provides benchmarking statistics on distributor financial performance. Participating companies recently received a copy of the PAR as well as a company-specific PAR. Non-participants may purchase a copy of the PAR from STAFDA for \$295. Here is Dr. Bates' summary of the 2010 findings.*

No doubt 2009 was a tough year. But even in a difficult economy, profit opportunities exist. Just as in good times, some firms didn't merely survive, they prospered. Understanding how firms adapted to changing circumstances to generate profits can provide a basis for both immediate action and future planning.

### Typical Versus High Profit

The "typical" distributor is in the exact middle for all participating companies. On any given measure, half of the firms performed better than the typical firm and half performed worse.

In 2009, the typical distributor generated sales of \$4.5 million. On that sales base, it produced a pre-tax profit of \$27,312, which equates to a profit margin of 0.6% of sales, or said another way, every dollar of sales resulted in 0.6 cents of profit. The high-profit distributor, operating with the exact same set of economic challenges, generated a profit margin of 5.7% doing \$2.8 million in sales.

During this recession, the typical distributor — being smaller and more nimble — had less slashing and burning than some larger, more high-profit distributors. Many high-profit companies had to significantly reduce overhead, inventory, close branches, and make other drastic cost saving measures. Smaller STAFDA companies readjusted their companies making similar cuts, but the impact on their bottom line was less severe than larger firms.

In both good years and bad, most firms tend to produce results close to those of the typical firm. But when the economy slips, being typical is only good enough for survival.

### Getting Profits Up

Generating strong profit results is never an easy proposition. In a strong economy, some level of profit is almost guaranteed barring unusual circumstances. Distributors can rely on sales growth to overcome poorly managed financial aspects of the business to remain profitable. With more difficult economic conditions, every aspect of the firm is under pressure and inefficiencies are more exposed.

Reaching high-profit performance is a matter of identifying what factors are

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## NEW MEMBERS

Please be sure to visit the members-only section of STAFDA's website, [www.stafda.org](http://www.stafda.org), to get detailed information on the following new members.

### DISTRIBUTOR

PHP — Valparaiso, IN

### ASSOCIATES

#### Concrete Fabrication Tooling & Machines

Alpha Professional Tools — Oakland, NJ

#### Polyurethane Bungee Cords & Straps

Bihlerflex dba Just Ducky Products — Phillipsburg, NJ

#### Industrial Storage Products

C-Line Products, Inc. — Mt. Prospect, IL

#### Hand Tools

Michigan Industrial Tools — Grand Rapids, MI

#### Nail/Staple Extraction Tool

Nailjack Tools — Monterey, CA

#### Pneumatic Nails & Tools

TFC Fastening — Plano, TX

#### Saw Horses, Bolt Cutters, Tool Pouches/Bags

ToughBuilt — Cleveland, OH

### AFFILIATE

LBM Journal — Lakeville, MN

## STAFDA BOARD OF DIRECTORS' MID-YEAR REPORTS

At last month's summer Board meeting in Phoenix, STAFDA Directors were asked to report on business conditions in their region. Here's what they had to say:



**Region 1: Dan Steier, Duo-Fast Northeast, E. Hartford, CT:** Current Northeast business conditions remind me of the movie "Ground Hog Day" where at times, it feels like every day is a replay of the previous day. Overall, the economy remains sluggish for the first six months of '10 looking very much like the second half of '09. Throughout '09, companies adjusted their workforce, tightened up inventories, and reworked business strategies to reflect the slowdown. As a result, we've seen fewer companies closing and layoffs have leveled this year. Two areas of increasing concern for STAFDA members are managing inventory and receivables. Many STAFDA houses struggled in early '09 with too much overpriced inventory clogging up their warehouse and impacting their bottom line. It's a different story today. Back orders from manufacturers have rendered the idea of inventory control an oxymoron. Although the explanation of backorders varies from manufacturer to manufacturer, the results are the same: higher carrying costs, more time spent chasing merchandise, and lost sales due to not having the product in stock. Collecting money has always been a challenge and a delicate balance needs to be struck from a consistent effort to not being overly aggressive and losing a customer in the process. Despite fewer Chapter 11 closings or filings, managing A/R the past six months has been an unprecedented struggle for many. Adding to the cash flow burden is the continued unwillingness of banks to make credit more available. Let's hope the rest of '10 continues to improve and we're all in a better state of mind when we gather in Phoenix for the STAFDA Convention in November.



