MODERN DISTRIBUTION MANAGEMENT

The Newsletter for the Wholesale Distribution Channel

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Private Label: A Balancing Act

Distributor & manufacturer strategies can mesh, but beware

The co-author of a new book on private label spoke with MDM recently about how wholesaler-distributors and manufacturers can learn from trends in consumer packaged goods markets.

On either the distributor or the manufacturer side, there is no "magic bullet" for dealing with the emergence of private-label products, says Nirmalya Kumar, co-author of a new book on the subject, *Private Label Strategy: How to Meet the Store Brand Challenge (Harvard Business School Press)*.

For a distributor, private label requires a difficult balancing act between the needs of customers and those of branded suppliers. For the manufacturer, the emergence of private label in a category requires a strong brand strategy at the end-user without alienating the distributors it needs.

Private label is not going away, so now is the time to devise a strategy to address the trend, Kumar says. Global private label sales approach $1 trillion, and private label share of all markets is growing and will stay on that trajectory.

The Trend

If recent forecasts bear out, that growth trend is holding true in distribution. Among wholesaler-distributors, about 43 percent currently sell their own private label products, though that number varies widely depending on the product group, according to Adam Fein, president of Pembroke Consulting and author of *Facing the Forces of Change: Lead the Way in the Supply Chain*.

For example, 61 percent of distributors in OEM and production materials offer private label, while just 23 percent in contractor supplies do. By 2012, according to the same data, the number of distributors offering private label in OEM is expected to reach 77 percent, and in contractor supplies, 65 percent (MDM, Jan. 10, 2007).

Retailers have built their own brands not only to increase their share of margins, but also to strengthen customer loyalty to the retailer. As the quality of private label has improved, private label share of the retail market has increased.

While vast improvements in quality and branding have driven private labels in retail channels, Kumar says acceptance in most distribution channels has largely been due to cost pressures customers face. Distributors have moved private label into the mix to meet tighter budget needs and improve their own profitability.

Private label really developed as retail channels began to consolidate, and retailers gained a national presence. As distribution channels continue to consolidate, Kumar says, he expects private label to follow suit.

Strategy

Kumar, a marketing professor at London Business School, with co-author Jan-Benedict E.M. Steenkamp, wrote *Private Label Strategy* with a strong focus on the more mature private label market in Consumer Packaged Goods. Kumar says there is more comprehensive data available in the retail CPG sector than in traditional wholesale channels.

However, with consulting and board experience in the chemicals and building materials industries, he argues many of the trends in retail private label can be found in wholesale channels. Done right, private label and branded products can live in harmony on the same shelves, Kumar notes.

In the simplest terms, the authors say you should follow seven strategies to ef-

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fectively fight or promote a private label:

- Change your mind-set,
- partner effectively,
- innovate brilliantly,
- fight selectively,
- price competitively,
- improve quality constantly, and
- market creatively.

For the Distributor

Research where private-label marketing opportunities exist in each product category. "A private label is a complement to the manufacturer brand," Kumar says. Consider customer needs that may be unfilled by manufacturer brands.

Distributors should prioritize the quality of their private label products, Kumar says. Higher quality means higher profitability.

If one product in a private label lineup fails, it may hurt the reputation of the entire distributorship and the private label product lines it carries. "Do not put poor products in your private label," Kumar says. Spend money to develop quality and cut costs elsewhere.

To that end, don't compromise on sourcing. "You can't just source from the cheapest place," he says. "They are not going to provide quality private label products. Get out of the mindset of always looking for the cheapest price."

Don't compromise on product development either. "If you want to develop products, you have to invest in R&D," Kumar says. Invest in marketing to build a brand image. Don't just use copycat packaging. Develop your own emphasizing differences with manufacturer brands, and position the private label product's strengths to charge a price premium. The ideal: Distributors and retailers should aspire to price at par with manufacturer brands.

Pricing & Profitability

Kumar says widely-held beliefs on the pricing and profitability of private labels don't always hold up. Many believe that the cheaper the private label, the more successful it will be.

But research has found that the closer in price a private label is to the manufacturer brand price, the more successful it will be, he says. The reason: The only way you can set a price closer to the branded product is if the quality of the private label is high. Private labels that are of low quality (and therefore lower-priced) typically are not successful in the long-term.

Another interesting argument in Kumar's book deals with the relative profitability of a private label product. Common wisdom has it that private label products are always more profitable for a distributor than a manufacturer branded product. But data shows this is not always true.

While distributors may be reaping a wider margin – retailers see private label margins that are 25-30 percent higher – and unit dollar profit, they must also consider the product's "shelf-space turnover," or velocity, as compared with the manufacturer branded product's velocity. European data cited in the book indicates that the velocity of leading manufacturer brands is at least 10 percent higher than private label brands.

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Publisher
Thomas P. Gale
tom@mdm.com

Editor
Lindsay Young
lindsay@mdm.com

Marketing Director
Kim Sorensen
kim@mdm.com

Contact Information
Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.
2737 Mapleton Avenue, #201, Boulder, CO 80304
Tel: 303-443-5060 Fax: 303-443-5059
Website: http://www.mdm.com

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Distributors must also factor in fixed costs of developing and producing the product, as well as branding and merchandising the products – costs typically borne by the supplier.

