MODERN DISTRIBUTION MANAGEMENT

The Newsletter for the Wholesale Distribution Channel

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Strategic Sales Management

Take a more holistic approach to managing customer accounts

It's no longer enough to leave relationships solely in the hands of individual sales reps, no matter how capable they are. Becoming a strategic partner in the supply chain means evolving to a new model of sales management, according to this excerpt of a new book from the NAW Institute for Distribution Excellence.

By Tim Horan and Steve Deist

The 1990s saw the emergence of a new concept. Instead of just being a middleman between manufacturers and customers, wholesaler-distributors started to become marketing channels.

On the upstream side, sophisticated manufacturers began to look at distributors as partners in the ultimate job of reaching and satisfying end consumers.

Instead of just talking about what the distributors' bought, they started discussing what the distributors sold. Manufacturers called this new approach channel management. On the downstream side, more progressive retail and industrial customers started to take a more holistic approach to their purchasing function, applying the label supply chain management to this effort.

In essence, channel management and supply chain management refer to different ends of the same phenomenon: strategic coordination of external relationships.

The rapid emergence of this phenomenon is why we include this chapter as the fifth fundamental about maintaining thriving relationships with customers and suppliers.

Key Concept: Distributors now have a strategic role to play in suppliers' marketing channels and customers' supply chains. Great service execution may no longer be enough. Distributors in many lines of trade now have a strategic role to play. This means that it may no longer be enough just to execute well.

A long-standing relationship may not guarantee your continued representation of a product line if a supplier thinks you can't reach the markets that he/she wants to sell to. Best column pricing may not win the order if a customer is consolidating vendors.

In these situations, your firm must be positioned correctly to add value beyond that provided by any single individual. You must actively and strategically manage supplier and customer relationships to succeed.

What does all this have to do with sales management? It means that you can no longer leave relationships solely in the hands of individual sales reps, no matter how capable they are. You can count on strong individual sales reps to do things right, but it is up to you to make sure they are doing the right things.

Becoming a strategic partner means that you must coordinate the activities of your entire company so that the services you provide are aligned with the needs of your customers and suppliers. It means evolving to a new model.

Evolving to the New Model

The evolution from tactical to strategic relationships is ongoing and uneven. It has barely started in some lines of trade, run its course in others, and may never apply for some wholesaler-distributors.

But, most sales managers will need to make the transition at some point in their career, and all will benefit from understanding and recognizing the forces that drive it.

The Traditional Model

We can begin with a basic description of the traditional model in which a single sales rep (typically a field sales rep) controls essentially all aspects of a customer

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relationship. The sales rep acts as a one-stop shop for the customer, with all services flowing through him/her.

There is nothing inherently wrong with this approach and it remains the most appropriate structure for many situations. The greatest advantage is accountability; what some refer to as having one butt to kick. The customer knows exactly who to call when he/she has a problem, and the sales manager knows exactly who to hold responsible for the account's performance.

This structure is well suited to the independent, self-reliant personality of many sales reps, and they are usually not shy about expressing this preference!

With the right sales reps and systems in place, this approach will provide high levels of customer service and require minimal sales management overhead. As one manager put it: "All we do is hire hungry guys and let nature run its course. Every time we have tried to do anything more, it dies on the vine."

The problems with the traditional model begin to emerge as margin pressure increases. It is a one-size-fits-all approach in which the same expensive resource is used to provide all services, regardless of what the customer needs or is willing to pay for.

Even the best sales rep can't be an expert at everything. Instead of focusing his/her time on the most valuable activities, the sales rep ends up keying in orders, calling suppliers, or driving to the warehouse. At some point, at least some customers are no longer willing to pay for these inefficiencies.

The traditional model is also less scalable. It is hard enough to find a strong sales rep without adding the requirements that he/she be an expert on your product line and a wizard on your computer system. The technical skills that are important for an application engineer are rare indeed among outgoing, Type A sales reps.

Finally, in the traditional model, the sales reps' time investment, which your company is paying for, accrues more to them than to the company. This creates a very unhealthy dynamic in which sales reps often come to dominate their own bosses. Because they control the relationship, they can block attempts to reassign accounts and refuse to comply with corporate policy.

They may subtly threaten to defect to a competitor and hint that they will take major accounts with them. Of course, as sales manager, you have no way to determine whether or not this is true, because sales reps are the only people in the organization who ever talk with the customers!

In our consulting work, we have seen many situations where a sales rep in a successful territory literally holds a company hostage, creating an incredibly poisonous atmosphere in which the defiance gradually spreads across the entire sales force.

Key Concept: You will not be able to establish a truly strategic partnership with a customer as long as the sales rep owns the relationship.

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Examples of the Old Versus New Sales Model

Old		New
Same channel (and cost to serve) for everyone	→	Different service and cost levels per segment
Informal segmentation based on volume	→	Segmentation based on needs and willingness to pay
Sales reps provide all customer feedback	→	Multiple, continuous formal & informal feedback loops
Distributors are customers	→	Distributors are a channel
Outside sales reps are lone wolves who own the relationships	→	Outside sales reps are lead wolves who manage a cost-effective team
Sales reps talk	→	Sales reps listen and consult
Selling is a craft	→	Selling is a science
Compensation plan manages the salesforce	→	Formal sales management processes

The New Model

The newer team-selling model has evolved over the past decade or so to address these problems. With this approach, your organization and the customer's organization interact at many different levels.

For example, the sales rep may have a strong relationship with the buyer, while you, as sales manager, maintain periodic contact with the purchasing manager and your sales vice president has semiannual calls with the customer's vice president of supply chain.

