



# Market Condition & Activity Bulletin

Piping & Equipment, Inc.— A Member of AD & supplyFORCE.com

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## THE ERA OF THE INDEPENDENT

Piping and Equipment, Inc. is extremely proud to be a member of Affiliated Distributors. Bill Weisberg, Chairman and CEO of Affiliated Distributors, is a very dynamic leader who has continued to advocate the strength and vitality of the independent distributor. Printed below is a copy of his remarks at the annual North American Meeting in Nashville, Tennessee on September 16, 2003: "I stand before you, pleased to report on the great progress made by our organization in 2002 and year-to-date in 2003. In what some people call my annual state of the union address, let me start by saying that the state of the union is vibrant and strong. Since I spoke here, just one year ago, Affiliated Distributors has increased its market share and leadership in each of our Divisions. Our electrical volume exceeds that of any group or chain in North America. Our general line industrial sales and our Plumbing and PVF sales exceed that of any group or chain in North America. Together, we sell over \$17 billion in industrial and construction supplies in the U.S. and Canada, a figure unmatched and unrivaled by any similar enterprise. But that is only part of the story. Because in addition to being the market leader in each of our industries, every one of our divisions outperformed their respective industry and provided even greater growth for A-D Suppliers in 2002 and year-to-date, in 2003. A-D's strength is not just our size. It is also our performance. Performance rooted in the quality of our membership, our commitment to excellence and the strength of independent distribution.

Not too many years ago, the experts and consultants were predicting that each of our industries were well on their way to being dominated by a handful of national and international chains. Their theory was that multi-billion dollar companies, run by sophisticated management teams would overpower independents by utilizing huge distribution centers and multi-million dollar computer operating systems. According to these experts, the future belonged to the chains. My friends, I utterly reject that point of view. The single most powerful force in our industry is independent distribution. That is the way it has been. And that is the way it will be. And I make these statements not based on theories or text books, but on hard facts and market realities. The last few years have been difficult for everyone. But it is the chains, not the independents who have struggled most. Not every chain. Some are doing very well and will continue to do so. But as a class, overall, the chains are losing share, not gaining. There are chains now seeking new ownership. There are chains with serious operational problems. There are chains with serious financial challenges. Even one, a roll-up, that just recently declared bankruptcy. We do not rejoice in their difficulties. We respect these companies and the people who work there. But these difficulties are not coincidences. They are symptomatic of the serious challenges that multi-billion dollar national distributors face.

And that is why we say that this is the Era of the Independent — and why, in our view, the strategic advantages and practical realities of our industry favor independent distribution. Let's compare the expert's theories to market reality. Does operating on a national basis enable chains to attract better people? No, it does not. The practical reality is that independents have no problem attracting and retaining the strongest teams. People no longer believe that big companies provide greater employment stability or greater opportunity. Most believe the very opposite. And given the choice between a cash bonus and an equivalent grant of options in a publicly traded distribution company — well, what would you choose? Does operating on a national basis enable chains to make better decisions? No, it does not. The practical reality is that the closer one is to the market and to the customer, the better decisions one makes and the faster one is able to identify and respond to opportunities and challenges. This is just common sense. We all know this to be true. Being closer to the market and the customer is a sustainable strategic advantage for independents. Does operating on a national basis make chains more attractive to the vast majority of our industry's customers? No, it does not. Most customers in this industry are contractors, industrials and commercial business people that place far greater value on local service, local coverage, local relationships and prompt decision making than they do on multiple market coverage. And I include in that statement, the local plants of the vast majority of multi-location industrial end-users. Customers, of all size, recognize that independents are generally easier to do business with, more flexible in their approach, provide better service and respond faster to their issues and concerns. These are also sustainable strategic advantages for independents.

But what about technology? Do state of the art ERP systems provide national chains with a strategic advantage? No, they do not. The practical reality is that most of these implementations have been hugely distractive to management, disruptive to their operations and failures in terms of return on investment and productivity. ERP systems that cost tens and even hundreds of millions of dollars were not designed to serve the needs or solve the problems of distributors. Distributor operating systems that do what we need, cost far less, and are well within the budgetary grasp of independents. Let's examine more evidence. Does the acquisition of leading local distributors enable chains to buy local leadership? No, it does not. The practical reality is that the integration of even a strong acquisition is difficult at best. The simultaneous integration of several is next to impossible. And when one over pays for acquisitions, as has often been the case, the decisions made in the aftermath are rarely positive for the future of the business, for its customers, its suppliers or its employees. How many acquisitions made by chains are stronger today and command greater market share than when they were independents? These are just some of the differences between theory and reality. Yes, chains do have the ability to fund expensive operating systems. Yes, they do have the ability to make numerous acquisitions. And yes, they can operate in multiple regions of the country. But these attributes do not translate into competitive advantages in our industry or market leadership. Market leadership is not something that can be purchased in our industry. Market leadership must be earned. Day in. And day out. In the marketplace. Close to the customer. With hard work, with perseverance and with commitment. And that is why independents continue to lead this industry. And why the Era of the Independent is here to stay. And that is not just our point of view. It is the point of view of more and more suppliers, every day. It is why suppliers join A-D. It is why those few who ever left now seek to return. And it is why A-D suppliers focus their selling, marketing and planning time with A-D members.