Still, "premium store brands" can paint a different picture in profitability. Those products are priced only slightly lower and sometimes even higher than a manufacturer's brand. The dollar contribution of manufacturer brands in this case is, according to the author's estimate, 25 percent lower than premium store brands.

For the Manufacturer

In the authors' work with large brand manufacturers, they found that many ignored or downplayed the threat of private-label products. Benchmarking, they said, was usually done against other manufacturer brands and not against private label.

But this is a mistake, Kumar says. Instead, acknowledge the private label threat and develop a strategy to combat it. It is possible to develop partnerships with distributors that are a win-win for both parties, he says.

"But you cannot have a win-win partnership if what you're providing them is no different than the private label they already have," Kumar says.

While distributors can work to implement private label in complementary product niches to brands they carry, manufacturers can work toward the same strategy with placement of their brands. Kumar says: "Instead of thinking of strategies on how you can compete with the distributors, you need to think about how you can complement the distributors' private labels with manufacturer brands. Reach customers with value propositions that cannot be provided with private labels."

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Private Label Carries Legal Risks

As the trend of private label among distributors grows, it's important to recognize the legal risks associated with this strategy. If products are sourced from overseas, as many are, wholesalers may end up carrying the ultimate blame or responsibility in a number of situations.

The information provided here is from a National Association of Wholesaler-Distributors legal brief. The brief can be found at NAW's Web site, www.naw.org.

Product Liability

In the U.S., any seller of a private-label or manufacturer-branded product is liable for losses, injury or damage caused by the defective product under strict tort liability.

Normally, a wholesaler-distributor in a U.S. suit will bring the manufacturer of a defective product into the case and claim the manufacturer is at fault. But if the product is made by a foreign supplier, and that supplier does not have a legal presence in the U.S., or has not agreed by contract to be subject to the U.S. courts, the distributor cannot obtain jurisdiction over that supplier in the U.S. Instead, the distributor must go to court overseas.

Intellectual Property

Private label product sellers also face greater exposure to claims that the product infringes upon another's patent rights, trademarks or other intellectual property rights. When a product is sourced from a foreign supplier beyond the reach of U.S. courts, the seller may be ultimately responsible for intellectual property rights infringement.

Quality Control

Find a foreign supplier that will produce defect-free products that meet U.S. legal and regulatory requirements.

This is best done in the field to assure compliance and detect product irregularities or unauthorized changes to the design of the product, or to the raw materials used in production.

Product Recall Responsibility

In cases where a manufacturer is in a foreign country, is in bankruptcy, out of business, or "thinly capitalized," distributors may hold the burden of a product recall, according to U.S. Consumer Product Safety Commission rules.

Products intended for use in commercial and industrial settings may be considered consumer products, so may fall under CPSC jurisdiction.

The law authorizes the commission to order a seller of a product to notify buyers of that product of the defect.

It also requires the sellers to repair the defect, replace the product with an equivalent product free of defects, or refund an amount up to the purchase price of the defect. Importers of motor vehicle parts and equipment face similar rules.

When a private label enters a category, increase the focus on product quality – innovate and release new products more quickly. Kumar also recommends getting out of categories you cannot bring a unique value proposition to compared with private label. “Get out of those categories where you cannot be No. 1 or 2.”

If a customer can substitute a private label for a manufacturer brand, they probably will, Kumar says, if the quality is the same or if it is a commodity item. “There’s no reason not to,” he says. So manufacturers need to give a distributor a reason to market and sell their brands.

“Don’t think of the distributor as your enemy,” Kumar says. “They are not your enemy. Because the consumer comes to them, they are going to be your best friends.”

Even in commodity items it is possible to differentiate. In the food category, you can’t get much more commodity than bread. But breadmakers have stepped it up a notch in response to private label going up-market by selling, for example, multigrain specialty breads or organic bread. Packaging and branding are most important in commodity lines. However, private label will continue to have a higher share in commodity product markets.

Doubling Up

In the book, Kumar and his co-author also address manufacturers who attempt to sell both branded and private label products in an attempt to better control the market and margins. Though a dual strategy may work in the short term to fill spare capacity, the authors don’t recommend it for long-term growth, saying many suppliers have tried and retreated. Those suppliers have successfully refocused on their strongest brands and taken back private label market share.

A paper manufacturer profiled in the book who sells through distributors still supplies both branded and private label product. But the owner says he would have done differently if asked now:

“It used to be a high-volume, moderate-margin business. Now it is a very low-margin business, and when you take into account transportation and sales costs, it is difficult to justify. At the present level of margins we would not enter this market.”

Like any strategy though, this one can be pursued if the decision is made on long-term considerations. Evaluate production costs, your competition and the stature of a brand, the authors say.

Are Brands Dead?

