MODERN DISTRIBUTION MANAGEMENT

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■ *MDM Interview*

Clean-Up of a Roll-Up

Industrial Distribution Group's CEO on the One Company strategy

Since 1997 when the company was formed through the rollup of nine industrial general-line distributors, Industrial Distribution Group, Atlanta, GA, has seen its share of integration challenges. Charles Lingenfelter, a founding member of IDG, became president and CEO of the $550-million national distributor in November 2005. Since taking the helm, Lingenfelter has pushed hard to take the distributor from four divisions to one company.

MDM spoke with Lingenfelter recently at the Industrial Supply Association's annual meeting in Las Vegas, NV. Lingenfelter spoke of his company's progress and the work that still has to be done to make IDG's One Company plan a success.

MDM: Over the past 10 years, IDG has had a series of integration challenges. Can you describe where the company was when you assumed your current role at the end of 2005, and what fundamental changes you have been driving since?

CL: When I took over we had four separate operating divisions and a stand-alone specialty cutting tool business in Wichita, KS. Each of the divisions had their own back offices with three separate management information systems and division-based accounting departments. We also had a corporate accounting group that brought all of the financial information together. That gives you four purchasing teams, four sales teams, four logistics teams, four marketing teams and four HR teams.

This was the first time in my career that as soon as I got the job I knew what needed to be done. The plan was to move the four divisions to a One Company structure in order to leverage the resources of our human capital, which we were not doing. We might have had the best logistics person in one division, the best purchasing in another, and the best HR in a third. But we weren't sharing that talent. We quickly went to a flat organization. The regions still have the overall authority and responsibility, but the back office was centralized. We also went to a functional operating structure rather than a geographic one.

The other thing IDG has had all along is great practices. We were one of the first industrial distributors to do activity based costing, integrated supply, and we had a mature quality system that has evolved into a business management system for the company. We were always on the cutting edge in one division or another, but we weren't sharing or adopting these practices as a company.

Our customers are at least national in scope if not global, and they want one person to buy from and they want one person to deal with on operational issues. One of the first things we did was to put into place a single Flexible Procurement Solutions (integrated supply) team. The team is responsible for selling FPS, implementation, developing best operational practices and staffing sites. Once we execute an agreement, we hand it over to the regions to manage the relationship. This approach has been very successful. In 2006 we closed a significant number of new FPS agreements.

MDM: There are a lot of examples of rollups that just didn't work. Rollups can be like 'herding cats.' Is there a successful blueprint to follow?

CL: The traditional rollup strategy is flawed because few take into account the single most difficult thing for a roll up to deal with: culture. That's the part that most

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miss. I spend a lot of my time on the culture side. Today we have the majority of our associates behind our strategy, but change is a very painful and usually slow process. There's been a lot of work done over the past 15-18 months. You have to think, act and operate as one, and rollups never took that into account. If you don't do that you don't get the economies of scale necessary to make a roll up financially successful.

MDM: Can you outline your marketing efforts as part of the One Company strategy?

CL: To get the customers and suppliers to look at us as one, we needed a national marketing presence. We quickly put a national marketing team together. Before, if you wanted to sell IDG a product, you had to go through five different booths at ISA or visit each division. At this year's convention, we had a cutting tool booth, a safety booth, and so on. We have more marketing and product people here (at the ISA trade show) than sales leadership.

MDM: 18 months in, do you see the light at the end of the tunnel?

CL: The culture is in line – and we are moving together in a progressive manner. People are working well on teams. They are sharing best practices. If there's a problem, we're crossing geographies to find the people with the best skill sets to fix it.

What we're probably struggling with somewhat is the technology and data side – not so much our ERP system but the EDI piece. We brought five different databases together, and we're still cleaning up data issues. We've changed and standardized over 750,000 part numbers.

We brought 95 percent of the company onto one system within nine months. Could we have gone slower and would it have changed much? No. If you give people 18 months to complete a conversion, they would try to do all their homework and preparation in the last three months. We had one advantage. We chose Infor and 40 percent of our business was running on this software already. So we were able to draw people out of that group to help in other places.

The heartburn has been different processes and the multiple databases. We had a lot of one-off solutions for customers that we've had to remap. We've had to design new processes to serve them. Heartburn-wise, we're probably three to four months from being complete. That's with a lot of work from our people. You can implement software in a weekend, but the preparation and getting past the go-live issues are the tough parts.

MDM: How will IDG continue to differentiate?

CL: We are a distributor first and foremost. We're a successful integrator, but the roots of those integration skills and resources started as a distributor. In the past nine years we've lost sight of that. The growth was so great on the

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Flexible Procurement Solutions side, that we didn't mind our Ps and Qs on the distribution side. I've put about 80 percent of my effort in the past 18 months into really focusing on the core of our business – being a technical MROP distributor.

We're going back to how we differentiate IDG, and that's to have technical sales associates and technical product specialists working together. You might be the best cutting tool sales person but if the customer wants to buy air tools today, we can send an air tool specialist with the sales person if necessary.