A-D members are typically the distributors in each local market that suppliers want to do business with. That is a huge part of our success. We have large members and small. Contractor oriented members and industrial. They are all local market leaders. Our members are companies that invest in their future while carefully managing their bottom line. They are companies that invest in their people while increasing productivity. They are companies that value a strong supplier partner and show loyalty in return. They are companies that have

## STAINLESS STEEL PIPE

**Pricing** ⇒ Manufacturers indicate stainless steel pipe to increase from 3% to as much as 10%. Nickel pricing continues to drive the overall pricing (surcharges). Nickel increases have driven up the alloy surcharges on stainless grades significantly. Increases in Nickel alloys have followed suit. The October surcharge is approximately equal to 40% of the base cost of the flat-rolled product. The November surcharges are up at least 10% over October. The September Surcharge was \$/LB: (304L) .269 and (316L) .308. The October Surcharge is \$/LB: (304L) .301 and (316L) .444. The November Surcharge is \$/LB: (304L) .335 and (316L) .496.

**Lead Times** – Commodity items not available from stock

are shipping in 8 – 12 weeks. The fill rates are running at 40% – 80%. Non-stock specials are shipping in 12 – 16 weeks.

**Comments** – One manufacturer notes that improving economic indicators and the weaker U.S. Dollar suggest the possibility for modest improvements in demand for stainless in general and Plate/Pipe in particular in the coming quarters. However, there will not be a return to the growth rates of the past 20 years as simple manufacturing and process industry will continue to migrate toward lower cost regions with larger future market potential. Foreign competition is increasing particularly China, Taiwan, Italy and Germany.

## STAINLESS STEEL WELD FITTINGS

**Pricing** ⇒ No price changes predicted for stainless steel weld fittings. However, raw material prices are increasing and this could result in increased during the first quarter of 2004.

**Lead Times** – Fill rates are strong at 70% – 80% with deliveries in 2 – 6 weeks for material not in stock. Manufacturers are starting to adjust inventory levels to support the declining market conditions. Exotic specials are shipping in 4 – 8 weeks. One manufacturer notes that

exotic materials are getting more difficult to find.

**Comments** – Rumors are spreading about the financial situation of some manufacturers according to comments from one manufacturer. The price difference in foreign versus domestic material is making the market tough. Even some long time domestic only users will be accepting foreign in the near future according to comments from several manufacturers.

## STAINLESS 150 AND HI-PRESSURE FITTINGS

**Pricing** ⇒ No price change indicated for stainless 150 and hi-pressure fittings. In fact, there has been no change since the second quarter in April 2003.

**Lead Times** – Fill rates remain strong at 80% – 95%. Commodity items not in stock are shipping in 1 – 2 weeks.

**Comments** – The market remains soft with the master distributors holding large inventories of offshore product. New offshore entries into the MSS, sp-114 market have reduced the prices of the product.

## STAINLESS STEEL FLANGES

**Pricing** ⇒ Manufacturers expect no price change this quarter.

**Lead Times** – Deliveries of commodity flanges are 2 – 4

weeks with fill rates of 60% – 80%. Lead times for non-stock specials are 4 – 8 weeks.

**Comments** – Foreign competition remains strong.

## CARBON STEEL PIPE (CONTINUOUS WELD, ERW & SEAMLESS)

**Pricing** ⇒ Pricing for seamless carbon steel is predicted to remain stable.

↑ ERW and continuous weld carbon steel pipe is forecast to increase from 3% – 5% due to raw material costs, demand, capacity and supply.

**Lead Times** – Fill rates are 80% – 100% on seamless with lead times of 3 – 6 weeks. ERW and continuous weld pipe also have fill rates of 80% – 100% with forecast lead times of 2 – 6 weeks. Employees are on-strike at one seamless domestic facility.