The authors of this book ask this question in their final chapter. Their answer: No. Strong manufacturer brands have a “promising future.” Few private labels in the consumer packaged goods sector elicit the same strong feelings as premium manufacturer brands, they say.

Still, they ask, “What single name does the homeowner think of when they want to replace a leaky faucet? Delta, Kohler or Home Depot?”

Manufacturer brands are losing some of their significance, the authors say, but if they respond aggressively to store brand threats, they will be able to “recapture their luster.” Working together, distributors and manufacturers can offer consumers the choices in brands and value they want, at the price points they seek.

Order Private Label Strategy: How to Meet the Store Brand Challenge *online at Harvard Business Online: http://harvardbusinessonline.hbsp.harvard.edu. Find a link at this article at www.mdm.com.*

Precision President on Decision to Sell

DXP Enterprises will buy industrial distributor for $106M

Precision Industries President and COO Chris Circo says the agreed-upon acquisition by DXP Enterprises, Inc., Houston, TX, was for strategic reasons, and that Precision and its management would continue as usual for the foreseeable future. The deal was not made as an exit strategy for the family.

"We're still young and we want to keep working as long as we are having fun," Circo says. "This is the business that we want to be in and the business that we grew up in. We think we can continue to do a lot of good for the combined organizations."

DXP Enterprises will acquire Precision Industries, Inc., Omaha, NE, for approximately $106 million. The deal nearly doubles the size of DXP.

Precision has annualized 2007 sales of approximately $250 million. DXP's sales in 2006 were $279.8 million. Its sales this year will approach $340 million, based on first-half results. The sale is expected to close within the next 30 days.

Precision is a long-time family-owned national industrial distributor with about half of its business in integrated supply. It has 160 locations. Precision has made at least five acquisitions since 2001, according to its Web site, and has greatly expanded its network nationwide in the past five years.

While Chris Circo will remain as president, Dennis Circo, currently CEO, will transition to chairman emeritus as the CEO of DXP takes over the combined organizations.

Decision to Sell

The Circos are excited about the fit they found with DXP.

Chris Circo says Precision wanted access to capital to continue growing its business and meeting its customers' needs. The distributor recently signed several new integrated supply contracts and customer demands, including better payment terms and inventory management, require a strong flow of capital. "It takes money to grow at a rapid clip," Circo says.

In addition, Circo says the company wanted to provide more opportunities for its employees as well as give them the chance to own a part of the company they work for. (DXP Enterprises is a public company.)

The deal with DXP also means a larger footprint nationally and adds products to both companies' first-tier offerings.

"For us the financial piece is important but we could have sold to others for a greater amount if we were willing to consider that kind of consolidation strategy. … Dennis and I said that throughout the entire process, that if we can't get it right, we're just not going to do it." Circo says the family was approached by private equity firms, but that direction was not the right one for Precision.

Integration

The two companies are in no hurry to fully integrate their operations, Circo says. That will be done in a deliberate and well-planned manner. "We want to stay focused on our customers. In our industry and others when you consolidate organizations very rapidly you can lose focus. … I think you can point to the failures in this industry when people try to do that.

"They lose share and they lose revenue. That's the last place we want to be. Both companies are very focused on their customers, and we don't want to do anything that will damage that relationship."

Eventually, certain divisions in the two companies will combine, but for now, Circo says, the companies are focused on serving the customers and carrying out new contracts.

Complementary

Geographically and by product category, the deal is "a great fit," Circo says.

Precision sells a broad range of industrial supplies including abrasives and cutting tools, bearings, power transmission, electrical products, fasteners, fluid power, hand & power tools, janitorial products, linear products, lubrication, material handling, pipes, valves and fittings, rubber products and safety products.

DXP Enterprises is a distributor of pumps, bearings, power transmission, seals, hose, safety, fluid power, and electrical and general-line industrial supplies.

While Precision is strong in the Midwest and East, DXP is focused on the Rocky Mountains, the South and Southeast. Precision also has locations on the West Coast. The two distributors share less than five cities in which they

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both have branches, Circo says.

Also, the two distributors' customer bases complement each other. Precision primarily serves food and beverage, transportation and general manufacturing, Circo says, while DXP is more focused on the oil and gas industry, with some sales into general manufacturing. The overlap is small, he says.

DXP distributes its products from 38 service centers, 17 SmartSource (integrated supply) locations and two distribution centers.

"I think the deal makes us a stronger player," Circo says. "It puts us both in a position to compete more effectively for national commodity management programs across more product categories."

DXP History

DXP has been busy in the acquisition arena lately, with several smaller buys of industrial and safety supply distributors. Year-to-date the distributor's sales are up 28 percent to $169 million. Sales by businesses acquired in 2006 and 2007 accounted for $23.5 million of the $36.7 million increase from the prior-year period. Organic growth was 10 percent.

DXP has seen broad-based growth in its MRO segment (which accounts for a majority of the distributor's sales) in recent years, according to its 2006 annual report, with organic growth in that segment up 45 percent in 2006 from the prior year.