We're complementing our technical people with specialists and backing them up with service at our regional service centers. We're also paying our sales people an incentive for documenting customer cost savings. I think IDG has been the leader in documenting cost savings and now we're compensating for that. Our belief is if you're taking costs out for the customer, you're providing value, and there's a good chance you'll get a higher price and it's less likely you'll get fired.

MDM: Is it possible to operate a traditional distribution business on one side and integrated supply on the other and make those two work together?

CL: The biggest problem distributors have operating as a traditional distributor while trying to do integrated supply is that you have competition between your sales associates. The sales associates don't want to give up their account to the integrated supply side.

Many times they take the risk of losing their account to an integrator before saying, "Hey, we need the integrated supply selling team to come in and look at this account." We've put a program in place to reward our sales people for providing us with integrated supply leads and we protect them on the back side.

Being a distributor and an integrator helps us because we have 28 product specialists. A pure integrator seldom has these resources. They also don't usually have the support of the manufacturers. The pure integrators typically

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History of IDG

Industrial Distribution Group Inc., Atlanta, GA, is a nationwide distributor of MROP products, including cutting tools, hand and power tools, abrasives, material handling equipment, coolants, lubricants and safety products. The company also provides an integrated supply service – comprising roughly 60 percent of its overall revenues – called Flexible Procurement Solutions.

1997
Industrial Distribution Group is formed from nine general-line industrial distribution companies. Together the companies have about $250 million in annual revenues. IDG is taken public in an initial public offering. At this time, principals plan to consolidate only certain corporate functions but use a decentralized management structure at each subsidiary. CEO brought in from outside industrial distribution: Martin Pinson, formerly executive vice president and CFO of U.S. Office Products Company, which was also a roll-up.

1998
IDG adds 17 companies to its portfolio, for a total of 26 operating companies with annualized revenues of close to $572 million.

1999
Pat O'Keefe was brought in from outside industrial distribution to be CEO.

2001
Andrew Shearer, a founding member of IDG, is named president and CEO. He had served since 1991 as president of the IDG York business unit, formerly Shearer Industrial Supply. Shearer brings number of business divisions from 13 to four, plus a specialty cutting tool business unit.

2005
Charles Lingenfelter, a founding member of IDG and president of IDG's Southern region, is tapped to replace Shearer as president and CEO. Lingenfelter creates the One Company strategy to further integrate the four remaining geographic operating divisions.

are brand-neutral so the supplier takes a hands-off approach. We are not brand-neutral. We do have a brand preference and we bring suppliers who can deliver value to our customers.

MDM: How do suppliers view your model?

CL: I would say that IDG's model has always been well thought of by suppliers. However, we've not done an effective job of using our supplier's resources to help grow sales. We're aggressively pursuing that. I spend about 20 percent of my time with the suppliers right now working on growing sales and profitability.

MDM: What is your focus going into the second half of 2007?

CL: IDG's biggest problem is that it hasn't delivered profitable, consistent sales growth. We're working on selling more Flexible Procurement Solutions deals and at the same time improving our profitability in our general MROP side by buying better as one company and using strategic pricing, which we are implementing now.

MDM: Strategic pricing seems like a critical move for IDG.
CL: The biggest pricing issue that IDG had is that we were selling below market. As a $550-million distributor with national buying power, we have margins and operating income like a smaller distributor.

Almost every company IDG acquired had a cost-plus pricing mentality with our sales and customer service people driving the pricing. We're changing that mentality. We're now pricing from list price down. We need to be sure that IDG is competitive in the marketplace in relation to the value of the product that we offer. The high-volume, high-profile products need to be priced differently than the low-volume items. Over the next 18 to 24 months, this is a major opportunity for us. We've applied strategic pricing to our small accounts and now we're preparing to apply it to our other accounts.

We provided strategic pricing training for everybody in the company. We used a "Price is Right" theme. We compared our typical selling price for certain products to other national distributors' prices for the same product. Guess what, IDG was usually the lowest price. If you're that low on price and you're not growing sales, it says there's something wrong with your strategy and execution. We are working to fix that.

Creating a Board of Directors

Distributors recruit outsiders for advice, accountability

Many privately held distributors have advisory boards, but they are comprised entirely of insiders. Or the board is convened merely as a formality or legality. But a so-called "real board" could help in formulating and enforcing company strategy, as well as provide a venue to ensure your wishes are carried out after you retire or in the case of a disabling injury or death.

Julia Klein, president and CEO of building materials distributor CH Briggs Co., Reading, PA, created an advisory board for her third-generation business about 18 months ago.

"I can tell you, it's one of the best things I've ever done," she says. "We had what many family businesses had – a perfunctory family board where we would pretend to meet over dinner, once a year, and have our lawyer write up the minutes.

"That wasn't really supporting our needs for growth. I eventually bought my parents out, and then started thinking about what a board might look like."