With this structure, specialization allows each team member to become much more proficient in his/her job and often provides deeper, more useful relationships with counterparts in the customer's organization. It becomes easier to tailor the services that you offer to match the customer's needs much more closely. In short, it allows for a more cost-efficient relationship.

Clearly, under the new model, the overall customer relationship is owned by your company rather than by any one individual. There are many more channels of information flow between your companies and, as we have said before, information is the key to customer intimacy.

The Evolution

Making the transition from the old to the new model is obviously not simple. The two structures require different skill sets, and many traditional sales reps should not and will not survive.

The new model requires far higher levels of coordination and trust. Accountability will sometimes become fuzzy and performance issues will be harder to troubleshoot or at least harder to apply a quick fix. In other words, the new model requires far more sales management!

The first step in the transition is to have serious conversations with your sales reps about their evolving role. Try to listen carefully to their concerns and understand the internal barriers that may hold them back. It is quite possible that, while they have heard about the new school of thought, the forces driving these changes and the benefits to them have never been fully explained to them.

We had a client several years ago that was struggling to make this transition. The vice president of sales predicted that the company would probably go out of business when it made the changes, because the top sales reps would resign en masse, but that it would almost certainly go out of business if it did nothing at all. He explained it this way: "It was like Cortez burning his ships after landing in the New World. We knew that we had to defeat the natives or we'd drown."

After working through all the options, the company implemented the transition using the following guidelines:

Maintain extensive, open, and honest communication with the sales force. The executives explained the situation clearly, showed how the

continued on next page

status quo was no longer tenable, and explained how hundreds of jobs hung in the balance. They also made sure not to hide the long-term game plan or sugarcoat the pain. Sales reps knew that their jobs would change and they would have less autonomy.

Emphasize the positives. The company took advantage of the sales reps' natural desire to win. Although the overall market was in significant decline, the executives showed how the changes would enable the company to take share from competitors and sell into accounts that were not previously available to them. They talked about all of the administrative tasks that would be taken away from the sales reps in exchange for more prospecting and consulting activities.

Keep roles clear. The company tried very hard to make the new job duties unambiguous and put an internal scorecard in place to improve accountability even under team selling situations.

Make no compromises. The executives decided to let a top performer go very early in the process because he failed to conform to the new model and, more significantly, vocally resisted the transformation. This sent a very clear message to the entire company.

By the way, this company, which sells machine tools in the Midwest, is still in business.

This article is an excerpt from the book, "5 Fundamentals for the Wholesale Distribution Sales Manager." It has been reprinted with permission of the NAW Institute for Distribution Excellence. This publication is available from the NAW Institute for Distribution Excellence at www.nawpubs.org or by calling Vicky Walsh at 202-872-0885.

DXP and Precision Merger Complete

DXP CEO David Little offers six reasons for making the deal

Power transmission and bearing distributor DXP Enterprises, Inc., Houston, TX, has finished its acquisition of Precision Industries for $106 million. The acquisition is DXP's largest and nearly doubles the distributor's size. Precision has a run rate of $250 million in sales in 2007. In the Aug. 25, 2007, issue of MDM, we presented Precision's reason for selling the company. Recently, DXP held a conference call on the purchase and shared its reasons for making the acquisition. The following is an excerpt from comments made by DXP CEO David Little during that call:

"Precision Industries fits within our primary acquisition criteria of acquiring companies that allow us to gain access to new geography, strengthen our product and service offering and have established and accomplished senior management and employee base who have the drive and desire to stay with the business and accelerate growth in the future. Precision's extensive branch network, its integrated supply platform, and its people truly differentiate the company and present a unique opportunity for DXP for a variety of reasons.

No. 1 – As you can imagine, a company like Precision has had many different suitors over the years. We were able to get to the finish line with Precision in large part because both companies share many common values including our culture, our management philosophy, and the value we place on our people.

The senior management team in charge of Precision's day-to-day operations has decided to join DXP. This team, led by Chris Circo, will ensure operational continuity and bring significant expertise in the Integrated Supply business and in product sourcing to the combined company.

No. 2 – Precision sells a broad range of over 250,000 products listed in their catalog representing over 7,000 supplier lines. DXP offers over 53,000 SKUs representing over 4,500 supplier lines including pumps, bearings, power transmission, seals, hose, safety, and electrical and general industrial supplies. Combined there are several major product categories that overlap. This presents a great opportunity to strengthen our purchasing power.

There are 10 product categories … that have little to no overlap. These product categories will give us greater product depth and value-added services to grow our existing customers. … Combined DXP and Precision represent 94 branches with less than five cities with overlapping locations. The transaction provides a growing national footprint that will enable our company to compete in the national accounts business, specifically with multiple product categories. Additionally, the combined platform will allow us to pursue additional tuck-in acquisitions more aggressively.

No. 3 – Precision's two largest end markets consist of food & beverage, and transportation. Combined these categories represent over 58 percent of Precision's sales.