## CARBON STEEL WELD FITTINGS AND FLANGES

**Pricing** ⇒ No price changes for carbon steel fittings and flanges according to manufacturers.

**Lead Times** – 90% to 100% fill rates and lead times of 1 to 2 weeks.

**Comments** – Dumping suits remain in effect with China, Japan, Thailand and Taiwan. Foreign competition increasing from Thailand, Viet Nam, China, Mexico, and Europe.

*Please note that arrows inserted after pricing is only a "Best Guess" of pricing direction after compiling information from select suppliers. It does not reflect input from all mfgs. nor does it include study of national economic indicators.*

## FORGED STEEL FITTINGS

**Pricing** ⇒ Manufacturers forecast no change for forged steel fitting during the fourth quarter of 2003.

**Lead Times** – Lead times for commodity items not in stock is 1 – 2 weeks with fill rates of 90% – 100%.

## STEEL DEMAND . . . READY TO IMPROVE

(annual, million tons) see *Purchasing Magazine* October 9, 2003 for the Metals Outlook 2004 statistics

	2000	2001	2002	2003	2004 (Forecast)
World Consumption	675.2	743.9	766.2	793.7	828.7
US Consumption	120.3	98.9	96.4	94.5	102.1
US - % of World	17.8	13.3	12.6	11.9	12.3

The world economic outlook from the International Iron and Steel Institute in Brussels puts the overall global economy at same or slightly better than summer activity by the start of 2004. Still, some analysts see steel in tight supply and pricey globally next year, if demand increases by the anticipated 4+%. Steel prices would rise because of a strain on steel making capability according to Peter F. Marcus, managing partner of World Steel Dynamics – Englewood Cliffs, N.J. He notes that the mills already have smelting at a high level of global capacity at a time of few melt-shop additions (outside China). Other factors contributing to steel price increases: possible tight supplies of steel making raw materials at higher cost caused by currency exchange gyrations.

## STAINLESS GATES, GLOBES, CHECKS

**Pricing** ⇒ Manufacturers indicate no price adjustments scheduled for this quarter.

**Lead Times** – Commodity stainless valve fill rates are 70% – 90% with lead times of 3 – 8 weeks depending on the manufacturer.

**Comments** – Nickel pricing is up 42% over the same time last year. If nickel pricing continues to stay up, price increases will follow in the first quarter of 2003 according to manufacturers.

## BRONZE AND IRON GATES, GLOBES, CHECKS

**Pricing** ↑ Several manufacturers predict no change in bronze and iron valves; however, one manufacturer predicts a 1% – 2½% decrease in pricing due to foreign competition.

**Lead Times** – Fill rates remain strong at 80% to 100%. Scheduled delivery on commodity items not in stock is running 2 – 4 weeks. Non-stock specials are scheduled for 8 – 16 weeks.

**Comments** – One manufacturer notes that domestic bronze valve manufacturers will continue to maintain market share, even though global competition is strong. Bronze ingot pricing continues to rise moderately. Iron valve importing will continue to be popular; however, customers are increasingly looking to respected Tier I manufacturers for their iron needs.

## CAST STEEL GATES, GLOBES, CHECKS

**Pricing** ⇒ Cast steel valve pricing shows no indication for price changes during this quarter.

**Lead Times** – Forecast lead times for commodity items not in stock is 6 – 8 weeks. Fill rates are 80% – 90%. Non-stock special items are forecast for 8 – 12 week

deliveries.

**Comments** – Some manufacturers are seeking low cost countries like China and India to produce their products as they struggle with the competition. Special trim valves (Nace, etc.) are in high demand.

## FORGED STEEL GATES, GLOBES, CHECKS

**Pricing** ⇒ Manufacturers predict no price adjustments for this quarter for forged steel valves. With the lack of demand, manufacturers are facing increased capacity and supply.

**Lead Times** – Fill rates are 70% – 80% with commodity

items shipping in 8 – 12 weeks. Non-stock specials are out 12 – 20 weeks.

**Comments** – Manufacturers are seeing increases in foreign competition particularly from India.

## QUARTER TURN VALVES – BALL AND WAFER

**Pricing** ↑ One manufacturer reports pricing will increase this quarter from 3% to 5% due to raw material costs. Other manufacturers indicate no change in pricing due to foreign pressure and the continued tight market.

