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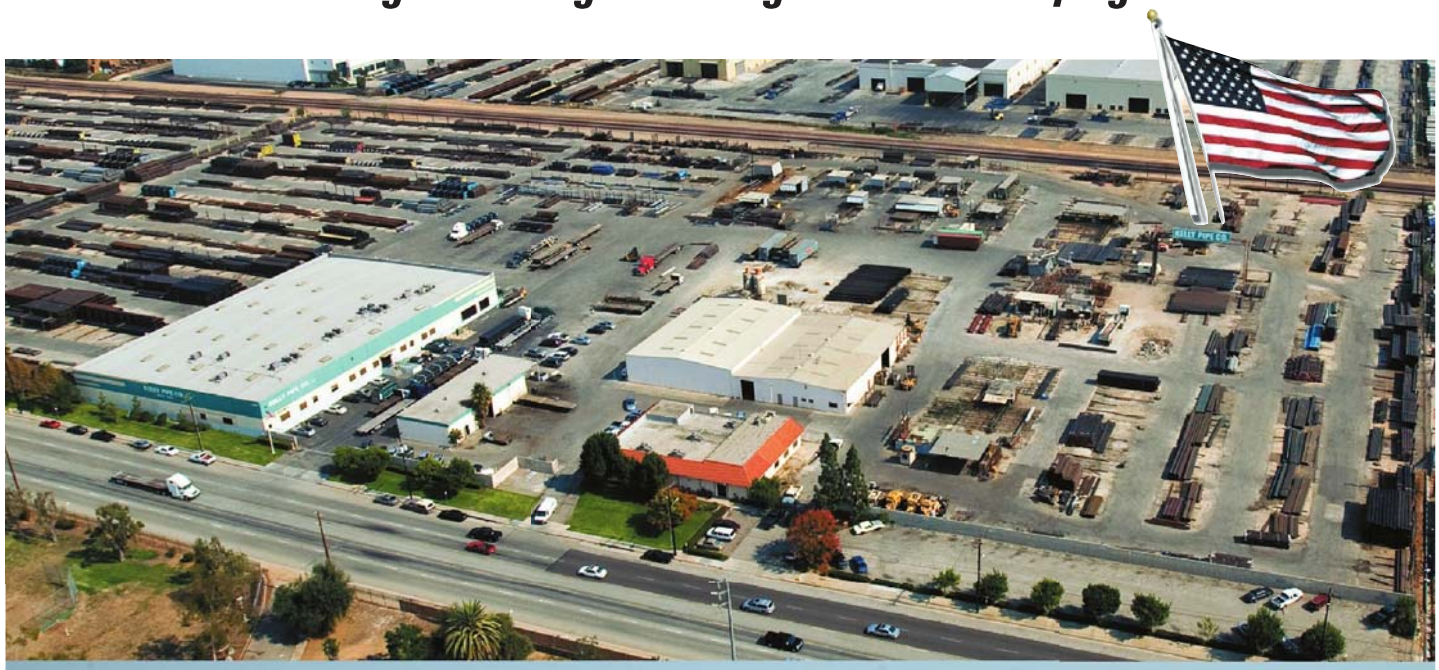