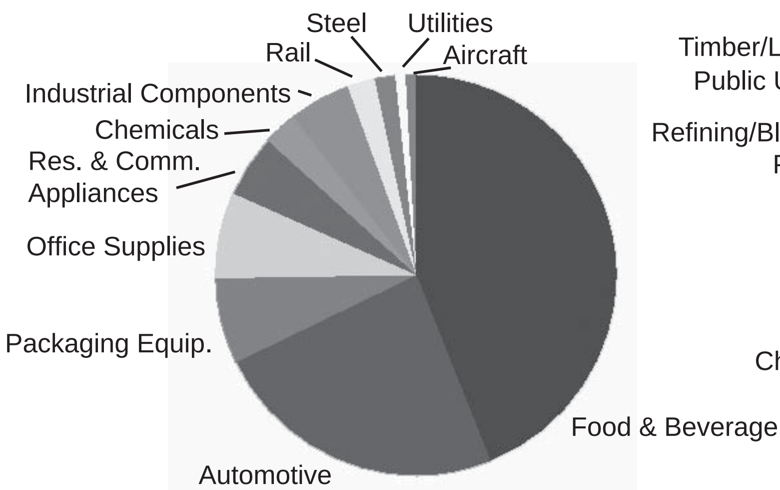
DXP's largest end market, oil & gas, represents approximately 40 percent of sales. Going forward the combined company will have much less concentration in one industry. Reducing end-market concentration and overall more balanced end-markets for the two businesses means less cyclicality and seasonality on a go-forward basis.

No. 4 – There are two ways we can benefit from purchasing synergies: First, where both Precision and DXP are major buyers of a specific product, the purchasing power of the combined company will help us drive cost savings. Secondly, there are certain product categories in which DXP or Precision has an individual volume and purchasing advantage which can be applied to the combined company to generate savings.

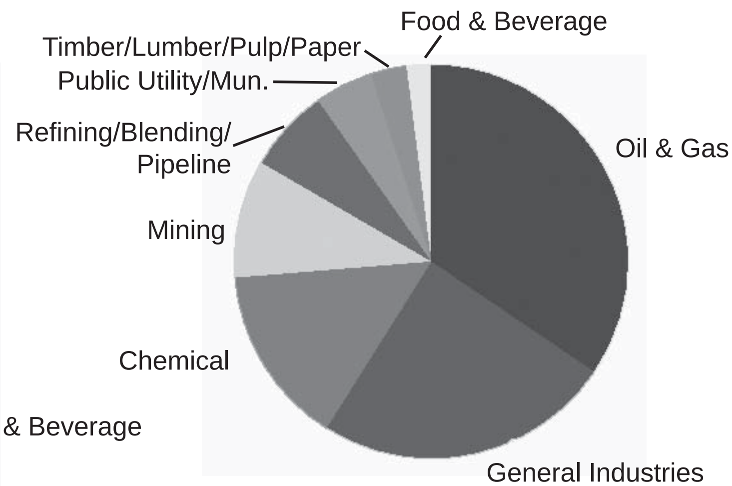
No. 5 – We believe that integrated supply will continue to gain importance to customers as they continue to drive more of their supply chain to outsource providers. Precision with 55 on-site integrations is a market leader in providing integrated supply solutions to the distribution market. … DXP maintains 19 on-site integrated supply locations.

No. 6 – The combination of DXP and Precision presents an opportunity to strengthen brand impressions with both existing and new customers and suppliers, while selling new products and services that independently neither businesses could have done alone. Currently, Precision has over 780 lines that DXP does not offer. DXP has over 449 lines Precision does not offer. We clearly see opportunity to realize incremental revenue from a broader and deeper product line."

Precision End Markets



DXP End Markets



Source: DXP Enterprises presentation to analysts

Complementary Products & Services

Precision	DXP	Overlapping products/services
Fasteners	Fiberglass Pipes	Bearing & Power Transmission
Fluid Power	Pumps & Pump Parts	Electrical Equipment & Supplies
Hand & Power Tools	Seals & Sealing Components	Industrial & Hydraulic Hose
Linear Products	Innovative Pumping Solutions	Janitorial Supply
Lubrication		Abrasives & Cutting Tools
Material Handling		Integrated Supply
Pipes, Valves & fittings		
Custom Solutions		

Survey: Premiums Up 6.1% in 2007

Employers look for more ways to share costs with employees

Annual premiums for family coverage now average $12,106, according to one annual survey, with workers paying $3,281.

Health insurance premium growth was the slowest since 1999 when premiums rose 5.3 percent. Premiums saw a 6.1 percent increase in 2007, according to the 2007 Employer Health Benefits Survey released by the Kaiser Family Foundation and Health Research and Educational Trust.

The average health benefit cost per employee is expected to rise 6.7 percent in 2008, the Mercer Health Benefits survey of employers found. In 2006, employers saw a 6.1 percent increase in costs. The percentage of the workforce (60 percent) obtaining coverage from employer-sponsored plans remained unchanged since 2006. (See graphic on page 7.)

Premium Growth

According to the Kaiser study, since 2001, premiums for family coverage have increased 78 percent, while wages have gone up 19 percent and inflation has gone up 17 percent.
Covered workers on average pay 16 percent of the overall premiums for single coverage and 28 percent for family coverage – shares that have remained relatively stable over the past years.

However, workers in small firms (three to 199 workers) pay significantly more on average toward the cost of family coverage ($4,236 annually) compared to larger firms ($2,831 annually). For single coverage, the opposite is true, with workers at small firms annually contributing less on average than workers at large firms ($561 vs. $759).

Among firms that offer health benefits, 10 percent vary how much workers contribute based on the workers' earnings, about the same share as in 2005. About 6 percent of firms vary contributions based on employees' participation in wellness programs, up from 3 percent in 2005.