The most useful advisory board will include "objective experienced businesspeople that can provide real input to the company," industry consultant Brent Grover said in a recent MDM audio conference, "Succession Planning: Leaving Your Business Better," now available on CD.

Grover's survey of distributors in 2006 found that a third of companies have a board with only insiders; 40 percent have a board just as a legal formality; and about 25 percent say they have an active board that includes outsiders.

Klein had a specific idea in mind when she formed her advisory board. She pulled together six outsiders she knew well but also knew the company well. "These folks are very tough on us and hold us accountable," she says. "They are all people who have run much larger companies and so they help us stretch to imagine a new future."

Rick Rogers, CEO of BW Rogers Co., a fluid power distributor in Akron, OH, also draws on a board for advice and accountability. He inherited the board his father created when he was leading BW Rogers. "It was an executive board, but he had had the foresight to ask outsiders to sit on the board. It's evolved into a much stronger entity over the years."

Ten people sit on Rogers' board, including the distributor's legal and accounting advisers.

Board Make-Up

Rogers' board does not include just members with experience in the industry. "It's important to look for people that can fill in where you might have some weaknesses," he explains.

Rogers has included a local grocer on his board who is "fabulous with customer service issues we wanted to undertake." A local advertising professional helps Rogers with marketing. Just two of Rogers' 10 members have experience in fluid power or industrial distribution.

Klein's board is made up entirely of industry outsiders. "People have been delighted to be on the board, and they have been very active participants," she said. Her next move is to add experts in distribution to accelerate the company's growth strategy.

"We've learned a great deal and all of our advisers have clear opinions about what the developmental needs are for the entire team."

Grover recommends starting with your immediate network of friends and colleagues. Also, look to people who work at large public companies. Usually, only the presidents and CEOs already sit on boards. "The others in the company are typically not asked, but would be flattered to do so," Grover said. "You'll be amazed at the talent that you can recruit to be on your board.

"I urge you to have strong advisers with strong opinions who are willing to speak their minds." Strong advisers help to keep a CEO accountable.

Time & Compensation

CH Briggs' board meets quarterly starting in the late afternoon and ending in a dinner meeting. Klein pays them $2,000 a meeting. "It's some of the best money I've ever spent," she said.

Her board members also act in an advisory capacity between meetings. "Some on the advisory board are willing to consult and teach in between meetings, some for free and some for a fee," she said. "I think this is one of the most important things I've ever done to help CH Briggs grow."

Klein said she puts in about three hours of preparation time for every hour of board time. Topics can include succession continuity, strategic issues, business development acquisitions and timely critical issues that come up. She recommends focusing on listening during your board meeting – "Minimize the amount of talking you do as the CEO."

Grover agreed: "You may consider having an outsider as the chair of the meeting to free your own mind from that responsibility." In addition, have a set agenda and take minutes.

Klein sits on two other privately held boards. One pays $250 a quarter and meets over a sandwich at a coffee shop. The other pays $5,000 a quarter and by the hour for advice in between. That board meets at a resort every quarter.

"I'm just as happy with what I'm learning and contributing to the company that buys me a tuna salad sandwich every quarter (as with the board that meets at a resort)," Klein said.

Grover recommends meeting four times a year, a half-day each. He says that most companies pay between $5,000 and $20,000 a year. "I think people don't really do this for the money," he said. "But if you're going to ask people to take the time to prepare, to be willing to drop what they're doing to be involved when needed, I suggest that people's time is worth something and that they should be paid for it.

"… I think the job, number one, isn't the paycheck. It's to put together a board of people who enjoy working together and who really like each other."

Keep Board Informed

Grover recommends you write a monthly letter to board members with key business indicators "so that they're up to speed when you call and ask them for help."

This also ensures they are able to do their job as advisers effectively. Outside board members have three responsibilities to your company:

- Keep an eye on the company's financial health;
- Examine the viability of your strategy to be sure the company is on the right track; and
- Keep close tabs on leadership to ensure company is moving in the right direction.

In the spirit of succession planning, it's also crucial to keep the board informed with a letter of instructions from the CEO or owner as to what he or she would like to happen in the event of a death or incapacitation.

Family Boards

Does the family own the business or does the

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business own the family? Grover asked. "Sometimes the business kind of takes over and runs the family instead of the other way around," he said. "A family board should meet regularly and that meeting should be formal. A family board should keep records of its meetings and there should be good strong sharing of financial and strategic information."

Bring in an outside facilitator to help keep the meetings on track.

Grover said that the decision whether to include spouses depends on the situation, but that "it is better than not" to do so. Also, siblings inside and out of the business should be included.

Succession Planning Checklist

There are six items on a succession planning checklist, covered in detail during the audio conference. Klein, Rogers and Grover participated:

- Establish a board.
- Find the right professional advisers.
- Examine your leadership style.
- Determine what your and your family's end-game strategy is.
- Create an ownership succession plan.
- Create a management continuity process.