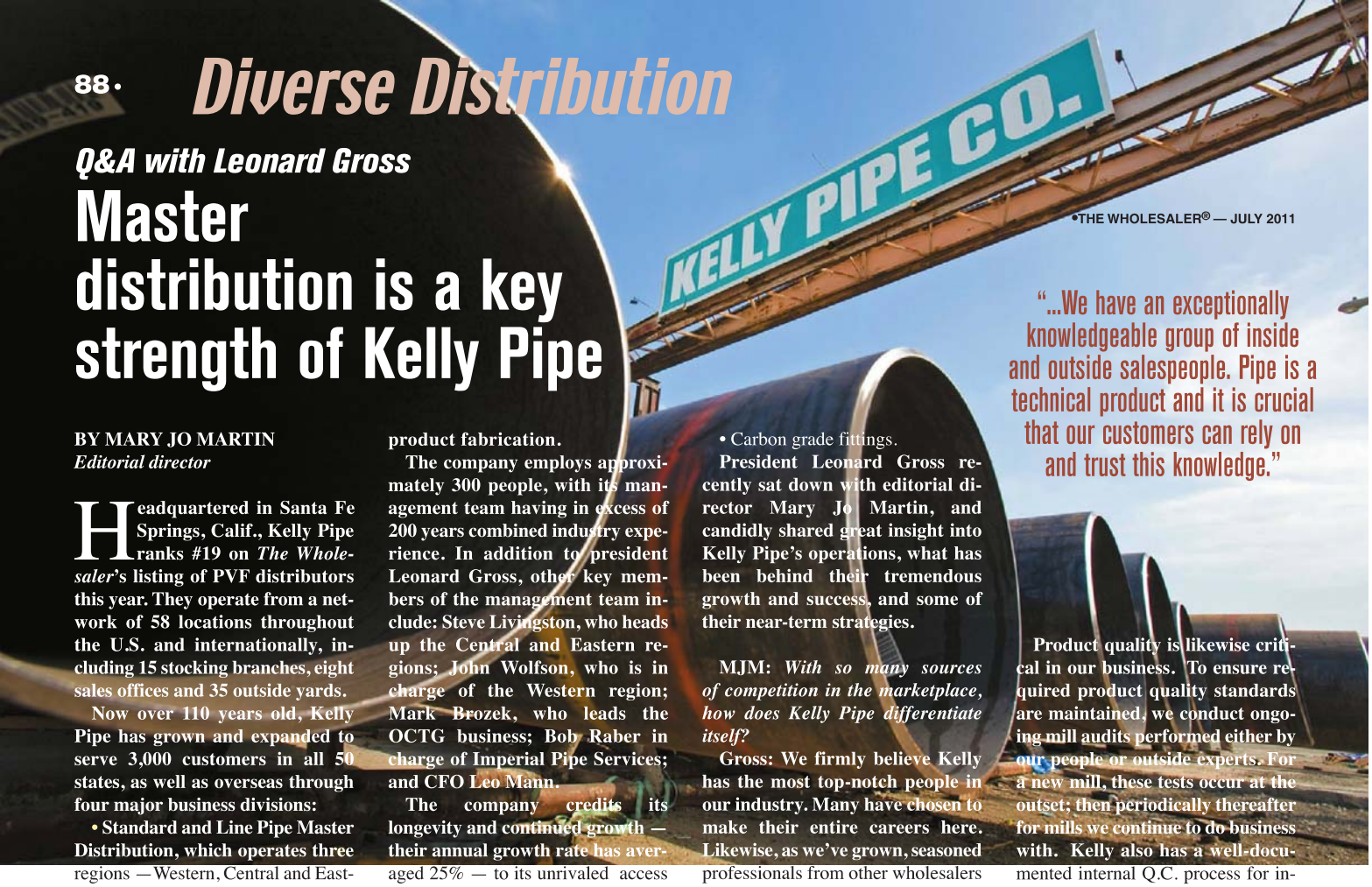
High-flying Kelly Pipe:
Eleven decades and going strong

Q&A begins on page 88.

Our 39th Annual Wholesaling 100

Q&A with Leonard Gross

Master distribution is a key strength of Kelly Pipe



"...We have an exceptionally knowledgeable group of inside and outside salespeople. Pipe is a technical product and it is crucial that our customers can rely on and trust this knowledge."

BY MARY JO MARTIN
Editorial director

Headquartered in Santa Fe Springs, Calif., Kelly Pipe ranks #19 on *The Wholesaler*'s listing of PVF distributors this year. They operate from a network of 58 locations throughout the U.S. and internationally, including 15 stocking branches, eight sales offices and 35 outside yards.

Now over 110 years old, Kelly Pipe has grown and expanded to serve 3,000 customers in all 50 states, as well as overseas through four major business divisions:

• Standard and Line Pipe Master Distribution, which operates three regions —Western, Central and Eastern. The Western region is headquartered in Santa Fe Springs, Calif., while both the Central and Eastern regions are headquartered in Denver.

• Oil Country Tubular Goods, also headquartered in Santa Fe Springs, has operations on the West Coast and East Coast, and in the Rocky Mountains.

• Kelly Pipe International, based out of London with major offices also in Bogota, Colombia; Tijuana, Mexico; and Edmonton, Canada. Four years old, this is the newest of Kelly Pipe's businesses and has been expanding at a rapid rate.

• Imperial Pipe Service Division, which specializes in water works cement coating/lining and solar product fabrication.

The company employs approximately 300 people, with its management team having in excess of 200 years combined industry experience. In addition to president Leonard Gross, other key members of the management team include: Steve Livingston, who heads up the Central and Eastern regions; John Wolfson, who is in charge of the Western region; Mark Brozek, who leads the OCTG business; Bob Raber in charge of Imperial Pipe Services; and CFO Leo Mann.