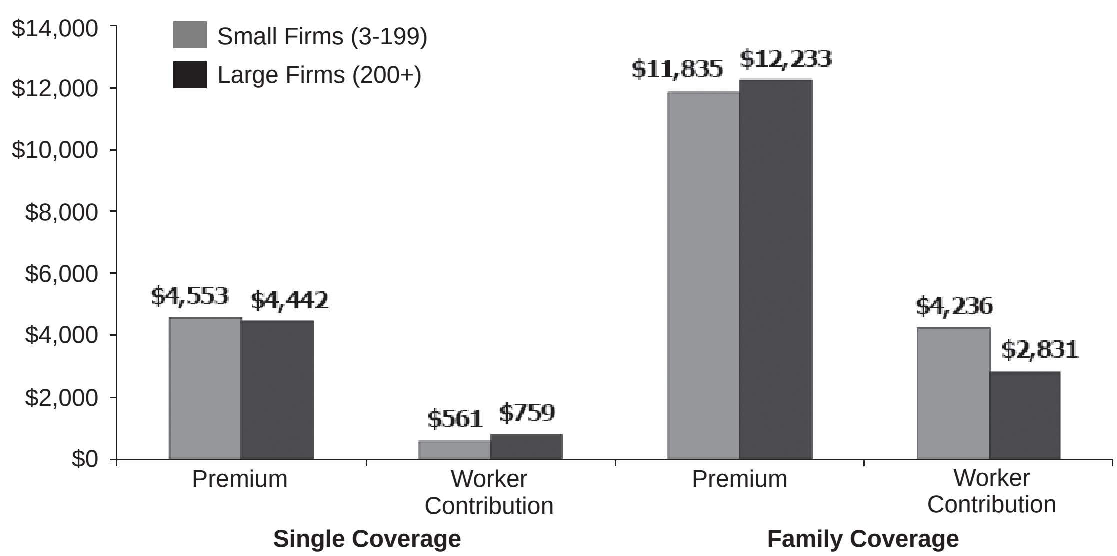
Consumer-Driven Plans

In spite of extensive attention paid to consumer-driven health plans, the Kaiser survey found that these plans have made only a small inroad into the employer market.

Such plans cover about 5 percent of all covered workers, which is not statistically different from the 4 percent share recorded in 2006. Consumer-driven plans feature a high-deductible plan and a tax-preferred savings, from which employees can pay for their out-of-pocket medical expenses. Some distributors have considered this route to lower their overall health costs.

"Rising premiums are affecting everyone. While we're not making any immediate material changes to our health care benefits for WinWholesale employees, we're certainly interested in a consumer-driven healthcare approach and expect that many companies will be moving in this direction," says Rhonda Binger, national distributor WinWholesale's vice president of human resources.

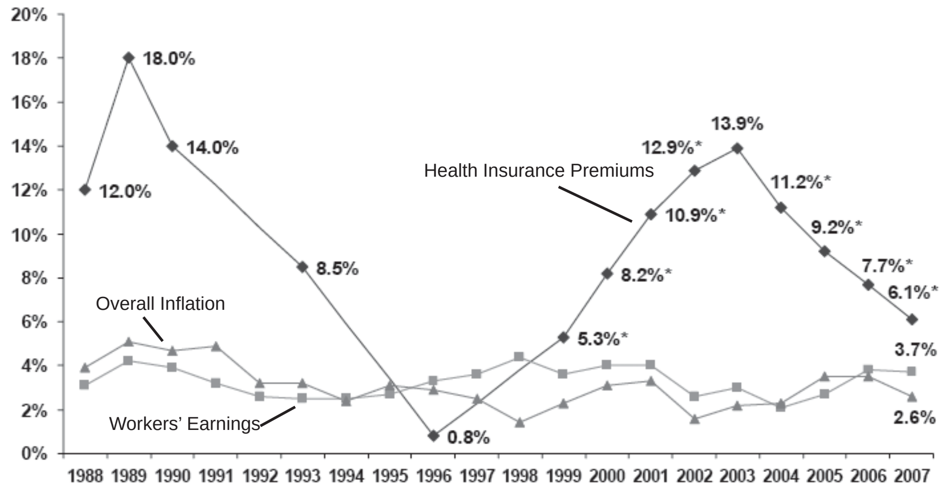
Aver. Annual Worker Premium Contributions & Total Premiums for Covered Workers, by Firm Size, 2007



Source:
2007 Employer Health Benefits Survey released by the Kaiser Family Foundation and Health Research and Educational Trust