To order the CD package of this informative and important 90-minute audio conference on succession planning, call MDM at 1-888-742-5060 or order online at www.mdm.com/conferences. More details can be found online.

High Court: Price Agreements Allowed

Ruling liberalizes supplier's ability to set minimum resale prices

The U.S. Supreme Court has ruled for the manufacturer in a pricing case that pitted the supplier against a retailer. The decision could prompt more suppliers to consider minimum resale price-setting programs.

The U.S. Supreme Court in June made it easier for manufacturers to set minimum resale prices by overturning the "per se" illegality of minimum resale price agreements.

Instead, the Supreme Court ruled that challenges to minimum resale price agreements or contracts will be judged on a case-by-case basis by the "rule of reason," a more flexible legal doctrine that requires the challenger to prove price-setting was unreasonably anticompetitive and did economic harm.

"Per se" was a much stricter enforcement that assumed that minimum price setting agreements were on their face illegal, regardless of circumstances. By changing the judgment from "per se" to "rule of reason," the Supreme Court has made it more difficult for challengers of the law to win and less risky for manufacturers to set minimum prices, says Gene Zelek, leader of the antitrust and trade regulation practice at Freeborn & Peters LLP, Chicago, IL.

The "rule of reason" has also governed practices such as supplier-defined reseller territories, confining reseller sales to particular locations or allocating reseller customers, Zelek says. It is also the same test that the Court determined 10 years ago applies to maximum resale price setting by agreement or contract.

"Although it was possible even before this decision to set minimum or exact resale prices by unilateral policy, the press attention generated by this case likely will spark substantially more interest in resale price programs," Zelek says.

Defining Anticompetitive

George Keeley, an attorney with Keeley, Kuenn & Reid, Chicago, IL, who wrote an advisory for the National Association of Wholesaler-Distributors, says that the ruling does not mean manufacturers have an unfettered right to push minimum prices down to a distributor or retailer. "It should be emphasized that the Court's decision still leaves minimum resale price restraints open to antitrust challenges," he says.

The Court, in the Leegin case, said that some "vertical price restraints" may have clear anticompetitive effects making them illegal under the "rule of reason" standard. A group of resellers, for example, could fix prices and compel a manufacturer to enforce the illegal arrangement by going along with the price-setting, according to NAW's advisory on the subject.

Or a manufacturer with market power may set prices to influence key resellers to not sell the products of a smaller rival or new market player.

"This conduct could facilitate a manufacturer price fixing cartel," the NAW advisory reads. "If a manufacturer adopts the resale price maintenance policy, without influence from its customers, the restraint is less likely to promote anticompetitive conduct at the resale level."

Stimulating Competition

In explaining its decision, the Court said that minimum resale price maintenance can stimulate competition among manufacturers selling different brands of the same type of product by reducing intrabrand competition among resellers offering the same brand.

"A single manufacturer's use of vertical price restraints tends to eliminate intrabrand price competition; this in turn encourages retailers to invest in tangible or intangible services or promotional efforts that aid the manufacturer's position as against rival manufacturers," Justice Anthony Kennedy wrote for the court.

"Resale price maintenance also has the potential to give consumers more options so that they can choose among low-price, low-service brands; high-price, high service brands; and brands that fall in between."

Resale minimum price setting is generally focused on non-commodity brand products; it is generally not as compelling for a supplier to set prices for commodity products as resellers can say no and buy the same product from a different supplier. Brand power in many cases equals bargaining power for a manufacturer.

'Discounting Hurts Brand'

The Court was ruling in a case between a manufacturer of leather goods, Leegin Creative Leather Products Inc., and retailer Kay's Closet, owned by PSKS Inc., in Texas.

At issue in this case were belts sold under the brand name, "Brighton." PSKS, operator of Kay's Kloset, first started buying Brighton from Leegin in 1995. It promoted the brand heavily, running Brighton advertisements and holding Brighton days in the store. Brighton once accounted for 40-50 percent of the store's profits.

In 1997, according to the Supreme Court opinion, Leegin instituted the "Brighton Retail Pricing and Promotion Policy," in which it refused to sell to retailers that discounted Brighton goods below suggested prices. Leegin expressed concern that discounting harmed Brighton's brand image and reputation.

In December 2002, Leegin discovered Kay's Kloset had been marking down Brighton's line by 20 percent to compete with nearby retailers who also were undercutting prices. Kay's refused to stop discounting, so Leegin stopped selling to it.

PSKS, owner of Kay's, sued Leegin, alleging it had violated antitrust laws. PSKS won in both district and appeals courts.

Resale Pricing Trends

Suppliers have many reasons to want to set minimum or maximum resale prices: one, for promotional price uniformity, and two, to prevent excessive margins, so that a customer does not feel gouged – and be drawn to another brand as a result. Suppliers, such as Leegin, also argue that prices reflect the value of the brand being sold.