**Region 2: Matthew Botts, Stronghold Supply, Manassas, VA:** By now, you've probably heard the term "Mancession." A term first used to explain the research done by **Mark J. Perry, PhD.**, an economist at the **University of Michigan**. He wrote about a recession that impacts male-dominated fields like construction and manufacturing. This is the arena that we, as distributors, are in along with our customers and suppliers. New home sales in the Mid-Atlantic region, according to the U.S. Census Bureau, had a larger than expected spike in April 2010, I believe due to the expiration of the tax credit. I think there will be a short-term lull in residential construction as a result. Also in this category, first quarter '10 sales compared to Q1 2009, sales rebounded nicely but are a result of comparison with the dismal 2009 numbers. Housing inventory levels have been cut in half from a year ago. According to **McGraw-Hill Construction**, nonresidential building has been lifted by some large projects like the groundbreaking for the \$369 million U.S. Coast Guard headquarters in Washington DC. The electric utility category is getting a boost with the start of a large wind farm (\$95 million) in Maryland.



**Region 3: Robert Devers, A-JAX Co., Jacksonville, FL:** It appears the economic forecasts for 2010 have been unfortunately accurate: slow start, little to no growth in the first two quarters. As I travel through the Southeast, I've noticed more cranes in place than I've seen in a while which seems encouraging. However, most of our

customers find the market slow and very competitive. Some markets are emerging faster than others, providing some stability and a glimmer of a positive outlook on the horizon. The economy has improved yet sustainable business volume has not yet occurred. One segment that's been growing is the requirement for domestic-only material or product that complies with the Buy America Act. Whether it's the result of a stimulus job package or construction on federal military installations, domestic material is back in demand. Many STAFDA manufacturers are available to help fill these requirements and are eager to partner with STAFDA distributors. There have been reports that **Hilti** has actually been removed from jobsites for not being able to supply domestic material. Many Region 3 companies are anxious about the long-term effects the **BP** oil disaster in the Gulf will have on their cities and businesses. Computer models show drift patterns that could contaminate east coast beaches as well as the Gulf. Fragile economies depending on waterfront development, offshore fishing, and tourism could be in for a rough time on the heels of the devastating real estate market collapse.



**Region 4: Kramer Darragh, Darragh Co., Little Rock, AR:** Markets within Region 4 have been varied for the first quarter: some have had a relatively stable Q1 moving into a softer Q2, while others had an awful Q1 with an encouraging Q2. Most distributors and manufacturers expect the last half of '10 to be a slight improvement over the first half, but most also expect it to be slow and uneven. The value of non-residential construction bids from November '09 through April '10 in the Arkansas market are 22% lower than the same period in the previous year. Construction industry unemployment still hovers around 26%, 5-6 points lower than the U.S. average. The Arkansas market has relied on the public sector for life-support with projects like schools, treatment plants, colleges, and some public health facilities. The only activity in the private sector (and I consider much of it to be "semi-private") is energy related: power generation, pipelines, and wind farms. The credit market is beginning to ease, but we're still seeing small to medium construction projects attracting more bidders than normal. However, we're seeing fewer interlopers: more out-of-state contractors are folding up their tents and going home. We're also seeing a strong demand for building restoration and repair. Anecdotal evidence suggests there is more private work for engineers than in previous years indicating if credit eases, we should see an increase in construction.



**Region 5: Tom Gleason, ELFCO, Mokena, IL:** Working and doing business in the Windy City is always challenging. The first quarter of 2010 was off to a slow start. Chicago business owners are seemingly optimistic although it will be a "wait and see" with unemployment hovering around 11%. According to *Crain's Chicago Business*, Illinois has received \$1.9 billion in stimulus funds, but the state claims only \$700,000 of that remained as of April 30. Manufacturing reps are beginning to push "Made in the USA" products. Competition has become increasingly intense as contractors have more time on their hands to shop around. The Internet has become the enemy on certain items such as power tools and accessories. The bulk of current business has been new hospital construction, which has increased dramatically, many

being seismic depending on zone. We're also seeing quite a few quick turnaround rehabs being done. The residential market continues to struggle as new single-family home sales have dropped to their lowest level in 16 years. In the next six months, we're hopeful for an upturn in the economy. We have weathered storms in the past and will continue to keep our heads up and our glasses half full.