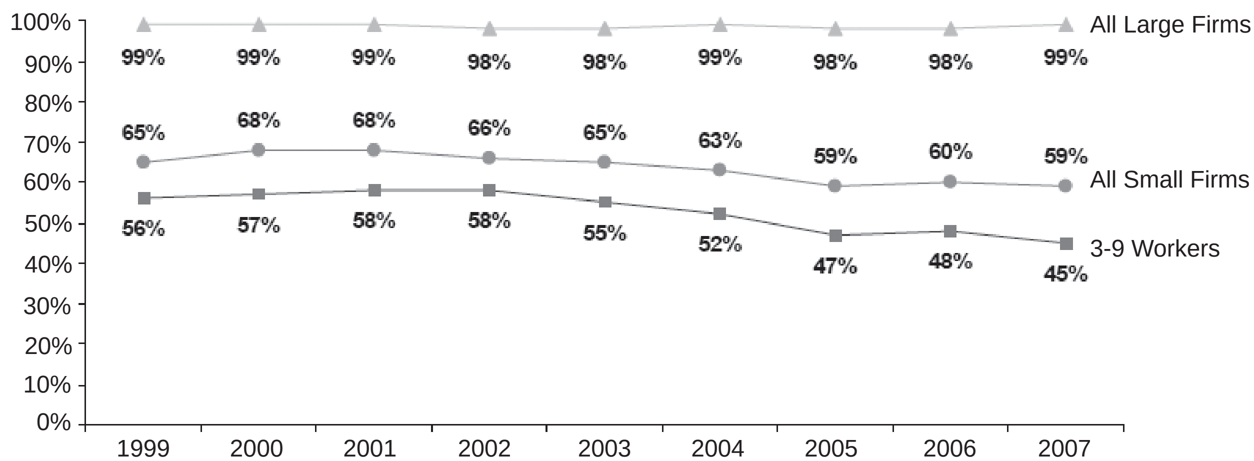
Trends in Health Insurance

Increase in Health Insurance Premiums Compared to Other Indicators, 1988-2007

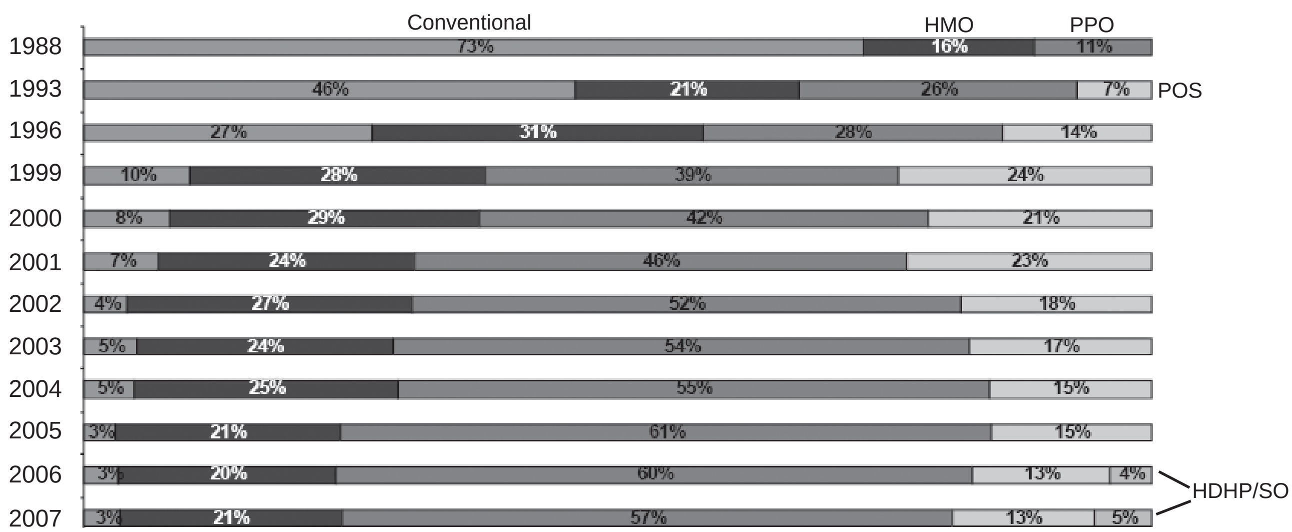


Source: 2007 Employer Health Benefits Survey released by the Kaiser Family Foundation and Health Research and Educational Trust

Percent of All Firms Offering Health Insurance, 1999-2007



Distribution of Health Plan Enrollment for Covered Workers by Plan Type, 1988-2007



Act Protects Returning Veterans' Rights

Case shows importance of taking care when rights are potentially implicated

USERRA, a federal law that protects the jobs of members of the uniformed services, has long been considered a dangerous trap for the unwary employer.

By Steven M. Bernstein

A jury recently awarded nearly $1 million in damages to an Oregon National Guardsman discharged after seeking outside assistance to get his job back, based largely upon the timing of the employer's discharge decision.

USERRA Protection

The action was brought under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), which was enacted to protect the jobs of reservists, National Guard members and other members of the uniformed services.

The law codifies a series of statutes dating back to WWII, all of which were underpinned by the notion that our returning Veterans are entitled to reemployment rights and anti-discrimination protection upon the fulfillment of their military commitments.

USERRA has long been considered a dangerous trap for the unwary employer, as it is one of the few statutes on the books providing for a built-in presumption in favor of the plaintiff. In the years since its passage, numerous employers have paid a steep price for violating its mandates, particularly with regard to those "back end violations" that occur at the point in which returning service members seek a return to their "escalator positions."

Ironically, the jury in this case found Target was within its rights to demote the plaintiff, James Patton, on the basis it did so for job-related reasons pertaining to his performance.

The problem occurred in the aftermath, when Patton enlisted the support of the National Guard in an effort to secure reinstatement to his former position. Target subsequently discharged Patton for insubordination, and the jury concluded that he was illegally fired only after he elicited outside assistance to win his job back.

The Facts

Patton was initially hired back in 2000 as part of the "Target Executive Team." He alleged during the trial that he consistently received favorable evaluations, and that he routinely earned merit bonuses throughout his tenure at the company's distribution center.

A year after his hire, Patton enlisted in the Army National Guard. The judge allowed Patton to present evidence suggesting his enlistment was greeted with hostility and warnings it could adversely affect his career.

In 2003, Patton was called to a two-week tour of active duty. Upon his return, he was demoted. In response, Patton e-mailed co-workers to inform them. He then went to the National Guard in an effort to obtain reinstatement.

Although the National Guard subsequently intervened, the company declined to reinstate Patton. He was terminated on the basis his e-mails constituted a violation of company policy.

At trial, Target argued that three months prior to his military service, Patton received a negative performance evaluation, and that its demotion was made before the tour of duty. On that basis, the company was ultimately exonerated on the demotion allegations.

But it was not so fortunate with regard to the termination allegations. The company denied firing Patton on the basis of his seeking intervention by the National Guard, arguing instead that his e-mails constituted an independent act of insubordination. The jury was not persuaded, slapping Target with a punitive damage award close to seven figures, more than 10 times the amount of Patton's actual damages.