Part of the increased interest as of late in resale price agreements has been due to the use of the Internet as a storefront to sell products. Many of the companies that do so have lower overhead costs, and so can afford to deeply discount name-brand products. However, Zelek says, this has led to piggybacking off of service levels offered in brick-and-mortar shops, which manufacturers require to sell high-level product that requires a high level of service and knowledge.

Arguably, many consumers are familiar with this practice. Go look at cameras, take advantage of the sales people's knowledge at a specialty camera store, and then go online and buy your favorite for significantly cheaper.

But a manufacturer wants these high service levels, Zelek says, because the end-user ultimately does too. But he says if there is not a minimum price set, the brick-and-mortar stores would no longer be able to afford to compete against an Internet reseller. "Manufacturers want those businesses to survive," Zelek says. A distributor that offers value-add and technical expertise benefits from this policy.

A Balancing Act

Zelek believes more manufacturers will embrace promotional/resale pricing programs because the Supreme Court's ruling has made them less risky. However, it's key for suppliers to remember that setting minimum prices can backfire. If suppliers set the prices too high, sales may fall off dramatically. They must also pay close attention to demand variations from region to region.

In addition, thanks to consolidation, larger distributors and distributors serving niche customer bases may have the power to refuse.

It is possible the Supreme Court decision may conflict with some current or future state laws. Keeley noted that the decision also may spur legal fights at lower court levels as the new standard is ironed out.

Find a link to the full text of the Supreme Court's opinion online at www.mdm.com.

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Survey: Electronic Invoicing Not Widespread

Most distributors use technology due to request from single supplier, customer

This is a summary of a recent research project on technology use conducted by Steve Epner, principal at Brown Smith Wallace consulting group.

The research project looked specifically at whether distributors in the survey sent or received electronic invoices. Less than a fifth said they did either, and even fewer sent or received a significant percentage of their invoices electronically; 150 responses were analyzed in a survey of MDM readers.

Epner also examined whether the age of the company's top management, the age of the company, its size and the markets served affected the decision to adopt this technology. In this survey, he found no significant connection between these factors and the use of electronic invoicing.

Results

Most of the distributors in Epner's recent survey who accepted electronic invoices said they did so because a trading partner had asked them to. Oftentimes this seems to be the case, with a trading partner providing incentives or penalties to induce adoption.

In the same vein, those distributors that send (as opposed to just accept) electronic invoices do so in response to a customer request.

"Since the use of technology to save money or improve operations was not the motivation, there is a large area of potential improvement for reducing administrative costs in operating a business," Epner writes. Other reasons cited, though not as often, were the improvement of operations and cost reduction.

About 25 percent of respondents received electronic invoices – 17.3 percent reported receiving electronic invoices comprising more than 10 percent of all invoices. Epner estimated about one-third of all companies receiving electronic invoices were doing it for a single vendor.

About 18 percent of respondents sent electronic invoices. Just 8 percent of respondents' electronic invoicing comprised more than 10 percent of company invoices. Epner suggests that more than 50 percent of companies sending electronic invoices do so for a single customer.

"Companies that have learned the value of receiving invoices electronically should logically consider the use of the same technology to improve operations with their customers."

Only three distributors received and sent more than half their invoices electronically.

Just one company in the survey sent and received 100 percent electronically. The sales at this company were between $5 million and $10 million a year; the company was less than 10 years old. The distributor, selling primarily to MRO customers, reported a small volume of invoices and that it was using electronic invoicing to improve its operations.

Barriers to Use

In his report, Epner discusses the barriers to technology use. Complexity and lack of trust are cited as two of the barriers to widespread use of certain technologies, especially those that require interaction with supply chain partners. Participants in some studies believed it would be difficult for them to realize benefits due to uneven levels of sophistication within their trading community.

Technology adoption is growing in distribution, but the effort to collaborate is slow in catching on. Epner comments on an effort by a group of 32 distribution trade associations to form a coalition to educate members on the benefits and usage of EDI. He quotes a founder of that group: "The results were unimpressive. Following extensive development work, publication and endorsement, adoption was minimal."

Other potential reasons for not implementing a technology solution focus more on qualities of business' leaders, including their age. Two researchers of this side of the equation said: "… it is reasonable to assume that older workers may be much more accustomed to seeking and applying traditional (ie non-technological) solutions to job-related tasks whereas younger workers are much more reliant on the use of technology for job accomplishment."

Even executives that knew of the potential benefits of adopting technology still don't do so – something Epner said was reflected in his survey. Researchers in a study on that topic said that perceived strategic value, external pressure and perceived ease of use were significant factors in the adoption of e-commerce technologies. Another study showed that the type, age and size of a business may have an impact on decisions to adopt technology.

As Epner notes, however, businesses sometimes just delay the implementation of technology while gathering data to validate the move. Still these businesses may be hit by an opportunity cost of waiting too long.