**Region 6: Rick Stelzer, Merlin Stelzer Co., St. Louis, MO:** It's been a long winter...and two-plus years of a bad economy. The unemployment rate in St. Louis for the construction market is 38%, but the St. Louis area has finally received a shot in the arm with several larger projects opening up. Long-shelved projects have managed to find innovative financing, along with some tax credits being tossed in, and have finally broken ground. This is long awaited good news to the majority of contractors and subs that have been in survival mode the last two years. The slowdown has not been without the unfortunate peril of several long-standing companies that have simply called it quits. Current projects range from renovations of turn-of-the-century buildings into condo and retail development, to infrastructure improvements of highways, bridges, water distribution, and sewer treatment plants. From the STAFDA distributor's perspective, many major contractors remain heavily stocked with tools and accessories from completed projects and with warehouses full, they can't be relied upon for the normal purchases as in the past. Subs that are getting some of the bigger projects are stocking up for the work at hand, but seem to keep purchases to a bare minimum, spreading purchases out between local distributors, and are demanding pricing that keeps margins thin. I think we're all awaiting the return to some form of a construction boom where we can once again keep product flowing out the doors on a regular basis and make a decent profit for the goods and services we provide.



**Region 7: Rick Lamb, Frank's Supply Co., Albuquerque:** It appeared the Southwest's economy was improving as winter was coming to an end. But it was a false hope as May proved to be a very slow month for businesses in the region. Commercial construction continued to struggle as large general contractors reported that a lack of bank funding resulted in a lower number of privately funded projects. The end result has been more construction worker layoffs. Housing was stimulated in New Mexico by the tax incentive however, many of the smaller home builders couldn't take advantage of it as banks were tight on lending money and limiting the number of houses they could build from working capital. Sales opportunities in the oil and natural gas industries remain low. There is business to be secured, but it's very competitive resulting in low margins. The good news is that the New Mexico economy has been stimulated by two large privately funded projects: a \$250M Spaceport America project in Truth or Consequences, and the \$2.5B Uranium Enrichment Facility in Hobbs. There are other significant projects scheduled to begin within the next year, but the government continues to be the biggest contributor to the region. The \$4.5B expansion at Ft. Bliss is driving the economy in El Paso and in Los Alamos, a \$300M remediation project at the Los Alamos National Lab has added to the economy in the Upper Rio Grande area. The '10 economic out-

look for the Southwest is not optimistic with respect to commercial construction, housing, and the oil and gas industry. Distributors concentrating on government jobs have the best opportunity to increase sales volume.



**Region 8: Mike Kangas, Alaska Industrial Hardware, Anchorage:** While the national unemployment rate hovers around 10%, the U.S. construction sector's unemployment rate in April stood at 21.8%, up from 18.7% for the same period last year. The Pacific Northwest, including Alaska, Idaho, Oregon, and

Washington, lost over 31,000 jobs in construction last year. The greater Seattle area alone has an estimated 35% unemployed in the construction industry. Washington's Hanford Vitrification project to clean up radioactive waste along the Columbia River is a massive \$12.2B project that continues. Planning has also begun on the \$3.1B Alaskan Way Viaduct project in Seattle. Oregon has seen an increase in construction jobs related to high-tech projects that **Intel** and **Facebook** have launched. However, with that state's half billion budget shortfall, layoffs could take their toll in the construction sector throughout the remainder of the year. Idaho's housing values have stabilized with a 21% residential construction increase forecasted for '10. While non-farm related employment continues to decline, the pace has slowed from the prior two years. In Alaska, overall construction spending is expected to be down 3% with a significant decrease in commercial construction, but with an increase in roads, bridges, and airport construction driven primarily by federal stimulus funds. Stimulus funds in the Northwest were \$11.5B with \$3.8B presently distributed. The word from many economic forecasters is that the "Great Recession" has ended and recovery is around the corner. Unfortunately, statistics indicate the construction industry isn't as fortunate.



**Region 9: Rod Gowett, Bay Tool & Supply, Milpitas, CA:** With unemployment in California at 12.7% and Nevada at 13.8%, it's definitely an uphill battle right now in Region 9. I polled several STAFDA distributors with locations in California and Nevada and it seems

they are seeing and hearing the same things I am. The residential housing market has not changed much in the last 12 months and there are still many foreclosures and short sales that are holding up any new construction. A new component has entered the marketplace that has created a lot of concern in the banking sector called "walk-aways." Now even people that can afford their house payments are walking away since the home they purchased for \$800,000 is now only worth \$350,000. Bankers used to worry about foreclosures and people with no money, but now they worry about people with money who simply "walk-away" from their home. West Coast bankers cite "walk-aways" as their #1 concern. The commercial market hasn't changed much in recent years with plenty of empty buildings and no tenants. The good news is that there is some hospital and airport work going on across California and Nevada. The infrastructure in California is very poor and requires a lot of work, but much of it depends on the amount of stimulus money coming our way. With such a small amount of work out there, we're all fighting for the same jobs and this has a huge impact on the bottom line.