What It Means To You

The upshot of this case is clear. Emotions often run high with juries in cases such as these, as USERRA plaintiffs remain as sympathetic as those in any body of employment law.

The jury was clearly troubled by the timing of its decision, occurring on the heels of Patton's attempt to enlist the support of an outside group on his behalf. Although not formally stated as a retaliation claim, the jury clearly viewed Target's actions as retaliatory in this case.

Before terminating or otherwise taking adverse action on the heels of such activity, smart employers will review facts carefully, examine relevant internal precedent, and seek assistance of outside counsel, particularly in cases where USERRA rights are potentially implicated.

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MODERN DISTRIBUTION MANAGEMENT VOL. 37, NO. 18
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Industrial & Construction Markets Update

PERSPECTIVE

As our lead article outlines, many distributors are trying to evolve a traditional sales model – where the outside salesperson owns the customer relationship – into a more flexible one. It's a tough transition that engages the entire company, not just the sales rep.

The payoff goes far beyond particular customers. It really shifts the way in which distributors position themselves with customers *and* suppliers.

Not only do these customer relationships become much more productive and cost-efficient, it is much easier for distributors to tailor services to specific customer needs across the organization. That in turn defines for the customer the real difference in the value your company offers versus alternatives.

Distribution management gains much better visibility into emerging customer opportunities as well as destructive business relationships. The result: Much better clarity about which relationships really contribute to profitability, hold growth potential, and which ones are chewing up valuable resources without adequate return.

Some distributors are taking this model and applying it upstream as well. Once they are clear about their strengths and positioning in their market, they get selective with the best mix of vendors. Increasingly, the criteria includes non-product factors, such as marketing support, fulfillment capabilities, and technology capabilities that translate into lower costs and better customer service.

The article rightly focuses on sales management as the pivot point to this transition. The new model is a team-selling one that requires much more coordination and feedback loops to work effectively. That's the key to deeper and more profitable relationships with both customers and suppliers.

Wolseley plc, a global distributor of plumbing and heating products as well as building materials, announced five bolt-on acquisitions this month, including two by Ferguson and two in Europe. These acquisitions are expected to add 110 million pounds to total revenue.

Wolseley subsidiary **Stock Building Supply** has acquired **ProSource Building Supply Ltd**, Houston, TX, a construction services business supplying commercial doors, trim, hardwood, related specialty products and installation services. In the year ended Dec. 31, 2006, ProSource had revenue of $17.2 million. The acquisition is in line with Stock's goal of expanding in the commercial and industrial markets.

Another Wolseley company, **Ferguson,** has acquired **Western Air Systems & Controls** Inc., an exclusive Trane HVAC distributor for the states of California and Nevada with three facilities. In the year ended Dec. 31, 2006, Western Air had revenue of $59.6 million. Ferguson has also acquired **Davidson Pipe Company Inc**., a pipes, valves and fittings distributor in the New York metropolitan market with 2006 sales of $125.8 million.

London-based global electronics distributor **Premier Farnell** saw second-quarter sales growth of 3 percent, despite a more challenging North American market. Revenue was 178.9 pounds (US$363.3 million) in the second quarter and 362.5 million pounds (US$736M) in the first half. Web sales were up 30 percent in the quarter.

Klein Cutlery Inc., an affiliate of hand tool manufacturer **Klein Tools**, Lincolnshire, IL, has acquired **Heritage Cutlery**, Bolivar, NY, from **Rogers, Lunt and Bowlen Company**. Heritage Cutlery is a manufacturer of hot-forged scissors and shears for a wide variety of markets including electrical and industrial. Heritage has about 900 distributors in the U.S., Canada, Australia and Europe. The new company will operate under the name **Klein Cutlery LLC**. No changes in management are anticipated.

Actuant Corp., Milwaukee, WI, has acquired **Templeton, Kenly & Co, Inc**., Broadview, IL, for $48 million in cash. TK produces hydraulic pumps and tools, mechanical jacks, wrenches, and actuators. Its products are sold under brand names Simplex, Uni-Lift, and Pow'r-Riser. TK has $33 million in sales in the past year.

Construction spending during July 2007 was estimated at a seasonally adjusted annual rate of $1,169.1 billion, 0.4 percent below the revised June estimate of $1,173.2 billion. The July figure is 2.0 percent below the July 2006 estimate of $1,192.9 billion. Year-to-date, construction spending was 3.4 percent below the same period in 2006.

Industrial production rose 0.2 percent in August after an increase of 0.5 percent in July. At 114.4 percent of its 2002 average, total industrial production in August was 1.7 percent above its year-earlier level. Manufacturing output fell 0.3 percent in August after five consecutive months of

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MARKETS UPDATE SUPPLEMENT P. 2

increases. Capacity utilization for total industry was unchanged, at 82.2 percent, a rate 0.2 percentage point below August 2006 but 1.2 percentage points above its 1972-2006 average.

Wolseley plc reports there are no signs yet of any upturn in the U.S. housing market; it is also seeing the repairs, maintenance and improvement market start to soften. A weaker dollar and price deflation in lumber and panels has also hurt its North American building materials business. In its preliminary results for the year ended July 31, 2007, Wolseley had sales of 16.2 billion pounds (US$32.7 billion), up 14.6% from the previous year. Operating profit fell slightly. North American revenues declined slightly overall, reflecting slow sales **by Stock Building Supply**. **Ferguson**, the plumbing/HVAC business, had 5.5% organic growth.