The distributor attributed the growth to an increase in sales to the oil and gas industry, as well as the mining, electrical generation and petrochemical processing industries. The sales increase was also attributed to "an improved economy and high energy prices."

In its 2006 annual report, DXP gave insight into how it views the competitive landscape in industrial MRO: "In the MRO segment we compete with a variety of industrial supply distributors, many of which may have greater financial and other resources than we do. Many of our competitors are small enterprises selling to customers in a limited geographic area.

"We also compete with larger distributors that provide integrated supply programs and outsourcing services similar to those offered through our SmartSource program, some of which might be able to supply their products in a more efficient and cost-effective manner than we can provide.

"We also compete with direct-mail distributors, large warehouse stores and, to a lesser extent, manufacturers.

"While many of our competitors offer traditional distribution of some of the product groupings that we offer, we are not aware of any major competitor that offers on a nondirect mail basis a product grouping as broad as our offering."

■ *MDM Technology Case Study*

Weighing the Cost of a WMS

Distributor: Take hard look at how system can address long-standing issues

This marine supplies distributor implemented a Warehouse Management System at its single warehouse, significantly cutting shipping errors and improving data collection and sales trend analysis.

By Lindsay Young

Lorenz & Jones Marine Distributors Inc., Ankeny, IA, believes in its Warehouse Management System so much that it uses it as a tool to bring in new customers.

The distributor invites prospective customers to the 50,000-square-foot warehouse, places a Radio Frequency terminal in their hands, and lets them pick orders. The demonstration illustrates how easy it is to be directed to the right products.

Potential customers are sometimes wary because they have had problems with suppliers that regularly shipped the wrong products or the wrong quantity. "But they leave here with a feeling that Lorenz & Jones has a very high likelihood of shipping them the right products," says Tom Lorenz, vice president.

The Company

Lorenz & Jones was founded in 1921 and remains a family-owned business. The company mixed retail boating sales with automotive service until 1954. Then it moved to wholesale boating accessory sales, including water skis, electronics, life jackets, rigging and other items from more than 180 marine manufacturers. The distributor sells to marine retailers.

Lorenz & Jones serves 13 states in the Upper Midwest. On a busy day, the distributor ships about 3,500 line items. It has 1,500 active marine dealer accounts and a traveling sales force of five plus 10 inside sales and customer service representatives.

The marine supply market is relatively small but it's a mature and highly competitive industry, Lorenz says.

The Move to Automate

Warehouse Management Systems are touted as an easy way to control the movement of inventory into, inside and on its way out of a warehouse. The heart of Lorenz & Jones' system is an RF platform that tracks the movements of every product.

Because inventory is one of a distributor's largest assets, automating inventory management can boost profitability by reducing dead stock and stock-outs. It also can improve customer service by reducing shipping errors. Employee productivity goes up by cutting back on the amount of time it takes to find items and process orders.

Warehouse Management Systems are gaining ground in recent years among distributors as they adopt the systems for the first time or extend the system to branch facilities. Pathguide Technologies, Lorenz & Jones' chosen system, reports that industry and customer shipping compliance issues have also been a factor in the growth of WMS among distributors.

Lorenz says he heard about Warehouse Management Systems at industry meetings and through user groups. "I thought at the time that, yes, that would be great, but that's probably more money than we could justify spending for a warehouse system," he says.

Over the next couple of years, Lorenz started to become more frustrated when the distributor would let down a customer by sending the wrong item or when its inventory records indicated an item was in stock but in reality was not. "You can build up a lot of goodwill with your customers, but you can burn through it in a hurry by not servicing them properly," he says. Lorenz was making a call to a customer at least once a week to apologize for sending the wrong item or the wrong quantity.

Weighing the Cost

So Lorenz changed his thinking on the cost of a warehouse system: "What would it be worth to our company if we were able to hire someone who would come in and improve our inventory and picking accuracy as well as our throughput in the warehouse? That would be a pretty valuable employee and we would be willing to pay for that."

The cost of a WMS suddenly became justified, he says. In 2001, after doing a cost-benefit analysis, the distributor implemented the Latitude Warehouse Management System from Pathguide Technologies. The choice was made easier, Lorenz says, because the distributor's ERP system provider Activant and Pathguide Technologies had already partnered and developed an interface between the two systems.

Distributors could pay between $75,000 and $350,000 for a Warehouse Management System, which includes software, services and hardware, according to Pathguide. Prices of course vary according to vendor.

Pricing can be affected by a number of factors, including the number of RF terminals needed, extent of services performed, choice and quantity of hardware, and whether branch locations are tapped into the system.

"Don't be scared off by the initial cost of a WMS system," Lorenz says. "You need to take some time and analyze what your goals and objectives are, as well as your current problems and issues. Take a hard look at what a WMS system can do to address those."

The Change

Implementation to go-live took about four months.

Lorenz & Jones made the transition to a WMS from a manual system. Its computers had kicked out shipping papers, and items were picked manually, sometimes missing items. "Now with the WMS, it won't let the order complete until all of the order line items are picked," Lorenz says.