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Industrial & Construction Markets Update

PERSPECTIVE

The three Ps of process, productivity and profitability separate companies that are doing OK from ones that perform in the top tier of peers. That will continue to be the key differentiator.

The performance analysis reports many distribution associations sponsor offer a wealth of benchmark data about how well your company is doing in a range of financial performance metrics. Historically, a relatively low percentage of distributors participate in these data aggregation programs. Yet these types of tools are critical to make any kind of real change stick in your business. How else can you create realistic goals and then the specific short- and long-term steps to get there?

The report card in the area of productivity is better. Several studies have shown that distributors have become more productive in the past several years. Distributors are investing more today than a few years ago in specific technology tools that gain some efficiency by automating lower-level processes. More distribution companies are examining their operations from a perspective of how they can improve their processes to reduce costs and do more for less.

The real winners are those who have been able to focus on process first, and build in the systems, rewards and discipline to make these three Ps a priority. The process agenda doesn't get shoved to the side when the business cycle is at one of its peaks. That's a tough transformation for any company, but truly separates the long-term winners, regardless of sales volume.

If you're still thinking about growth from a perspective of sales only, think hard about what you need to do in the three Ps outlined here. The days of managing the bottom line by pumping every resource into the top line are great to remember, but not the reality anymore.

Rexel, the Paris-based distributor of electrical supplies, has made three acquisitions in Belgium, the United Kingdom and the U.S. The moves follow Rexel's bolt-on acquisition strategy aimed at broadening its footprint in Europe and North America. In the U.S., Rexel bought Tri-Valley Electric Supply, with sales of $5.5 million in 2006 in Arizona.

Praxair Distribution, Inc., Danbury, CT, a subsidiary of Praxair, Inc., has acquired Wilson Welding & Medical Gases, Warren, MI. Wilson is a distributor of industrial, medical, specialty gases and related equipment and supplies. The business generated sales of $20 million in 2006 and has 72 employees.

Gases distributor **Airgas, Inc**., Radnor, PA, has acquired **Lehner & Martin, Inc**, a Santa Ana, CA-based industrial gas and welding supply distributor with branches in Placentia, Gardena, and Chino, CA. L&M had sales of more than $13 million in the fiscal year ended March 31, 2007. The operations have been integrated into Airgas West. The transaction was the fifth acquisition since the start of Airgas' fiscal 2008 on April 1, 2007, with acquired sales now topping $378 million.

Pro-Build Holdings, Denver, CO, supplier of building materials to professional contractors, has purchased **Crosslin Supply Company**, a distributor of lumber, millwork and building products in the greater Nashville, TN, market. Crosslin has three facilities.

ABC Supply Co. Inc., Beloit, WI, has purchased **Ashley Aluminum LLC**. Ashley Aluminum's 48 branches in the Southeast are now part of ABC Supply's Town & Country Industries division. ABC Supply is a $3 billion distributor of roofing, siding, windows and other select exterior building products.

ITT Corporation, White Plains, NY, has agreed to acquire **International Motion Control**, Buffalo, NY, for $395 million. IMC is a supplier of motion control products with 2006 revenues of $200 million.

Actuant Corporation, Milwaukee, WI, has acquired **BH Electronics**, Munford, TN, for $30 million in cash. BHE produces dashboard control panels and electronic assembly systems, primarily for the marine market. BHE generated $35 million in sales in 2006, and has 450 employees. BHE will operate within Actuant's Electrical Segment. Actuant has annual sales of over $1.4 billion.

Carrier Corp. has agreed to buy **E.B. Ward & Company/Valair**, a Carrier distributor of residential, light commercial and commercial products. Carrier, a unit of **United Technologies Corp**., is a supplier with 200 locations in more than 20 U.S. states and Canada. E.B. Ward and Valair, with 140 employees and combined sales of $150 million, serve Carrier customers in Northern California and parts of Nevada.

continued on next page

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MARKETS UPDATE SUPPLEMENT P. 2

Parker Hannifin Corporation, Cleveland, OH, supplier of motion and control technologies, has acquired **Mitos Technologies, Inc**. Mitos manufactures fluid-handling products and systems designed specifically to meet the high purity requirements of the biotech industry, including tubing and hose, valves, pumps and molded components. Mitos had revenues of $5.5 million in 2006 and employs 40 people at its headquarters in Phoenixville, PA. Parker Hannifin has annual sales of about $9 billion.

Real gross domestic product – the output of goods and services produced by labor and property in the U.S. – increased at an annual rate of 0.7 percent in the first quarter of 2007, according to final estimates released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.5 percent.

Influenced by the strength of the Canadian dollar, **prices in Canada for manufactured products** declined in May after six consecutive monthly increases. Crude oil pushed down prices for raw materials. From April to May, prices charged by manufacturers, as measured by the Industrial Product Price Index (IPPI), registered a 0.5 percent decline after six consecutive monthly increases. On a 12-month basis, the IPPI advanced 3 percent, a slowdown from the 3.8 percent increase registered in April.