The Producer Price Index for Finished Goods fell 1.4 percent in August, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. Core inflation (minus food and energy) moved up 0.2 percent in August compared with a 0.1-percent increase a month earlier.

Acme United Corporation, Fairfield, CT, has acquired the knife and cutting business of **Tiger Sharp Technologies, Inc**. The purchase price was $350,000. Revenues were $400,000 in 2006. Tiger Sharp sells knives to independent knife dealers, industrial wholesalers, and companies such as John Deere and Browning.

Dana Corporation, Toledo, OH, has completed the sale of its North American coupled products business to **Coupled Products LLC**, a wholly owned subsidiary of **Wanxiang (USA) Holdings Corporation**. The sale concludes the divestiture of Dana's fluid products business. **July U.S. manufacturing technology consumption** totaled $271.37 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. This total was down 22 percent from June, and down 9.5 percent from the total of $300.01 million reported for July 2006. Year-to-date, 2007 was up 5.3 percent compared with 2006.

Air Liquide, Houston, TX, has acquired **Team One Technologies Inc.**, an independent producer and distributor of medical and specialty gases in Romeoville, IL. Air Liquide Healthcare America will own and operate the medical and specialty gas facility to support its growth initiatives in the Midwest medical gas market. The newly acquired facility will also supply Air Liquide's non-medical packaged and specialty gas business.

Chase Corp., Bridgewater, MA, a global manufacturer of specialty tapes, laminates, sealants

MDM News Digest
Continued on p. 4 of this section

Calculation of MDM Inflation Index for August 2007

		BLS Price Indices Aug. '07	BLS Price Indices Jul. '07	BLS Price Indices Aug. '06	% Sales Weight	Weighted Indices Aug. '07 (1)X(4)	% Change Aug. '07 Jul. '07	% Change Aug. '07 Aug. '06
1136	Abr. Prod.	464.9	465.2	453.6	19.1	88.79	-0.06	2.49
1135	Cutting Tools	437.4	436.3	430.6	18.9	82.66	0.25	1.57
1145	Power Trans.	641.1	640.4	616.1	15.4	98.72	0.10	4.06
1081	Fasteners	454.0	448.3	438.0	9.0	40.86	1.27	3.64
1149.01	Valves, etc.	792.7	786.9	748.9	7.6	60.25	0.74	5.85
1132	Power Tools	329.0	329.0	324.6	6.5	21.39	0.00	1.37
1144	Mat. Handling	464.2	463.3	452.4	6.2	28.78	0.19	2.60
0713.03	Belting	550.4	544.3	532.7	6.1	33.58	1.12	3.32
1042	Hand Tools	680.0	678.0	667.1	8.1	55.08	0.30	1.94
108	Misc. Metal	419.3	418.2	411.9	3.1	13.00	0.27	1.78
"New" August Index		273.3	August Inflation Index			523.10	0.35	3.04
"New" July Index		272.4	July Inflation Index			521.28		
			August 2006 Inflation Index			507.68		

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

CANADIAN MARKET ANALYSIS: MRO PRODUCTS

MARKETS UPDATE SUPPLEMENT P. 3

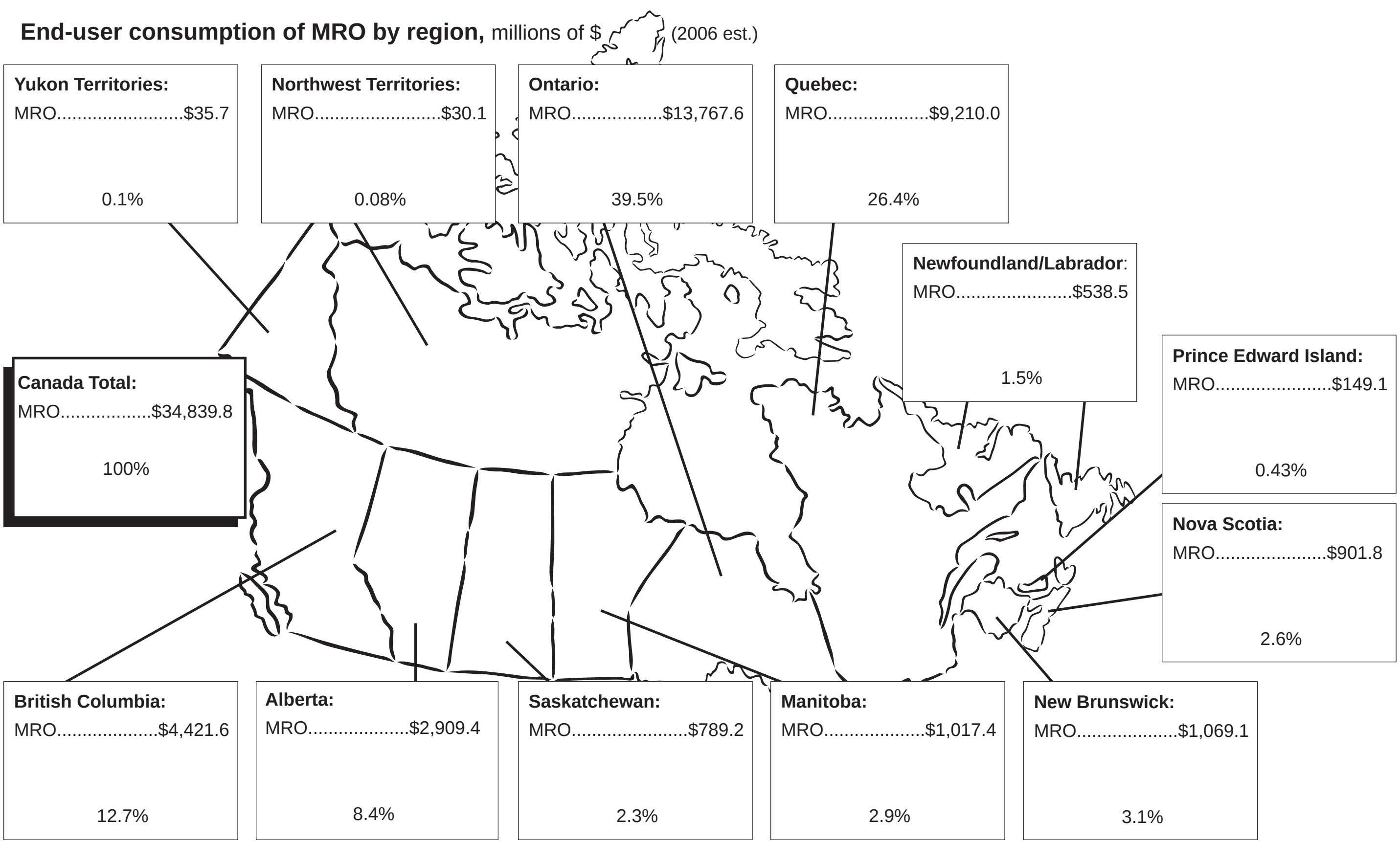
The industrial product group listed here - MRO Products - represented a market in 2006 of $34.8 billion, according to estimates by Industrial Market Information, Minneapolis.