As a result of the system, it's easier to train employees, he says. "It used to be an order-picker had to know something about the product to ensure they were picking the right item. But now they've just got to get a good bar-code scan on the product. If they go to an incorrect bin location and scan the product, they will be told it is incorrect."

Error rates have dropped very significantly, he says, but he could not provide specific numbers.

More Data

Sales and service employees have a WMS Web application on their desktop allowing full visibility into orders. While before Lorenz could only count on basic measures to determine how well the distributor was doing on a particular

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day – number of packages or dollar volume for the day, for example – now they are able to dive into details.

Available data: orders in, orders that are picked, orders that have shipped, orders that are in process, orders that remain, line item totals and other related data. Also, the company can filter the data. For example, by customer, shipping route or order.

"That historical data is kept in the system as long as you desire," Lorenz says. "We can go back and look at trends that help us to plan for the future."

In addition to historical data, customer service improved because of better visibility into order status. Reps can see the exact status of orders. In addition, they can see what is in each box sent to a customer and can track those boxes with tracking numbers provided by the system.

"There is just such a wealth of information that is invaluable to provide great customer service as well as problem solving," Lorenz says.

Acceptance

While distributors often report employee resistance to change when implementing a technology solution, distributors implementing Warehouse Management Systems typically see less.

"We've found the system to be very intuitive. It makes a lot of sense. We do have a training process – but we find people pick up on it much quicker than our manual system," Lorenz says. The distributor has 10 full-time warehouse employees and up to 25 part-time in its busy seasons – the spring and summer.

The distributor had a series of meetings at the warehouse at which executives talked about the new system with the employees – showing how it would solve common problems in the warehouse. "People got excited about the change," Lorenz says. "You will never find anyone at our warehouse that would consider going back to the paper world."

MAPI: Export Growth Should Balance Out Weaknesses in Domestic Economy

In the face of continuing weakness in the housing sector, growth in the U.S. economy is expected to be slower than previously anticipated, according to a new Manufacturers Alliance/MAPI quarterly report.

The Manufacturers Alliance/MAPI Quarterly Economic Forecast forecasts that inflation-adjusted GDP growth, 3.3 percent in 2006, will slow to 1.9 percent in 2007 before regaining some strength, rising to 2.5 percent in 2008.

"The housing downturn will likely be more severe, more widespread, and last longer than most analysts expected," said Daniel J. Meckstroth, Manufacturers Alliance/MAPI Chief Economist. "... Manufacturing is buttressed, however, by somewhat better prospects in the trade sector. Exports are expected to perform well in relation to imports and moderately reduce the trade deficit."

Manufacturing production growth will decelerate this year, trending downward from 4.7 percent growth in 2006 to 2 percent growth in 2007. Concurrent with the overall GDP, however, MAPI forecasts industrial production to rebound fairly significantly, increasing 2.9 percent in 2008. Still, these figures are down from the previously forecast 2.1 percent growth and 3.3 percent growth, respectively, in the May 2007 forecast.

One segment that should maintain decent growth in manufacturing is computers and electronic products. Inflation-adjusted spending for this sector is forecast to rise a solid 10.8 percent in 2007 and 11.8 percent in 2008. Production in non-high-tech industries will grow by a modest 0.9 percent this year and by 1.7 percent in 2008.

Large percentage gains in spending, at least relative to the overall economy, will come in the high-tech sectors. Inflation-adjusted expenditures for information processing equipment are expected to rise 7.1 percent in 2007 and 6.1 percent in 2008, continuing to grow several times faster than the general economy.

Nevertheless, inflation-adjusted investment in equipment and software should decelerate to 0.8 percent growth in 2007 before posting 4.4 percent growth in 2008—both are well below the growth rate that would be considered normal at this stage of the business cycle.

Spending on non-residential structures also is forecast to increase both years, with a 9.4 percent rise in 2007, but only an additional 1 percent growth in 2008. The forecast calls for industrial equipment expenditures to increase 1.6 percent in 2007 before declining by 1.7 percent in 2008. Conversely, MAPI expects a reverse pattern of fluctuation in spending on transportation equipment, with that component seeing a 10.6 percent decline this year before experiencing 7.8 percent growth in 2008.

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Industrial & Construction Markets Update

PERSPECTIVE

Even if you don't intend to add private label products to your product mix today, pay attention to what competitors are doing and how they position private label against your manufacturer brands.

As our lead article in this issue points out, private label really took off in consumer packaged goods when the industry consolidated. As retailers created national footprints, they gained the scale to effectively build out private label programs. And it certainly requires a certain amount of scale to support the investment into private label - to source, develop and market effectively while not damaging your current lines.

In distribution channels, it's important to note that it's not just the national chains that are building private label brands. Marketing groups in many sectors have found a sweet spot to meet customer needs and offer smaller distributors the opportunity to tap into these opportunities.

The book discussed in our article bucks conventional wisdom that the role of private label is only to offer a "low-cost" alternative to branded and premium-positioned products. In fact, the authors argue that low-cost private label strategies typically aren't as successful or as profitable as well-developed brands created and priced to complement manufacturer brands.