U.S. construction spending during May 2007 was estimated at a seasonally adjusted annual rate of $1,176.6 billion, 0.9 percent above the revised April estimate. The May figure is 2.8 percent below the May 2006 estimate of $1,210.0 billion. During the first five months of this year, construction spending amounted to $442.1 billion, 3.9 percent below the $460.1 billion for the same period in 2006.

NetSuite Inc., San Mateo, CA, a vendor of on-demand, integrated business management application suites that provide ERP, CRM and e-commerce functionality for small and medium-sized businesses and divisions of large businesses, has filed a registration statement with the U.S. Securities and Exchange Commission on its intended initial public offering of common stock. The number of shares to be offered and the price range for the offering have not yet been determined.

Salem, OR-based **Ultratape Industries Inc**., a manufacturer of adhesive tapes used in clean-room environments, has been sold to Hayward, CA-based **Delphon Industries** LLC. Ultratape produces pressure sensitive adhesive tapes for use in semiconductor cleanrooms, labs, pharmaceutical manufacturing and other particle-free and static-free environments.

Calculation of MDM Inflation Index for May 2007

		BLS Price Indices May '07	BLS Price Indices Apr. '07	BLS Price Indices May '06	% Sales Weight	Weighted Indices May '07 (1)X(4)	% Change May '07 Apr. '07	% Change May '07 May '06
1136	Abr. Prod.	462.2	462.2	451.5	19.1	88.28	0.00	2.37
1135	Cutting Tools	436.5	436.3	429.0	18.9	82.51	0.06	1.77
1145	Power Trans.	637.0	634.8	610.8	15.4	98.10	0.34	4.30
1081	Fasteners	444.3	442.6	424.5	9.0	39.98	0.37	4.64
1149.01	Valves, etc.	779.3	775.8	712.8	7.6	59.23	0.46	9.33
1132	Power Tools	328.3	329.0	324.1	6.5	21.34	-0.20	1.30
1144	Mat. Handling	461.3	461.3	443.8	6.2	28.60	0.00	3.94
0713.03	Belting	542.1	542.7	536.3	6.1	33.07	-0.12	1.08
1042	Hand Tools	680.0	678.7	666.7	8.1	55.08	0.20	1.99
108	Misc. Metal	418.2	415.0	406.0	3.1	12.96	0.75	2.99
"New" May Index		271.2	May Inflation Index			519.15	0.18	3.49
"New" April Index		270.8	April Inflation Index			518.22		
			May 2006 Inflation Index			501.64		

New index reflects 1977=100 base other #: 1967 To convert multiply by .52247

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MARKETS UPDATE SUPPLEMENT P. 3

U.S. MARKET ANALYSIS: Hose & Fittings

The industrial product group listed here - hose and fittings - represented a market in 2006 of $2.96 billion, according to estimates by Industrial Market Information, Minneapolis. These charts show the top ten industries, by SIC code, consuming these products; and the 2005 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Hose & Fittings
(2006 estimates)

SIC CODE	Hydraulic High Pressure	Non-Hydraulic Pneumatic	Companies	Total (Column A + B)
2621 Paper Mills	20,187,728	175,762,798	1882	195,950,526
1711 Plumbing Heating & Air Conditioning	26,418,094	146,876,217	145096	173,294,311
1771 Concrete Work	64,557,218	19,235,491	36984	83,792,709
2631 Paperboard Mills	6,913,103	73,493,663	669	80,406,765
1611 Highway & Street Construction	59,207,602	16,674,606	23213	75,882,208
2611 Pulp Mills	4,131,110	58,602,001	489	62,733,110
1623 Water, Sewer, Pipeline Construction	39,727,818	12,645,101	12959	52,372,919
1794 Excavation Work	35,442,662	11,207,248	37982	46,649,910
1629 Heavy Construction NEC	31,457,495	14,740,367	16146	46,197,862
2869 Industrial Organic Chemicals NEC	903,925	43,281,012	1590	44,184,937