The company credits its longevity and continued growth — their annual growth rate has averaged 25% — to its unrivaled access to leading sources of domestic and imported pipe, scale and breadth of inventory, rapid delivery, and excellent record of customer service. They also provide a range of value added fabrication services including lining & coating, fabrication, welding, grooving and cutting.

Among the products Kelly stocks are:

• Black and galvanized standard and line pipe in an extensive range of sizes, weights and grades, including seamless, electric welded and DSAW.

• OCTG including tubing and casing both carbon and alloy grade

• Cement coated and lined pipe up to 54" diameter

• Stainless steel pipe and fittings

• Carbon grade fittings.

Kelly Pipe management includes (from left) Mark Brozek, who leads the OTCG business; president Leonard Gross, Steve Livingston, who heads up the Eastern and Central regions; and John Wolfson, who is in charge of the Western region.

President Leonard Gross recently sat down with editorial director Mary Jo Martin, and candidly shared great insight into Kelly Pipe's operations, what has been behind their tremendous growth and success, and some of their near-term strategies.

MJM: ***With so many sources of competition in the marketplace, how does Kelly Pipe differentiate itself?***

Gross: We firmly believe Kelly has the most top-notch people in our industry. Many have chosen to make their entire careers here. Likewise, as we've grown, seasoned professionals from other wholesalers have chosen to expand their careers at Kelly.

Some of our other major distinctions are:

• Our nationwide, well-structured master distribution operation

• Our purchasing strength with foremost domestic and overseas mills

• Our national footprint and large diversified inventories we have in place throughout the country

• Our proven ability to handle requirements of all sizes and pipe grades

• Our unique combination of Standard and Line Pipe and Oil Country Goods makes us a vital factor in both sides of the business

• Our ingrained flexibility in meeting customers' needs.

MJM: *Describe your relationships with your suppliers. Are most long-term?*

Gross: Ongoing long-term supplier relationships are an essential ingredient of Kelly's business model. Our buying power and these relationships contribute greatly to our success. Many go back over 50 years, and have proven strong and enduring. Members of our executive team conduct frequent mill visits and their top management often meets with us here. Several mills allocate considerable production to Kelly and we reciprocate their trust. Also, since our Standard and Line Pipe business focus is master distribution, these suppliers achieve the coverage they want across the nation through Kelly.

Product quality is likewise critical in our business. To ensure required product quality standards are maintained, we conduct ongoing mill audits performed either by our people or outside experts. For a new mill, these tests occur at the outset; then periodically thereafter for mills we continue to do business with. Kelly also has a well-documented internal Q.C. process for inspecting incoming material and quarantining unacceptable items.

MJM: *What are your primary end markets?*

Gross: Since the bulk of our sales occur through master distribution, it is difficult to accurately determine. We believe, though, that for Kelly as a whole the traditional energy market makes up about 50%, alternative energy roughly 10%, infrastructure — which at one time accounted for about half of our business — is now about 20%, and all others contribute to the last 20%.

Our master distribution customer base consists of prominent regional and national distributors who sell into all aspects of the energy sector, as well as into infrastructure projects both large and small. This presence as a master distributor in both the energy and infrastructure markets creates a consistent demand for our products.

MJM: *How do you market your business and target potential new customers?*

Gross: One of Kelly's key advantages is our national footprint. We're coast to coast and border to border with fully staffed branches and stocking locations around the country. Many of our products have to be available 24/7, and they must be stocked at locations near the end users so they can be picked up around the clock.

We have also found value through our membership in major buying groups. Due to our prominence, it is

(Turn to Powerhouse... page 90.)

Powerhouse Kelly Pipe provides products, knowledge to market through various business units

Kelly Pipe's yard in Edmonton, Canada is just one of 35 outside yards and illustrates the worldwide nature of this organization's reach.

(Continued from page 88.)

typical for someone buying pipe to first check with Kelly. And it's not just about our ability to offer competitive pricing. As mentioned, we have an exceptionally knowledgeable group of inside and outside salespeople. Pipe is a technical product and it is crucial that our customers can rely on and trust this knowledge. Our website is also a growing source for new contacts, especially from those outside our core industry. It receives over 100,000 hits a month. We just added a comprehensive video to the site that tells the Kelly story.

MJM: *How do you balance the traditional wholesaling side of your business with the master distribution part?*

Gross: We always sold to other distributors, but it wasn't necessarily our number one focus for standard and line pipe as it is today. Since we converted to that mode of operation about six years ago, this master distribution model has contributed greatly to our rapid growth.