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 12 Canadian government market regions.

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

SIC CODE	Companies	Total
2621 Paper Mills	123	2,321,560,829
2611 Pulp Mills	86	1,774,682,302
1731 Electrical Work	9257	1,618,336,840
1711 Plumbing Heating & Air Conditioning	11391	980,184,999
2082 Malt Beverages	111	928,615,511
8062 General Medical & Surgical Hospitals	646	806,105,828
2026 Fluid Milk	157	760,698,404
2086 Bottled & Canned Soft Drinks/Carbonated Water	222	636,636,457
2033 Canned Fruits, Vegetables, Preserves, Jams, Jellies	145	561,223,268
2421 Sawmills & Planing	1135	472,155,001

End-user consumption of MRO 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

MARKETS UPDATE SUPPLEMENT P. 4

MDM News Digest

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and coatings, announced its subsidiary, **Chase Protective Coatings Ltd**, has acquired **Long Products** of Rye, East Sussex, England. Long Products is a manufacturer of waterproofing and corrosion protection systems for oil, gas and water pipelines and has been a major supplier to Europe, the Middle East and Southeast Asia.

Hagemeyer NA has released its 2007-2008 Industrial Products catalog. The 900-page book features 28,000 items.

PetroLiance LLC, formed last year through the consolidation of four of the nation's largest ExxonMobil distributors, has completed its first acquisition. The company has purchased Columbus-based **AV Lubricants Inc**. AV Lubricants is a provider of lubricants to the aviation industry and to mining operations in Ohio, Kentucky and neighboring states.

Brady Corp., Milwaukee, WI, reported sales rose 34 percent in fiscal 2007 to $1.36 billion. Organic growth was 4 percent. Acquisitions contributed 26 percent to sales. Profit for fiscal 2007 rose 5 percent to $109.4 million. In the fourth quarter, Brady sales rose 26 percent to $362.8 million. Organic growth was 5 percent from the prior-year quarter. Regionally, sales were up 25 percent in the Americas in the fourth quarter, 28 percent in Europe, and 25 percent in Asia/Pacific.

PT Distributors See Mixed Signals in Sales Results for July

U.S. distributors' sales of power transmission/motion control (PT/MC) products dropped 7.0 percent from June to July after a rise in sales for the past two months, according to the July 2007 month-end trend data for distributors and manufacturers of PT/MC products by the Power Transmission Distributors Association.

Year-to-year comparisons remain positive for the first half of this year with sales in July 2007 coming in 11 percent higher than July 2006.

Accounts receivable collection days rose 2.7 percent over June 2007. The July 2007 confidence index for U.S. distributors remained unchanged for the fifth month in a row at 6.6 (on a 10-point scale).

Canadian distributors' sales in PT/MC products continue to fall, dropping 9.0 percent from June to July 2007. Year-to-year comparisons indicate a 7.7 percent increase over sales in July of 2006.

Account receivables collection days continue to decline, dropping 7.4 percent over June 2007. Reflecting the trends in sales, the confidence level of Canadian distributors experienced its most significant decrease this year, dropping 1.3 points to 4.7 (on a 10-point scale).

U.S. manufacturers' sales were down 7.1 percent in July 2007 after a rise in sales the past two months. Sales growth over the same period last year was up 13.9 percent. The confidence level of U.S. manufacturers' continues to fluctuate between 5.3 and 5.5, increasing 0.2 points to 5.5 from June to July 2007.

Canadian manufacturers' month-to-month sales continued to decrease, dropping 6.4 percent from June to July. Year-to-year sales growth continued to increase with a 15.5 percent jump over July 2006. The confidence level of Canadian manufactures remains at 5.2 on a 10-point scale.

Between June and July 2007, U.S. and Canadian manufacturers experienced an overall decrease in sales in majority of product categories. For U.S. manufacturers, only two product categories — standard industrial motors and variable speed drives — experienced an increase in sales. Canadian manufacturers experienced growth in three product categories — standard industrial motors, shaft couplings and clutches & brakes.

The Market Outlook Report is published monthly by the Power Transmission Distributors Association, and is available by annual subscription; www.ptda.org/MOR.

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