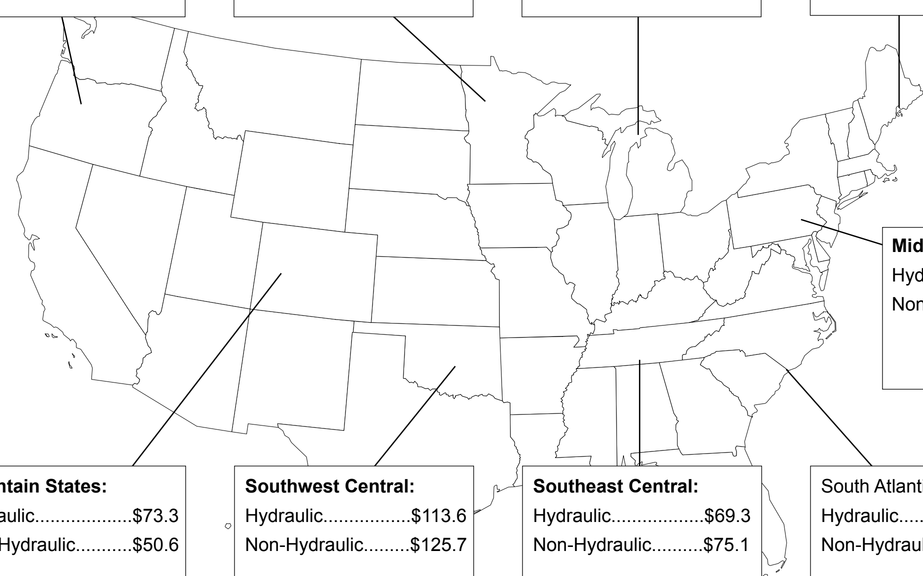
End-user consumption of Hose & Fittings by region, millions of $ (2006 est.)

Pacific Coast:
Hydraulic................$117.3
Non-Hydraulic........$102.3
11.1%

Northwest Central:
Hydraulic..................$75.6
Non-Hydraulic..........$67.6
7.2%

Northeast Central:
Hydraulic................$199.8
Non-Hydraulic.........$192.6
19.8%

Northeast Coastal:
Hydraulic..................$46.4
Non-Hydraulic...........$60.2
5.4%



U.S. Total:
Hydraulic................$980.4
Non-Hydraulic......$1,984.5
100%

Mid-Atlantic:
Hydraulic.................$109.8
Non-Hydraulic.........$143.8
12.8%

Mountain States:
Hydraulic...................$73.3
Non-Hydraulic...........$50.6
6.2%

Southwest Central:
Hydraulic................$113.6
Non-Hydraulic.........$125.7
12.1%

Southeast Central:
Hydraulic.................$69.3
Non-Hydraulic..........$75.1
7.3%

South Atlantic:
Hydraulic................$175.4
Non-Hydraulic.........$185.8
18.2%

Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2006 Industrial Market Information, Inc., Minneapolis, MN. All rights reserved. Industrial Market Information has more than 200 industrial product profiles available at the county level. www.imidata.com

Manufacturing Expands Again in June

Economic activity in the manufacturing sector expanded in June for the fifth consecutive month, while the overall economy grew for the 68th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business.

Following a weak first quarter, the manufacturing sector rebounded in a strong fashion during the second quarter. In June, manufacturing expanded at its fastest pace since April 2006 when the PMI Index registered 56.9. This performance appears sustainable in the third quarter due to the current strength in New Orders and Production.

The 12 industries reporting growth in June — listed in order — are: Petroleum & Coal Products; Chemical Products; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; Computer & Electronic Products; Paper Products; Fabricated Metal Products; Primary Metals; Miscellaneous Manufacturing; Textile Mills; and Machinery.

PMI

Manufacturing growth accelerated in June as the PMI registered 56 percent, an increase of 1 percentage point when compared to May's reading of 55 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

A PMI in excess of 41.9 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the PMI indicates that both the overall economy and the manufacturing sector are growing.

The past relationship between the PMI and the overall economy indicates that the PMI average for January through June (53 percent) corresponds to a 3.4 percent increase in real gross domestic product annually.

New Orders

ISM's New Orders Index rose to 60.3 percent in June. The index is 0.7 percentage point higher than the 59.6 percent reported in May.

Production

ISM's Production Index registered 62.9 percent in June, which is 4.6 percentage points higher than the 58.3 percent reported in May. June is the fifth consecutive month of production growth for manufacturers.

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was faster in June ending 47 consecutive months of slower deliveries. ISM's Supplier Deliveries Index registered 49.7 percent in June, a 0.6 percentage point decrease when compared to May's reading of 50.3 percent. A reading above 50 percent indicates slower deliveries.

The five industries reporting slower supplier deliveries in June are: Paper Products; Miscellaneous Manufacturing; Fabricated Metal Products; Chemical Products; and Primary Metals.

Inventories

Manufacturers' inventories registered 45.3 percent in June, a 0.8 percentage point decrease when compared to May's reading of 46.1 percent. This is the 11th consecutive month of inventory liquidation.

The four industries reporting higher inventories in June are: Plastics & Rubber Products; Textile Mills; Transportation Equipment; and Furniture & Related Products.

Customers' Inventories

The ISM Customers' Inventories Index registered 47 percent in June, which is 1 percentage point lower than the 48 percent reported in May. The index indicates that respondents believe their customers have less than sufficient inventories on hand (inventories are too low) at this time. This is the fourth consecutive month in which manufacturers have reported their customers' inventories to be too low.

Prices

In June, the ISM Prices Index registered 68 percent, indicating manufacturers are paying higher prices on average when compared to May. While 42 percent of respondents reported paying higher prices and 6 percent reported paying lower prices, 52 percent of supply executives reported paying the same prices as the preceding month.

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