MJM: *What are some of the key differences in the way your master distribution business works from your traditional wholesaling operations — or are there differences?*

Gross: One of the keys to us is that under no conditions do we compete with our customers. When a customer comes to us with a job, we don't go around them and attempt to secure the sale ourselves. As a result, they have come to rely on us not to enter their market. Once that level of trust is created, as it is today, our customers remain loyal as we do to them in return.

Our standard and line pipe customers fall into several major categories:

- Many distributors turn to us to remove the headaches of buying pipe because it is such a technical product. They look at us as their technical specialist.
- Some distributors who typically maintain pipe inventories turn to us for items they've temporarily run out of stock on.
- Then there are a group of wholesalers that contact us when they are bidding a major project because they know our buying strength can keep them competitive.
- Many mills have minimum purchasing requirements. Some wholesalers prefer not to handle that size of order. We are able to make those buys and they then can source the product from us.
- Likewise, many mills have limited their distribution base in recent years. If one of our customers needs their products, they can turn to us to supply those requirements.

MJM: *And are there differences in developing and building customer relationships between those two sides of the business?*

Gross: It's not that different. It really comes down to reliable service, fair pricing, honest relationships and quality products. That's really what all customers want.

MJM: *I understand you have implemented a successful management training program. How is that structured?*

Gross: We conduct interviews at various universities and colleges for our management training program. Qualified graduates are hired to learn our business. This program started about five years ago, and several past trainees are now in important middle and branch management positions. We're especially pleased that all 10 of the trainees we've hired have remained with us. They are encouraged to take on more and more responsibilities and learn about the different departments and branches throughout the company. It enables them to quickly determine where their interests lie. Nearly all begin in the yard where they learn product features, how to identify product, shipping and receiving procedures; and mix with customers on order pickups. They then can move on to inside sales, purchasing, credit, systems, etc. We would not have been able to achieve the growth we have without the contributions of these past trainees.

MJM: *What types of value added services, such as cutting, grooving, etc., do you offer?*

Gross: Here at our home branch in Santa Fe Springs, Calif. — which also functions as a D.C. for the Western Region — we offer cutting, threading, blasting and grooving. Pipe can also be fusion-bond epoxy-coated through outside sourcing. All of our facilities perform cutting; but when it comes to other value added services, it varies from location to location. In situations where they don't have those internal capabilities, we establish alliances with nearby service providers.

Of particular importance, we have an affiliated company called Imperial Pipe Services in Southern California that performs cement coating and lining on pipe used in water works applications.

MJM: *How has the roller coaster of metals prices affected your business, and where do you see it going in the near term?*

Gross: We're in a very volatile period that started in 2004 and accelerated greatly in 2008. It has continued up and down since then. In 2009, prices declined extremely rapidly and caused considerable distress in our industry. Volatility still remains high, although fortunately not quite as serious as in 2008 and 2009.

Because of our long-term mill relationships, we're usually able to anticipate price changes. We invest in inventory, even when there are signs prices may be increasing. This gives us the product availability required to meet our customers' needs — especially when it comes to the quick turnaround necessary to be a successful master distributor. In summary, I see the volatility continuing.

MJM: *What are your growth projections and strategies for the near future?*

Gross: I anticipate we will continue with our very vigorous growth. We will be evaluating potential fill-in locations where appropriate that are more closely geographically related to our customers to minimize freight costs.

Another opportunity is continued international expansion. We will be very active in adding new applicants to our management training program, by recruiting aggressively. It's important to continually bring in new people regardless of the business cycle.

We recently converted to a new ERP system, which was a major endeavor in the planning for many months. We went live May 31. It's called NAV Dynamics, which is a Microsoft product designed for distributors. Because it is Windows based, it will be more familiar and easier to use for new people entering the company as well as our experienced team that are already familiar with Microsoft Windows. It should be far easier to get information out of the system, such as reports, screen shots or any other information that might be needed. A key feature is that all the e-mails sent to customers and vendors will be automatically embedded in their files so we can easily go back and refer to them. The system also has a versatile pricing module, as well as an inventory management application that will be a great advantage in the future.

Another area we are continuously looking at is new mill sources because there are emerging mills constantly opening around the world.

These steps — along with our sound existing structure — ensure Kelly's continued expansion. ■

For additional information, visit www.kellypipe.com.

At left, Kelly Pipe's warehouse in Charlotte, N.C., is a component in a network of 58 locations throughout the U.S. and internationally, including 15 stocking branches and eight sales offices. The company provides employment for more than 300. At right, an employee operates a plasma cutter at Kelly's Santa Fe Springs yard.