The best private-label strategies are based on differentiating from manufacturer brands, the authors found.

Costco is worth studying in how it has developed high-quality private label brands in select product areas. That company does a great job with attractive price points for high-quality private label brands. But it also sells select premium brand names. Their success is in how focused they are in identifying and meeting customer needs, and then developing those with the most potential.

DXP Enterprises, Inc., Houston, TX, will acquire **Precision Industries, Inc**., Omaha, NE, for approximately $106 million. The deal nearly doubles the size of DXP. Precision has annualized 2007 sales of approximately $250 million. DXP's sales in 2006 were $279.8 million. Its sales this year will approach $340 million, based on first-half results.

LN Acquisition Corp., St. Louis, MO, a **Harbour Group** company, has acquired **Reelcraft Industries, Inc**., Columbia City, IN. Reelcraft is a manufacturer of spring-driven hose, cord, and cable reels for use in industrial, automotive, aerospace, military and specialty applications with facilities in the U.S., Canada, England and China. Reelcraft will join Lincoln Industrial and Alemite within LN Acquisition.

Electrical supplier **Thomas & Betts Corp.**, Memphis, TN, has agreed to acquire **Lamson & Sessions** for $450 million in cash. Lamson & Sessions, with its Carlon brand and trademarked Blue Box, is a North American supplier of non-metallic electrical boxes, fittings, flexible conduit and industrial PVC pipe. Thomas & Betts's preliminary assessment is that the acquisition will contribute $500 million to revenues is calendar year 2008.

Hagemeyer North America has acquired **Bryant Electric Supply Company, Inc**., Charlotte, NC, to extend its goal of expanding its electrical market penetration in the Southeastern U.S. Bryant has annual revenues of $50 million and operates five locations.

The Timken Company, Canton, OH, will realign the company around two major business groups, the Steel Group and the Bearings and Power Transmission Group. The latter is composed of four divisions – Mobile Industries, Process Industries, Aerospace & Defense and Distribution & Services.

Privately-owned housing starts in July were 6.1 percent below the revised June estimate and 20.9 percent below the revised July 2006 rate.

Following last month's jump in sales, **U.S. distributors' sales of PT/MC products** increased 2.2 percent from May to June, according to the Power Transmission Distributors Association month-end trend report. June 2007 sales came in 4.7 percent higher than in June 2006. **Canadian distributors' sales in PT/MC products** fell 2.1 percent from May to June and saw a 0.3 percent increase over sales in June 2006.

Industrial production rose 0.3 percent in July. Manufacturing output moved up 0.6 percent and mining output advanced 0.7 percent, but the output of utilities fell 2.1 percent. Capacity utilization for total industry edged up to 81.9 percent, a rate 0.5 percentage point below July 2006.

Wholesale prices advanced 0.6 percent in July, the Bureau of Labor Statistics of the U.S. Department of Labor reported. This increase followed a 0.2 percent decline in June.

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MARKETS UPDATE SUPPLEMENT P. 2

Wholesale sales in Canada grew only slightly in June (+0.2 percent), as increased sales of "other products" were largely offset by a decrease in the automotive sector. Excluding the automotive sector, sales grew 0.6 percent. Wholesale sales for the second quarter were down for the first time in nearly four years. This contraction was largely attributable to the automotive sector.

Manufacturing shipments in Canada tumbled in June, falling 1.8 percent to $48.6 billion. This was the largest decrease since January and the third consecutive monthly decline. Despite these decreases, second-quarter shipments still managed to gain 0.7 percent compared with the first quarter of 2007.

Post-acquisition by **The Carlyle Group**, **Goodyear Engineered Products**, Akron, OH, has changed its name to **Veyance Technologies Inc**. The company will continue producing Goodyear Engineered Products brand industrial, military and automotive products.

The Home Depot reported sales for HD Supply were down 7 percent overall in the second quarter 2007, with organic sales down 10 percent. "While the challenging housing market continues to present us with a tough selling environment, our financial performance was in line with our expectations," said CEO Frank Blake. "... We believe the housing and home improvement markets will remain soft into 2008; we will continue to invest thoughtfully for the long-term health of the business."

Illinois Tool Works Inc. has acquired Texas-based software provider **Ameri-CAD Inc**. The acquisition includes Ameri-CAD's architectural services division as well as software solutions VisionREZ & VUDOX. Ameri-CAD will function as a separate business unit in the ITW Building Components Group.

Norcross Safety Products LLC, Oak Brook, IL, reported sales were $156.4 million in the second quarter 2007, up 19 percent from the prior-year period. For the first six months of 2007, sales were up 13.8 percent to $304.6 million compared with the same period a year ago.

Industrial gases company **Praxair, Inc**., Danbury, CT, has agreed to sell its majority interest in **Maxima Air Separation Center Ltd**., Ramat Gan, Israel, to **Discount Investment Corporation Ltd**., one of Israel's largest holding companies, a part of the **IDB Group**. DIC already holds an interest in Maxima. Maxima has two air separation plants and had sales of $23 million in 2006.