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**Region 10: Harry Oblak, Grip Clinch Canada**, North York, ON: Housing prices across Canada continued to rise in the first six months of 2010 and our economy grew by 6.1% last quarter. The auto sector is hiring again and construction starts in residential housing are growing. Private companies led a 108,700 gain in jobs last month, the largest on record since 1976. Unemployment fell from 8.2% to 8.1%. Canadian employers are positive about hiring workers in the third quarter with mining and construction sectors likely to add the most jobs. The Bank of Canada has been the first of the G8 countries to raise interest rates in order to keep inflation around 2%. Interest rates will continue to go up unless the European debt crisis continues to affect financial market and commodity prices. Canada has benefited from rising demand for copper, gold, wheat, and oil from emerging economies such as India and China. Canada needs more export growth and a smooth end to government stimulus for a true economic recovery. Our stronger currency will make manufacturers less competitive globally. Only 24% of the workers given pink slips during this recession have found jobs. Less than one third of those found full-time employment while the rest are working part-time or are contract workers. Most are earning lower hourly wages and working without benefits. The next six months should be a reasonable period of time to tell if the recession is truly over. I think it's still too close to call.

### PERFORMANCE...Continued from page 1

most important to producing profit and then developing a plan to perform better in those areas. While other factors cannot be forgotten, they are given a strong dose of benign neglect.

#### Cash Flow

In a soft economy, firms try to reduce assets — inventory, accounts receivable and fixed assets — to convert to cash. This cash conversion process is understandable and desirable, but it suffers from two key limitations.

First, the factors that drive cash are not the same ones that drive profitability. Cash may be an issue in a recession, but profits are a bigger concern. The cash challenge arises because there are no profits to invest back into the firm. When "cash is king" is the mantra, it causes management to take their eye off profit.

Second, converting assets to cash often makes the profit challenge even worse. If firms liquidate too many operating assets, such as inventory or accounts receivable, they reduce their ability to generate sales. In doing so, they have entered a death spiral.

For these reasons, the focus must be on profitability. If firms are going to be successful long term, they can't hunker down. They need to continually build a base for the future and that rests on higher profits.

#### Profitability

To ensure profitability in a recession, four factors have the greatest impact on profit: sales growth, gross margin, payroll expenses, and non-payroll expenses.

**1). Sales Growth** Sales volume is seldom a profit driver. The real issue is sales growth. In a down market, growth is a scarce commodity. The pressing need is to focus on sales growth relative to expense growth. Ideally, firms should target sales increases somewhere between 1-2 percentage points faster than the increases in operating expenses.

In a growing market, maintaining the gap between sales growth and expense growth isn't easy, but achievable. But when sales are stagnant or declining, the degree of difficulty increases sharply.

**2). Gross Margin** Generating adequate gross margin is always a major determinant of profitability. In periods of slow growth, there are intense pressures on gross margin but most firms can still find opportunities for significant margin enhancement.

**3). Payroll Expenses** Controlling payroll is essential to controlling expenses. In recent years, payroll has rivaled gross margin in importance as a profitability driver. This is because payroll expenses, especially the fringe benefit components, have skyrocketed the past decade, in both good times and bad.

## PRESIDENT'S MESSAGE

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confidence they met industry standards and conformed to Federal law and mandates. This STAFDA member benefit made what is normally a very excruciating process much more palatable. Many of Nancye's helpful documents can be found in the members-only section of the STAFDA website.



In late June, I attended a non-industry conference in Montreal and visited with local STAFDA associate member, **Cendrex**, a manufacturer of access doors, roof and floor hatches. I toured their facility, learned about their lean manufacturing process, exclusively designed products, and commitment to customer service. Cendrex's CEO, **Ben Desjardins**, (shown above) will be in just one of the more than 700 booths exhibiting their innovative products in Phoenix. I can't wait to walk the Trade Show floor to see how companies like this can help me find new and lucrative markets with their out-of-the-box products!

**4). Non-Payroll Expenses** Most non-payroll expenses require only minor adjustment. Unfortunately, numerous expense categories must be examined and adjusted. Controlling non-payroll expenses will always involve examining every expense category with the goal of identifying options making modest improvements.

Every recession eventually ends. Once it does, many firms will return to their "business as usual" routine. They would be well advised, however, to remember both the challenges and opportunities associated with this recession. A company that can build their profit base in a down market will enjoy a major advantage on the upside.



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