**Lead Times** – Fill rates are high at 90% – 100% according

to one manufacturer. Other manufacturers note commodity valves shipping in 2 – 3 weeks, automated valves shipping in 4 – 6 weeks, and control type valves shipping in 12 – 16 weeks. Competition growing from India, Italy, and the Pacific Rim.

weathered the storms of the past two years, making, not avoiding, the tough decisions necessary to maintain financial strength. They are companies that are poised for growth. They are companies that are growing. If a union, such as ours, is judged by its size, by the quality of its members and by its strategic advantages, then make no mistake, the state of this union, is very strong indeed. In addition to our overall size and the quality of our members, one of A-D's greatest strategic advantages is that we operate in multiple end-user markets, multiple industries and multiple countries. Because we have a contractor and industrial end-user balance, we are attractive to the broadest cross-section of suppliers and are able to avoid the peaks and valleys associated with discreet end-user market fluctuations. This is important for groups in terms of earning volume-based incentives and helps to attract those suppliers interested in expanding from one end-user market segment to another. Because we are in multiple industries and multiple countries, we have powerful economies of scale that enable us to fund our operations at a very low cost per member. And, enable us to sustain the funding and development of programs and initiatives that are important for our collective future.

This year, a down year for the overall industry, A-D has been able to make prudent but significant investments in technology, marketing and human resources, while simultaneously improving our operating ratios. Investments we made in technology in 2003 have increased the capacity of our operating system and doubled the transaction volume done between A-D, our Affiliates and Suppliers via EDI. Investments we've made in marketing have enabled us to develop best practice guides, increase the effectiveness of our supplier promotions, expand our senior-level joint planning process and begin an exciting process to revitalize our ground breaking JMA and SSP programs. Investments we've made in people have enabled us to improve our achievement of performance-based incentives, accelerate our financial reporting, improve the format of our meetings and strengthen our administrative and executive teams. These investments in technology, marketing and people help to increase member earnings, increase supplier market share and lower our cost of doing business together. Collectively, they represent a significant commitment to our future. And yet, even in a down market, even in a period of record low interest rates, A-D's net return for our members is up, our costs per remittance dollar, down, and our operating costs per dollar earned for our members, lower than they've been in over 10 years. That, my friends, is the power of being of being multi-divisional and the importance of being multi-market focused. Our structure is a competitive advantage that bodes well for our future. But operating in multiple industries, countries and markets also requires great sensitivity and an understanding of market differences.

Two years ago, on this stage, I announced that we were restructuring our committees and councils so they would be separate, by division. Since that time, we've held meetings and conference calls to seek their guidance. And thanks to their help, we now have significant and meaningful differences by Division and by country in A-D procedures, policies, meeting structure, reports and programs. Our members are more engaged in A-D, in 2003, than at any other time in our history. This is an exciting time in our organization's continued evolution. We share a common mission, a common operating system and common resources. We are stronger — because we are together. But that does not mean that there must be only one "A-D answer" to every question. Nor does it mean that we need to only pursue programs that serve every Division's needs. Recently created, to serve distinct segments within our Affiliate population were the following entities:

- The Canadian Leadership Committee, Chaired by Bill Smith of ElectroZad
- The HVAC Committee, Chaired by George Yezbak of Thomas Somerville
- The Gauges & Thermometers Task Force, Chaired by Jeff Harrison of Harrison Supply
- The Fastener Market Task Force, Chaired by Jim Ruetz of All Tool Sales
- The Data Com Task Force, Chaired by Jeff Hockin of Crum Electric
- and The Leadership in Action Task Force, Co-Chaired by Bill Marshall of Leviton and Barry Nelson of Border States Electric.
- The Canadian Marketing Committee, Chaired by Bob Brews or R.L. Brews
- The Sanitary Supply Task Force, Chaired by Mike O'Brien of Main Line Supply
- The Safety Market Task Force, Chaired by John Fonda of John Day & Company
- The Decorative Lighting Task Force, Chaired by Bruin Hays of Teche Electric

These initiatives are led by Affiliates and, where appropriate, Suppliers. Their members serve on a voluntary basis, selected for their expertise and their commitment to the greater good. They have clear charters. And they are empowered to make decisions and add value for the people they serve.

The role of the A-D staff, me included, is support, coordination and implementation. It is an important role. And I am very proud of the work we do on your behalf. But the driving force behind this organization is not the staff. It has engaged and empowered independent Affiliates. The increased involvement of this community in every aspect of A-D's operations is having a significant impact on what we do and how we do it. And I invite every person in this room today to ask yourself how you can play a greater role in our collective future. As I look out in the audience today, I see strong individuals, made stronger by being together. I see strong companies, made stronger by being together. I see strong Divisions, made stronger by being together. I see a winning team, with a proud past and a bright future. President Kennedy once said, 'The most powerful single force in the world today is neither communism nor capitalism, neither the H-bomb nor the guided missile — it is man's eternal desire to be free and independent.' Ladies and gentlemen, we will not compromise our independence. And we will not fail each other. This is our time. This is our era. It is the Era of the Independent. God bless you all, and have a great meeting."



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