Celanese Corp., Dallas, TX, a hybrid chemical company, has sold the Films business of its AT Plastics subsidiary to **British Polythene Industries plc**. The Films business manufactures products for the agricultural, horticultural and construction industries. The sale is part of Celanese's plan to divest non-core businesses.

Metals distributor **Samuel, Son & Co. Ltd**., Mississauga, Ontario, Canada, has signed a joint venture agreement with **Generation Metals International Ltd**., Reading, England. The new company, Samuel, Son & Co. (UK) Ltd., expands the distributor's operations to the UK. In a release, the company said: "This partnership will enhance our commitment to Eclipse Aviation Corporation as the metal service provider for raw materials outside of the U.S."

Cooper Industries, Ltd. has acquired Illinois-based **io Lighting**, a light-emitting diode (LED) lighting fixture company, and Vermont-based **Powerline Communications, Inc**., a manufacturer of digital lighting control panels. Expected sales for the two companies in 2007 are $17 million and the combined purchase price is $22 million.

Parker Hannifin Corporation, supplier in motion and control technologies, has acquired **Silver Cloud Manufacturing**, a maker of electromagnetic and radio frequency interference shielding products and display filters for a variety of electronics applications. Silver Cloud, a Millville, NJ, unit of Xymox Technologies Inc., sales reached $8.3 million for the year ended June 30, 2007.

Lincoln Industrial, a **Harbour Group** company, has acquired **Lincoln Helios**, Bangalore, India. LHI designs and manufactures automatic lubrication systems, ink delivery equipment and related services to clients throughout India. The company serves a variety of industries including wind energy, steel production, mining and printing. Lincoln Industrial, along with its sister companies, **Alemite** and **Reelcraft**, designs and manufactures a broad range of automated lubrication systems, dispensing equipment for high viscosity materials, hose cord, and cable reels, and related products for a variety of industrial, commercial, and consumer applications.

MARKETS UPDATE SUPPLEMENT P. 3

U.S. MARKET ANALYSIS: Power Tools

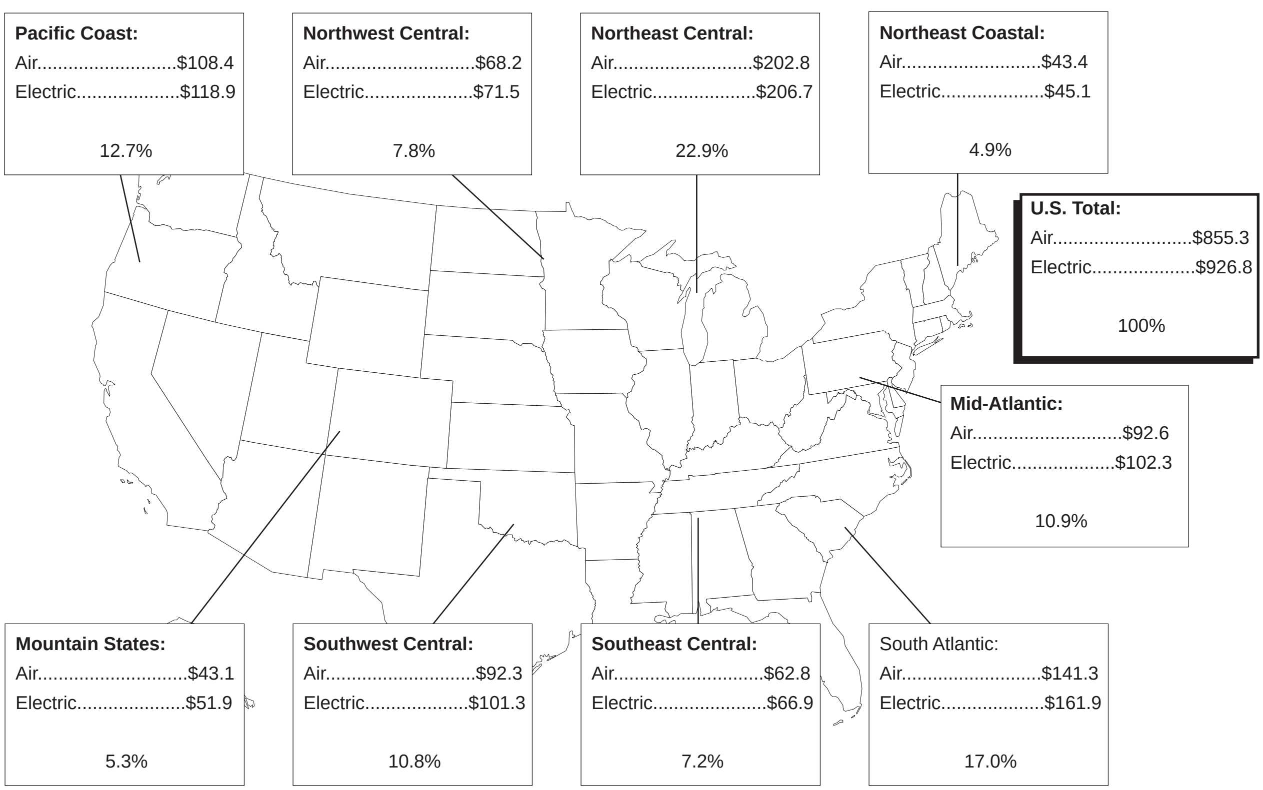
The industrial product group listed here - Power Tools - represented a market in 2006 of $1.8 billion, according to estimates by Industrial Market Information, Minneapolis.

These charts show the top ten industries, by SIC code, consuming these products; and the 2006 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Power Tools (2006 estimates)

SIC CODE	Air Power Tools	Electric Power Tools	Companies	Total (Column A + B)
1711 Plumbing Heating & Air Cond.	33,239,354	59,800,351	145096	93,039,705
3714 Motor Vehicle Parts & Access.	39,233,409	53,399,539	4996	92,632,948
3711 Motor Vehicles & Pass. Car Bodies	39,294,365	35,172,559	1917	74,466,923
1731 Electrical Work	26,548,633	45,689,634	99393	72,238,267
1542 Nonresidential Construction	14,347,697	23,551,234	46110	37,898,931
3721 Aircraft	18,236,438	17,858,611	1237	36,095,049
1771 Concrete Work	10,969,785	15,226,946	36984	26,196,732
3531 Construction Machinery & Eqmt.	12,007,693	8,987,823	2862	20,995,516
3441 Fabricated Structural Metal	12,078,588	7,963,256	6275	20,041,844
2621 Paper Mills	9,753,428	10,197,288	1882	19,950,715

End-user consumption of Power Tools by region, millions of $ (2006 est.)



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

First-Half Machine Tool Consumption Up 7.7%

June U.S. manufacturing technology consumption totaled $347.70 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association.

This total, as reported by companies participating in the USMTC program, was up 5.1 percent from May, and up 0.4 percent from the total of $346.47 million reported for June 2006. With a year-to-date total of $1,982.52 million, 2007 was up 7.7 percent compared with 2006.

These numbers and all data in this report are based on the totals of actual data reported by companies participating in the USMTC program.

"Through the first half of this year, manufacturers have continued to increase purchases of advanced production equipment," said John B. Byrd III, AMT president. "These strategic investments contribute to continuing U.S. economic growth by increasingly competitive U.S. manufacturing firms."

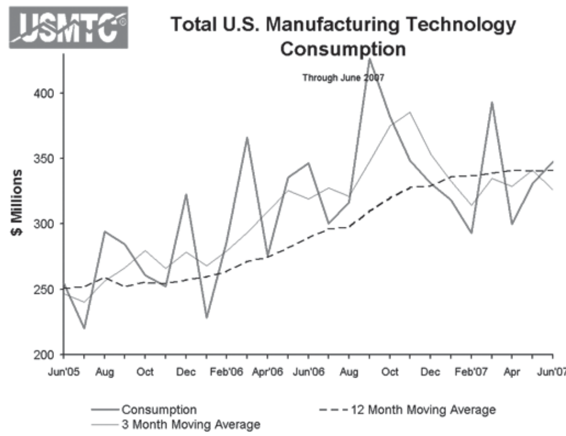
The U.S. Manufacturing Technology Consumption (USMTC) report provides regional and national U.S. consumption data of domestic and imported machine tools and related equipment.

Analysis of machine tool consumption provides a reliable leading economic indicator as manufacturing industries invest in capital metalworking equipment to increase capacity and improve productivity.

U.S. manufacturing technology consumption is also reported on a regional basis for five geographic breakdowns of the U.S.

Northeast Region

June manufacturing technology consumption in the Northeast Region rose to $68.40 million, 21.3 percent higher than May's $56.41 million and up 39.7 percent when compared with June a year ago. The year-to-date total of $331.86 million was up 20.5 percent when compared with 2006 at the same time.



Southern Region

Southern Region manufacturing technology consumption in June totaled $47.51 million, down 10.4 percent from May's $53.02 million and down 2.6 percent when compared with last June. The year-to-date total of $258.74 million was 1.8 percent more than the comparable figure in 2006.

Midwestern Region

Manufacturing technology consumption in the Midwestern Region in June totaled $100.16 million, up 2.5 percent from May's $97.69 million but 8.4 percent less than the total for June 2006. With a year-to-date total of $559.82 million, 2007 was level with 2006 at the same time.

Central Region

Central Region manufacturing technology consumption in June stood at $76.58 million, 13.2 percent less than the $88.24 million total for May and down 14.1 percent when compared with June a year ago. At $530.26 million, the 2007 year-to-date total was 13.3 percent higher than the comparable figure for 2006.

Western Region

At $55.04 million, Western Region manufacturing technology consumption in June was up 55.6 percent when compared with the $35.37 million tallied in May and 9.5 percent higher than the June 2006 total. Compared with 2006 at the same time, the year-to-date total of $301.85 million was up 6.1 percent.

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